



# PALLAS CAPITAL: AN INTRODUCTION

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November 2020

Commercial in Confidence | Prepared for Pallas FM Trust



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# THE PALLAS FM TRUST BOND SERIES NO. A

*Image: Richmond Capital Trust (Office)*



# PALLAS FM TRUST – BOND SERIES NO. A

## Bond Issue Objective

To fund a warehouse facility that will comprise a diversified portfolio of registered first mortgage loans only, providing quarterly income secured by well-located residential and commercial land, construction and investment assets

## Issue Date

November 2020

## Type

Fixed Rates Notes OTC Trade via PM

## Aggregate Issue Size

Up to \$A100m; initial issue c.\$30m

## Maturity Date

November 2024

## Interest Rate

7.50% per annum payable quarterly in arrears

## Fixed Coupon Amount

To the Maturity Date, A\$187.25 per A\$10,000 in principal amount of each Note per each Interest Payment Date.

## Pallas Co-investment

5% of face value of issued Bonds will be held as a 'First Loss Capital Protection' reserve buffer should the Issuer be required to draw upon it in order to meet its financial obligations to Noteholders.

## Eligible investors

Wholesale investors via PA

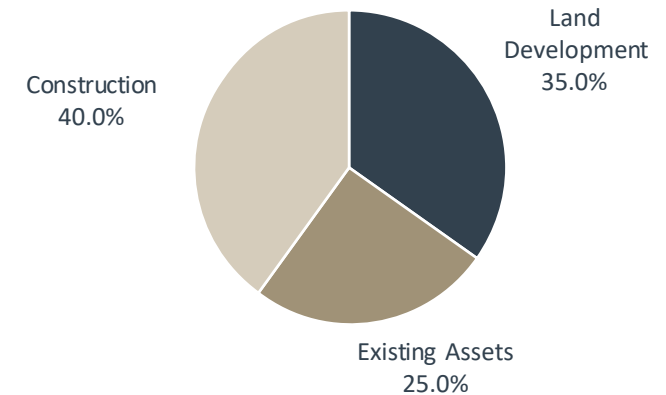
## Real Estate Sectors

Land, Residential, Boutique office, Industrial, Mixed-use

## Average Portfolio LTV

65%

Indicative Pallas FM Trust Composition



Geographic Location





## KEY BOND SERVICE PROVIDERS

<b>Issuer</b>	Land, Investment, Construction
<b>Placement Manager (PM)</b>	Australian Bond Exchange Pty Limited
<b>Registrar</b>	AMAL Trustees Pty Ltd
<b>Issuing &amp; Paying Agent</b>	AMAL Trustees Pty Ltd
<b>Calculation Agent</b>	AMAL Trustees Pty Ltd
<b>Security Trustee</b>	AMAL Security Services Pty Ltd
<b>Arranger</b>	Pallas Capital Pty. Limited The Arranger holds all of the units in Pallas FM Trust
<b>Clearing System</b>	Austraclear System





# ABOUT PALLAS CAPITAL

- *Executive Summary*
- *Development & Lending Locations*
- *Track Record*
- *Industry Landscape*
- *Sample Portfolio*
- *Loan Examples*

*Image: Double Bay Redevelopment (Office)*



# PALLAS GROUP: EXECUTIVE SUMMARY



What's in a name? 'Pallas' comes from Greek mythology and is connected with the deities of wisdom, the arts and prudent contest.

A Specialist Australian commercial real estate investment management firm led by seasoned principals and executives with decades of cross-cyclical experience from a range of sectors and industries. Offices in Sydney and Melbourne and over 30 dedicated staff. Currently settling in excess of \$30m loans per month and have originated a deep senior debt pipeline ~ \$550m +



We strategically lend in the same markets and geographies in which we've developed and owned property.

Vertical integration with Fortis, a Pallas Group-owned specialist boutique residential and commercial development business with a pipeline of \$1.2bn, provides additional capability and rigor to Pallas Capital's lending activities, specifically due diligence and credit underwriting. Inhouse ability to step-in and finish/rework any investment that requires a work-out/ repositioning.



Our values define us: integrity, transparency, agility and reliability.

Trusted investment manager to over 400 investors (domestically and internationally), an increasingly proportion being large Family Offices and small institutional investors. Product offering spans the entire capital stack and includes Single Asset Funds, Pooled (Discretionary) Funds, Separate Managed Accounts (SMAs) and JV/ Co-investment strategies.



# PALLAS CAPITAL TRACK RECORD SNAPSHOT <sup>1</sup>

 **\$415 MILLION +**  
Total investments – 73 transactions in total

 **9.40% P.A.**  
Average investor return since inception\*

 **\$155 MILLION +**  
38 fully repaid investments with no impairments or defaults

 **\$260 MILLION +**  
35 open and performing investments

<sup>1</sup> As at 30 September 2020. Note: Expected to exceed \$700m by 30 June 2021.

\* On first mortgages only, including share of early repayment fees.





# FORTIS & PALLAS CAPITAL – DEVELOPMENT AND LENDING LOCATIONS

# Fortis



**Sydney:**  
Pallas Capital: 33 investments\*, \$170m



**Sydney:**  
Fortis: 11 projects, \$640m GRV

\* Excludes pooled discretionary funds that lend in across geographies.



# FORTIS & PALLAS CAPITAL – DEVELOPMENT AND LENDING LOCATIONS

# Fortis



## Melbourne:

Pallas Capital: 36 investments\*, \$219m

\* Excludes pooled discretionary funds that lend in across geographies.

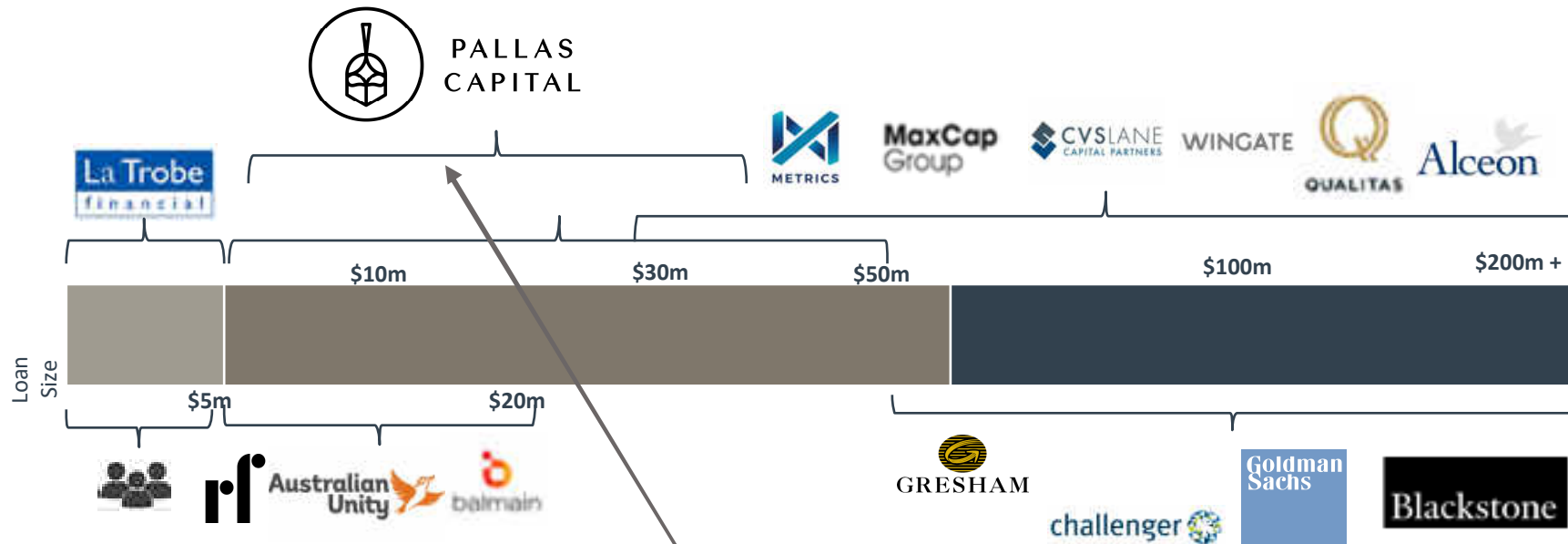


## Melbourne:

Fortis: 9 projects, \$600m GRV



# INDUSTRY LANDSCAPE SNAPSHOT



### Sub \$5m

- Very competitive
- Less experienced Sponsors / smaller Balance Sheets
- Inexperienced Lenders with looser covenants and poorer quality consultants

### The 'Middle Market'

- Too big for smaller players, too small for larger players
- Very few non-banks doing construction
- Mid-Sized projects with end values of \$15-\$50m. Structural under investment in high-end locations.
- Established borrowers with sound-track record

### Large Projects

- Higher density projects
- Limited selection of builders and replacement risk in failure
- No recourse to sponsors (corporate or offshore sponsors)



# OUR DIVERSIFIED FUND PORTFOLIOS

*Image: Richmond Capital Trust (Office)*

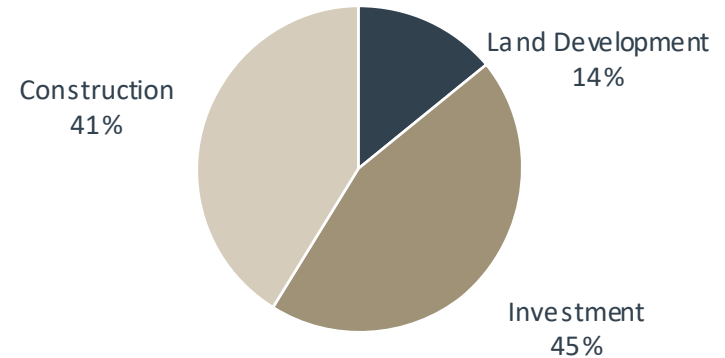


# CASE STUDY – PORTFOLIO OF ASSETS

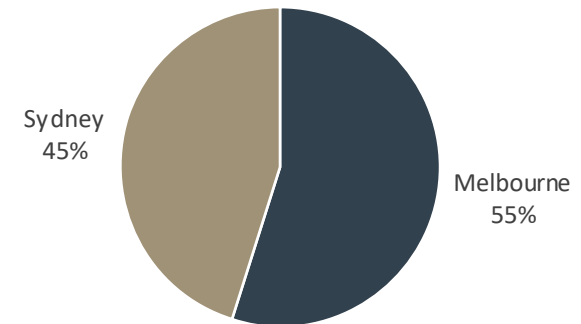
## PALLAS WAREHOUSE TRUST SERIES (1&2)


<b>Loan Type</b>	Land, Investment, Construction
<b>Real Estate Sectors</b>	Land, Residential, Boutique office, Industrial, Mixed-use
<b>Description</b>	Portfolio of first mortgage loans in metropolitan Melbourne and Sydney
<b>Security</b>	Registered First Mortgage, GSA, Personal/Corporate Guarantees, First Loss Capital Protection (FLCP – Alignment via Manager Equity Co-investment)
<b>Issue Size</b>	Up to \$70m
<b>LTV   Term</b>	65%   18 months plus loan run off (12 months remaining)
<b>Net Investor Return</b>	8.0% pa, paid quarterly in arrears ~8.24% IRR
<b>Tax</b>	S128F Compliant, does not withhold tax

Portfolio Diversification



Geographic Location





**POSSIBLE BOND  
PORTFOLIO WITH  
EXAMPLES OF FUND  
ASSETS FROM PREVIOUSLY  
CLOSED OR MANDATED  
DEALS**

*Image: Elsternwick Capital Trust (Resi)*





## EXAMPLE 1: RESIDUAL STOCK

<b>Real Estate Sector</b>	Existing Residential (Residual Stock)
<b>Project &amp; Location</b>	"Aristocrat", Rose Bay, NSW 2029 Premium inner eastern harbour suburb of Sydney, Close to Public Transport and lifestyle amenity.
<b>Description</b>	First Mortgage Residual Stock funding for 15 x 2 & 3 bedroom residential apartments/ The strata titled residential apartments will be progressively sold down with the LVR reduced as apartments are sold down.
<b>Security</b>	Registered First Mortgage, First Ranking Registered General Security Agreement, Personal Guarantees
<b>Facility Size</b>	\$26,682,500
<b>LTV   Term</b>	65%   15 months
<b>Cost to Borrower</b>	9.0% p.a. and 1.50% establishment fee
<b>Debt Servicing</b>	Interest for the first 9 months held by the Lender prior to/at settlement. This Interest Reserve forms part the Loan Amount. Any remaining interest payments required will be paid by borrower on a quarterly in advance basis.
<b>Primary Exit</b>	Repayment by sale and settlement of apartments.





## EXAMPLE 2: RESIDUAL STOCK

**Real Estate Sector**

Existing Residential (Residual Stock)

**Project & Location**

Rose Bay is an affluent, harbour side suburb located approximately 7 kilometres east of the Sydney CBD.

**Description**

Investment facility for residual stock comprising 3 completed apartments. The strata titled residential apartments will be progressively sold down with the LVR reduced as apartments are sold down.

**Security**

Registered First Mortgage, First Ranking Registered General Security Agreement, Personal Guarantees

**Facility Size**

\$7,835,000

**LTV | Term**

68% | 9 months

**Rate to Borrower**

9.5% p.a. and 1.5% establishment fee

**Debt Servicing**

Interest for the first 3 months held by the Lender prior to/at settlement. If Facility extends beyond min. interest earn period of 3 months, the Borrower will deposit into an Interest Reserve Account interest payments on a quarterly in advance basis.

**Primary Exit**

Repayment by sale of Security Properties that comprise the residual stock facility (units have since sold, settlements now due to occur through Nov & Dec '20 and Jan '21)





## EXAMPLE 3: LAND WITH IMPROVEMENTS (PRE-DEVELOPMENT)

### Real Estate Sector

Boutique Mixed-Use Land Acquisition

### Project & Location

Palmerston Crescent, South Melbourne, VIC 3205.  
Inner CBD residential and fringe office suburb, very close to Public Transport, Albert Park Lake and the Botanical Gardens.

### Description

First Mortgage acquisition for permit-approved future mixed-use (residential and ground floor retail) development over 9 levels including basement car parking

### Security

Registered First Mortgage, First Ranking Registered General Security Agreement, Personal Guarantees

### Facility Size

\$4,800,000

### LTV | Term

65% | 9 months

### Rate to Borrower

8.95% p.a. and 1.5% establishment fee

### Debt Servicing

3 months' interest retained by the Lender at settlement with interest payable quarterly in advance by the Borrower thereafter

### Primary Exit

Repayment by refinance to construction facility early-mid 2021





## EXAMPLE 4: RESIDUAL STOCK

### Real Estate Sector

Existing Residential (Residual Stock)

### Project & Location

"The Green" - Strathfield, NSW 2135, an established suburb within Sydney's inner western precinct which is 17.4 kilometres west of Sydney CBD, apartment complex overlooks the grounds of Strathfield Golf Course.

### Description

Investment facility for residual stock comprising 7 strata titled residential apartments held within a complex of 176 that were completed in 2019.

### Security

Registered First Mortgage, First Ranking Registered General Security Agreement, Personal Guarantees

### Facility Size

\$3,439,000

### LTV | Term

65% | 18 months

### Rate to Borrower

9.50% p.a. and 1.50% establishment fee

### Debt Servicing

3 months' interest retained by the Lender at settlement with interest payable quarterly in advance by the Borrower thereafter

### Primary Exit

Repayment by sale of Security Properties that comprise the residual stock facility







# EXAMPLE 5: LAND WITH IMPROVEMENTS (PRE-DEVELOPMENT)

<b>Real Estate Sector</b>	Mixed-Use (Office & Retail)
<b>Project &amp; Location</b>	"Richmond" - Richmond, Melbourne VIC CBD fringe office location. Location sought after by Marketing & Technology SMEs
<b>Description</b>	First Mortgage Investment funding for Boutique Office Development (7 levels and carparking) recently completed asset in A Grade location, whilst the leasing profile is further enhanced
<b>Security</b>	Registered First Mortgage, First Ranking Registered General Security Agreement, Personal Guarantees
<b>Facility Size</b>	\$2,546,000
<b>LTV   Term</b>	67%   12 months
<b>Cost to Borrower</b>	9.95% p.a. and 1.75% establishment fee
<b>Debt Servicing</b>	Interest for the first 9 months held by the Lender prior to/at settlement. This Interest Reserve forms part the Loan Amount. Any remaining interest payments required will be paid by borrower on a quarterly in advance basis.
<b>Primary Exit</b>	The primary and most likely exit is via a Construction Finance Facility, upon receipt of an approved Planning Permit.





# EXAMPLE 6: SHORT TERM INVESTMENT FACILITY

<b>Real Estate Sector</b>	Mixed-Use (Office & Retail)
<b>Project &amp; Location</b>	"Richmond" - Richmond, Melbourne VIC CBD fringe office location. Location sought after by Marketing & Technology SMEs
<b>Description</b>	First Mortgage Investment funding for Boutique Office Development (7 levels and carparking) recently completed asset in A Grade location, whilst the leasing profile is further enhanced
<b>Security</b>	Registered First Mortgage, First Ranking Registered General Security Agreement, Personal Guarantees
<b>Facility Size</b>	\$10,400,000
<b>LTV   Term</b>	65%   12 months
<b>Leasing/ Sales</b>	57% leased by NLA, 58% by income (Triple-Net Leases)
<b>Cost to Borrower</b>	8.95% p.a. and 1.25% establishment fee
<b>Debt Servicing</b>	Income from tenancies in addition to quarterly interest in advance payments
<b>Primary Exit</b>	Sale of building (tenanted or "as is") or refinance to another investment facility provided by a traditional Bank







# EXAMPLE 7: RESIDENTIAL PROPERTY / FUTURE DEVELOPMENT

Real Estate Sector

Residential

Project & Location

"Vaucluse" – NSW 2030 two residential homes with rental income awaiting development approval for subdivision of 3 lots

DA status

Existing permit held for 3 lot subdivision. Amended DA lodged late April 2020 for 4 luxury residences (two 2 x free-standing houses and one dual-occupancy (2 semis))

Description

First Mortgage refinance over 2 titles (existing tenanted luxury residences)

Security

Registered First Mortgage, First Ranking Registered General Security Agreement, Personal Guarantees

Facility Size

\$19,850,000

LTV | Term

66.7% | 12 months

Cost to Borrower

11.70% and 1.75% establishment fee

Debt Servicing

Paid by borrower on a quarterly in advance basis. (Pallas has previously funded the Borrower, whom maintained all requisite interest payments on time and in full on a quarterly-in-advance basis)

Primary Exit

Refinance via construction loan





# EXAMPLE 8: RESIDENTIAL (FUTURE DEVELOPMENT SITE)

<b>Real Estate Sector</b>	Residential
<b>Project &amp; Location</b>	“Chatswood” – NSW 2067, an established residential and commercial suburb in Sydney’s Lower North Shore, approximately 10 kilometres by road from the Sydney CBD
<b>Description</b>	Two residential semi-detached homes to be consolidated along with other sites for a 8-9 storey development
<b>Security</b>	Registered First Mortgage, First Ranking Registered General Security Agreement, Personal Guarantees
<b>Facility Size</b>	\$1,974,000
<b>LTV   Term</b>	70%   9 months
<b>Cost to Borrower</b>	11.0% and 1.50% establishment fee
<b>Debt Servicing</b>	Interest for the first 9 months held by the Lender prior to/at settlement. This Interest Reserve forms part the Loan Amount. Any remaining interest payments required will be paid by borrower on a quarterly in advance basis.
<b>Primary Exit</b>	Refinance into another land facility (with cheaper cost of funds) or construction loan





## EXAMPLE 9: RESIDENTIAL CONSTRUCTION

### Real Estate Sector

Residential Development

### Project & Location

“Colins & Bates” - Chadstone, Melbourne VIC  
growing suburb, established amenity, public  
transport, roads, education, medical and retail

### Description

First Mortgage Construction funding for 98  
apartments

### Security

Registered First Mortgage

### Facility Size

\$33,420,000

### LVR | Term

67% | 18 months (forecast maturity Dec 2020)

### Construction Status

Structure complete “topped out”  
51% complete by construction contract value

### Product Mix & Sales

69 apartments presold ~ 106% presales debt  
coverage on first mortgage – up from 87% from time  
of IM). Only 1 FIRB buyer.

### Net Investor Return

10.0% p.a.\* paid quarterly in arrears

### Primary Exit

Repayment by settlement of apartments  
(self-liquidating asset)



\*Dependent on investment amount and timing of investment.



# EXAMPLE 10: MIXED USE CONSTRUCTION / DEVELOPMENT

<b>Real Estate Sector</b>	Mixed-Use Construction / Development
<b>Project &amp; Location</b>	Richmond, Melbourne VIC CBD fringe office location. Location sought after by Marketing & Technology SMEs
<b>Description</b>	First Mortgage Construction funding for Boutique Office Development (7 levels and carparking)
<b>Security</b>	Registered First Mortgage
<b>Facility Size</b>	\$9,571,000
<b>LVR   Term</b>	63.8%   14 months
<b>Construction Status</b>	44% by construction contract value
<b>Leasing/ Sales</b>	24% pre-let by NLA, 16% by income (Triple-Net Leases)
<b>Current Net Investor Return</b>	10.0 % p.a.* (paid quarterly in arrears)
<b>Primary Exit</b>	Sale of building upon completion (tenanted or "as is") or refinance to investment facility



*\*Dependent on investment amount and timing of investment.*





# THANK YOU

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High yield investments  
In a low yield world

## SYDNEY

Ground Floor, 33-39 Riley Street,  
Woolloomooloo NSW 2011

## MELBOURNE

Level 6, 9-11 Cremorne Street,  
Cremorne VIC 3121

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