



PALLAS CAPITAL



7.5% Fixed Rate Bonds Due 2024

Issued by the
Pallas FM Trust

Series number: A
Security pool: A

15 December 2020

The Investment Memorandum is issued by:

Pallas Capital Pty. Limited (ACN 616 130 913), as
Authorised Representative No. 001257625 of
Pallas Funds Pty. Limited (ACN 604 352 347),
the holder of AFS Licence No. 473475

Address: Ground Floor, 33-39 Riley Street,
Woolloomooloo N.S.W. 2011

Phone number: +61 2 8188 1108

Website: www.pallascapital.com.au

Table of Contents

1.	Legal Notice – Important	2
2.	Executive Summary	4
3.	Key Terms	6
4.	Further Information	13
	4.1 About Pallas Capital	13
	4.2 Key Personnel	14
	4.3 Illustrations of Qualifying Loans	16
	4.4 Lending Philosophy	18
	4.5 Track Record	19
	4.6 Fortis Development Group	20
5.	Asset Class	22
	5.1 The Opportunity	22
	5.2 Track Record	23
6.	Note Issue Structure	24
	6.1 Transaction Structure	24
	6.2 Security Trustee and Registrar	25
7.	Risks and Mitigating Factors	26
8.	Directory	28

1.0 Legal Notice — Important

This updated Investment Memorandum (**IM**) is dated 15 December 2020 and is issued by Pallas Capital Pty. Limited (ACN 616 130 913) acting as the Corporate Authorised Representative (ASIC No. 001257625) of Pallas Funds Pty. Limited (ACN 604 352 347), the holder of Australian Financial Services Licence No. 473475.

Pallas Funds Pty. Limited (**Trustee**), as trustee of the Pallas FM Trust (**PFM Trust**), is the issuer of Notes in accordance with this IM. References in this IM to “PFM” or “Issuer” include the Trustee as issuer of the Notes and the PFM Trust.

This IM provides information for prospective Investors to decide whether they want to invest in Notes issued by PFM. PFM is an unregistered unit trust. It will apply the proceeds of issue of the Notes as described in this IM.

All figures are in Australian Dollars, unless otherwise specified.

Transaction Documents

This IM is issued pursuant to and is to be read in conjunction the Transaction Documents listed on page 12 of this IM.

To the extent of any conflict between any of those documents and this IM, the provisions of those documents will prevail.

No Previous Offers

This IM, together with the Transaction Documents, represent the entire offer with respect to an investment in PFM and supersedes any and all other offer documents or purported offer documents offering investment in PFM. This includes but is not limited to any flyer or pre-IM marketing material that has been issued and refers to PFM.

No Disclosure Required

This IM is not a product disclosure statement or other disclosure document required by the Corporations Act 2001 (Commonwealth) (Corporations Act). A copy is not required to be, and has not been, lodged with the Australian Securities and Investments Commission (ASIC) or any other government body.

This IM has been prepared only for issue to, and use by, prospective investors who qualify as ‘wholesale clients’ as defined in the Corporations Act or who have equivalent status in Hong Kong or Singapore (**Eligible Investor**) – refer to the Transaction Documents for further information. Notes will be issued through this IM to Eligible Investors only.

Foreign Jurisdictions

This IM does not constitute an offer, invitation or solicitation in relation to any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer to acquire Notes.

This IM is only available to Eligible Investors receiving this IM as a hard copy or electronically within Australia, Hong Kong or Singapore. This IM does not constitute and may not be used for the purposes of making, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation. In particular, this product has not been and will not be registered under the United States (**US**) Securities Act of 1933 (**Securities Act**) or the securities laws of any State of the US and may not be offered, sold, delivered or transferred in the US or to, or for the account of, any “US Person” (as defined in Regulations under the Securities Act). Neither this IM nor the Application for Notes or other material relating to this product may be distributed in the US.

No Responsibility for Contents

To the maximum extent permitted by law, neither any member of the group of companies owned by Pallas Group Pty. Limited (ACN 618 981 892) (**Pallas Group**), nor any associate, related party, director, officer, employee, advisor (including financial, accounting and legal advisors), agents or representative of that group makes any recommendation in relation to the Notes or PFM, or makes any representation or warranty, express or implied, as to the accuracy, reliability or completeness of the information contained in this IM.

This IM does not purport to contain all the information that a prospective investor may require in evaluating an investment in Notes

issued by PFM. This IM must be read in conjunction with the Transaction Documents, copies of which are available from PFM by emailing info@pallascapital.com.au or by a request letter at Ground Floor, 33-39 Riley Street, Woolloomooloo N.S.W. 2011.

Forward Looking Statements

This IM contains forward looking statements that are identified by words such as “believe”, “intend”, “estimate”, “expect” and other words of similar meaning that involve risks and uncertainties. All forward- looking statements, including those regarding PFM’s financial position and investment strategy, are subject to factors that could cause the performance of PFM to differ materially from that expressed or anticipated in these statements.

The forward-looking statements in this IM are based on numerous assumptions regarding PFM’s present and future operations and investment strategies and the markets in which PFM operates, and not all of these assumptions are referred to in this IM. These forward-looking statements are current only at the date of this IM. There is no assurance that such statements, estimates or projections will be realised or will apply in the future.

No Advice

The information provided in this IM is general in nature and does not take into account your personal financial situation or needs. It does not constitute tax, legal or investment advice and is not a recommendation to invest. An investment in PFM is speculative and may not be appropriate for all investors. You should seek independent legal, investment and tax advice tailored to your own needs before deciding whether to invest in PFM.

Risk

An investment in PFM is subject to risks, including the loss of the capital you invest. This IM does not purport to describe all of the risks of an investment In Notes and you should seek your own advice.

Limitation of Trustee Liability

Except in certain circumstances (fraud, negligence or knowing default by PFM), the Trustee enters into transactions for PFM in its capacity as trustee of PFM only, not in its own capacity, and its liability in relation to those transactions is limited to the assets of PFM.

Disclosure of Interests

The Pallas Group and its related entities may acquire Notes in PFM on the same terms and with the same rights as other Investors.

Updated Information

The information contained in this IM may change. PFM may not update or replace this IM to reflect the changed information. Email us at info@pallascapital.com.au or call us on +61 2 8188 1108 to obtain updated information.

Confidentiality

This IM is confidential and is provided to prospective investors for them to consider investing in PFM. Its use for any other purpose is not permitted. It must not be reproduced or redistributed, in whole or in part, and its contents must not be disclosed to any person.

Images

Images in this Investor Memorandum are images of properties that have been financed by loans arranged by the Manager in the past. They are not images of properties financed or to be financed by PFM.

2.0 Executive Summary

This Section sets out certain key terms governing the Notes. A more comprehensive list is set out under Section 3 – Key Terms. Certain terms used in this Section are defined in Section 3.

Issuer	Pallas FM Trust (PFM Trust).
Issue Size	<p>\$30 million (Initial Target Issue Size) to be raised by the issue of 3,000 Notes of \$10,000 each (Issue). The Issuer may increase the Issue Size as described on page 6 of this IM.</p> <p>In this IM Issue Size is the aggregate principal amount outstanding in respect of all Notes on issue from time to time.</p>
Interest	<p>7.5% fixed per annum in respect of the Term, paid quarterly in arrear commencing 31 March 2021.</p> <p>(Interest will be 9.5% fixed per annum in respect of any Term Extension as described on page 7 of this IM, paid quarterly in arrear.)</p>
Purpose	The purpose of the Issue is to fund a first mortgage loan warehouse facility.
Issue Term	<p>All Notes outstanding will be redeemed on 31 December 2024 (unless the redemption date is extended to 30 June 2025 as described on page 7 of this IM).</p> <p>PFM Trust may redeem some or all of the Notes at any time on or after 1 July 2021 (Issuer Call) upon payment of the Call Premium.</p>
Clearing	Austraclear System.

Executive summary continued on next page

<p>Security</p>	<p>The Security Trustee will hold security given by the Issuer in support of the Notes as described in the Transaction Documents.</p> <p>The security to be held by the Issuer in respect of any Loan made by it is described on page 8. In the case of each SPV Investment by PFM Trust, the SPV Lender will hold equivalent security given by the relevant borrower.</p>
<p>Investment Protection (IP)</p>	<p>Throughout the Issue Term, the family trusts associated with the Directors of the Manager (Sponsors) will make advances as required to ensure that the PFM Trust holds bank guarantees and/or cash equivalent to 5% of aggregate principal amount outstanding pursuant to the Notes (Base Reserve).</p> <p>In addition, if the PFM Trust incurs a loss on any Loan or SPV Investment made by it, the Sponsors are obliged to advance further monies to the PFM Trust as described in Section 3 – Investment Protection (Additional Reserve).</p> <p>Both the Base Reserve and the Additional Reserve will be applied by the Issuer as required to ensure that the PFM Trust does not default on any obligation to pay Interest, or capital upon redemption, in respect of any Note.</p>
<p>Maximum Single Exposure</p>	<p>PFM Trust will only:</p> <ul style="list-style-type: none"> a. incur a Loan Commitment or make an SPV Investment; or b. allow a Loan Commitment or SPV Investment to continue for a period exceeding 90 days, <p>within the limits set out on pages 10 and 11 of this IM.</p>

3.0 Key Terms

The description below is a summary of key terms governing the Notes. The full terms governing the Notes are set out in the Transaction Documents, referred to below.

The summary below does not contain all terms of the Transaction Documents and, in case of any disagreement between the summary and those documents, those documents prevail.

The Transaction Documents are available on request from the Trustee.

Issuer	<p>Pallas FM Trust (PFM Trust).</p> <p>The trustee of PFM Trust is Pallas Funds Pty. Limited (ACN 604 352 347 and AFSL No. 473475) (Trustee), a member of the group of companies owned by Pallas Group Pty. Limited (ACN 618 981 892)(Pallas Group).</p>
Manager	<p>Pallas Capital Pty. Limited (ACN 616 130 913)(Pallas Capital), a member of the Pallas Group.</p> <p>At the date of this IM the Manager holds all of the units in PFM Trust.</p>
Placement Agent/ Initial Subscriber	<p>The person referred to in the relevant Issue Supplement engaged by the Trustee as the Placement Agent and/or Initial Subscriber in respect of the issuance of any Tranche or Series of Notes.</p>
Issue Size	<p>\$30 million (Initial Target Issue Size) to be raised by the issue of 3,000 Notes of \$10,000.00 each (Issue).</p> <p>PFM Trust is entitled to accept subscriptions for Notes below this Initial Target Issue Size and to increase the Issue Size up to a maximum of \$150 million to be raised by the issue of up to an additional 12,000 Notes of \$10,000 each.</p> <p>The minimum parcel size as part of the Issue is one Note (that is \$10,000).</p> <p>In this IM Issue Size is the aggregate principal amount outstanding in respect of all Notes on issue from time to time</p>
Interest	<p>7.5% fixed per annum in respect of the Term, paid quarterly in arrear commencing 31 March 2021.</p> <p>(Interest will be 9.5% fixed per annum in respect of any Term Extension as described on page 7 of this IM, paid quarterly in arrear.)</p> <p>A default interest rate of 9.5% fixed per annum will apply in respect of any period in which any event of default under the terms of issue subsists.</p>

<p>Purpose</p>	<p>The purpose of the Issue is to fund a first mortgage loan warehouse facility that will:</p> <ul style="list-style-type: none"> a. make Qualifying Loans; b. co-lend on Qualifying Loans; and/or c. invest in SPV Lenders that have made or will make Qualifying Loans. <p>Each Qualifying Loan by PFM Trust under paragraph (a) or (b) is referred to as a Loan. Each investment by PFM Trust under paragraph (c) is referred to as an SPV Investment.</p>										
<p>Issue Term</p>	<p>In respect of any Note, the period from the date of issue of that Note until 31 December 2024 (Maturity Date), subject to:</p> <ul style="list-style-type: none"> a. exercise of the Issuer Call prior to the Maturity Date; and b. extension of the term by up to six months in accordance with the Term Extension provision. <p>The Term Extension provision permits the Issuer to extend the Issue Term by up to six months (to 30 June 2025), but in this case Interest Payments will be adjusted so as to increase the rate of interest to 9.5% fixed per annum in respect of the extended period.</p>										
<p>Issuer Call</p>	<p>PFM Trust may redeem some or all of the Notes at any time on or after 1 June 2021 on the giving of at least 30 days and no more than 90 days notice to Noteholders, the Note Trustee, the Registrar and each other agent (Issuer Call). If the Issuer Call is exercised the Noteholders will be paid Interest calculated up to the redemption date plus the principal amount outstanding plus a Call Premium calculated as follows:</p> <table border="1" data-bbox="683 1397 1428 1568"> <thead> <tr> <th>Redemption Date</th> <th>Call Premium per Notice</th> </tr> </thead> <tbody> <tr> <td>1 July 2021 to 30 June 2022</td> <td>\$300</td> </tr> <tr> <td>1 July 2022 to 30 June 2023</td> <td>\$200</td> </tr> <tr> <td>1 July 2023 to 30 June 2024</td> <td>\$100</td> </tr> <tr> <td>On or after 1 July 2024</td> <td>Nil.</td> </tr> </tbody> </table>	Redemption Date	Call Premium per Notice	1 July 2021 to 30 June 2022	\$300	1 July 2022 to 30 June 2023	\$200	1 July 2023 to 30 June 2024	\$100	On or after 1 July 2024	Nil.
Redemption Date	Call Premium per Notice										
1 July 2021 to 30 June 2022	\$300										
1 July 2022 to 30 June 2023	\$200										
1 July 2023 to 30 June 2024	\$100										
On or after 1 July 2024	Nil.										
<p>Limitation on Discounting</p>	<p>During the Issue Term the Issuer will not offer or issue any Notes in any future tranche at an issue price of less than \$9,900 per note.</p>										
<p>Withholding Tax</p>	<p>It is intended that the Notes will be offered in a manner that complies with the “public offer test” set out in section 128F of the Income Tax Assessment Act 1936 of Australia. However, if any taxes are withheld or required to be deducted from payments, the Issuer is not obliged to make any additional payments in respect of such withholding or deduction and no such additional payments will be made.</p>										
<p>Clearing</p>	<p>Austraclear System.</p>										

Issue Structure	Note Trustee:	AMAL Trustees Pty Limited (ACN 609 737 064)
	Security Trustee:	AMAL Security Services Pty. Limited (ACN 609 790 758)
	Registrar and Issuing/ Paying Agent:	AMAL Management Services Pty. Limited (ACN 609 790 749)
Qualifying Loans	<p>A Qualifying Loan is a loan by PFM Trust where PFM Trust has formed the view that:</p> <ol style="list-style-type: none"> a. the loan is secured by a registered first mortgage on Australian real estate and supported by the personal guarantee of the sponsor(s) behind the borrower (and, in some cases, security over other assets) in each case, in favour of the Issuer; b. the property securing the loan is a development site, residential property or commercial property; c. loan types include investment loans, construction loans and residual stock loans; d. the security property is supported by a valuation by a Pallas Capital Panel Valuer dated no more than three months prior to the date on which the Issuer commits itself to make the loan; e. the Loan Commitment represents a maximum loan to value ratio (LVR) of 65% (in the case of a construction loan, based on the ‘as if completed’ value of the project ex-GST); f. the loan is for a maximum term of 24 months; g. the borrower and the sponsor(s) are experienced and have the skill set to manage their position and perform their obligations under the loan; h. each loan falls within the limitation on the Maximum Single Exposure; and i. there is a clear ‘exit strategy’ (i.e., path to repayment). <p>For this purpose, a Loan Commitment is the maximum amount that may be outstanding in accordance with the terms of any Loan.</p> <p>In the case of an SPV Investment, the loan by the SPV Lender must be a Qualifying Loan.</p>	
Security	<p>The Transaction Documents describe the security that is given in favour of the Noteholders by the Issuer.</p> <p>The Issuer will hold a first registered mortgage security in support of each Loan and guarantees from directors of the borrower and/or the sponsors behind the borrower.</p>	

<p>Security (Continued)</p>	<p>In the case of each SPV Investment by PFM Trust, the SPV Lender will hold equivalent security. The rights of each SPV Lender under its loan, including its rights under such security and guarantee arrangements, will be held by that lender and exercised as required for the benefit of all unit holders, pro rata to the size of each unit holding (typically the Issuer will not hold all of the units in the SPV Lender).</p> <p>In addition, the Issuer will hold a bank guarantee and/or cash in accordance with the Investment Protection Mechanism described in the following Section.</p>
<p>Investment Protection Mechanism</p>	<p>In the Investment Protection Deed (IP Deed) family trusts associated with the Directors of the Manager (Sponsors) have made various commitments to provide credit support in respect of the Notes.</p> <p>Throughout the Issue Term, the Sponsors will make advances as required to ensure that the PFM Trust holds bank guarantees and/or cash equivalent to 5% of the Issue Size of the Notes.</p> <p>This amount is the Base Reserve.</p> <p>For example, if the Issue Size is \$50 million, PFM Trust will hold a Base Reserve of \$2.5 million.</p> <p>In addition, if the PFM Trust incurs a loss on any Loan or SPV Investment made by it, the Sponsors are obliged to increase the bank guarantee and/or advance further monies to the PFM Trust up to an amount equal to the greater of:</p> <ol style="list-style-type: none"> a. \$1.5 million; b. 20% of the largest Loan or SPV Investment; and c. in respect of each such loss, the lesser of the amount of the loss and 5% of Issue size calculated at the time the relevant loss was incurred, <p>such amount being the Top-up Amount.</p> <p>The right of the PFM Trust to call for such further advances is the Additional Reserve.</p> <p>Both the Base Reserve and the Additional Reserve will be applied by the Trustee as required to ensure that the PFM Trust does not default on any obligation to pay Interest, or capital upon redemption, in respect of any Note.</p> <p>These obligations of the Sponsors are together referred to as the Investment Protection Mechanism, as set out in the IP Deed.</p> <p>This Investment Protection Mechanism forms a ‘first loss’ buffer for the protection of the holders of Notes.</p>

<p>Investment Protection Mechanism (Continued)</p>	<p>For example, if PFM Trust had an Issue Size of \$50 million, and made an Investment of \$4 million in an SVP Lender which has made a Qualifying Loan at an LVR of 65%, the Base Reserve would cover any loss on that Investment, up to a maximum of \$2.5 million, giving an effective net loan exposure of \$1.5 million.</p> <p>If any claim is made against the IP:</p> <ol style="list-style-type: none"> a. within 10 business days the Sponsors must increase the amount of bank guarantee and/or cash available to the PFM Trust as part of the Base Reserve, so that it is again equivalent to 5% of Issue Size (in effect ‘replenishing’ the Base Reserve); and b. PFM Trust may not take up any further Investments until the Base Reserve is restored to at least 5% of current Issue Size. <p>For the avoidance of doubt, the maximum amount that the Sponsors are required to advance in respect of any one loss is the Top-up Amount.</p> <p>All advances made by the Sponsors to the PFM Trust pursuant to the Investment Protection Mechanism constitute a loan subordinated to the rights of Noteholders.</p> <p>Any failure by the Sponsors to increase the amount of bank guarantee and/or cash available to the PFM Trust as part of the Investment Protection Mechanism, if not rectified within 10 Business Days, is an event of default.</p>
<p>Loan Management</p>	<p>If acting as the lender on record, the PFM Trust will hold and manage each Loan through to maturity and final repayment.</p> <p>PFM Trust may also hold each SPV Investment through to its respective maturity, or may sell and transfer part or all of an SPV Investment prior to that date.</p>
<p>Diversification Strategy/ Maximum Single Exposure</p>	<p>PFM Trust will diversify its investment between various Loans and SPV Investments, so as to reduce its exposure to any single loan/borrower.</p> <p>To reflect this strategy PFM Trust covenants that it will not:</p> <ol style="list-style-type: none"> a. incur any Loan Commitment or make any SPV Investment in excess of an amount equal to 25% of the Issue Size if the Issue Size is less than \$75 million; or b. incur any Loan Commitment or make any SPV Investment in excess of an amount equal to 15% of the Issue Size if the Issue Size is \$75 million or more; or c. allow a Loan Commitment or make any SPV Investment in excess of an amount equal to 15% of the Issue Size to continue for a period exceeding 90 days if the Issue Size is less than \$75 million; or d. allow a Loan Commitment or make any SPV Investment in excess of an amount equal to 10% of the Issue Size to continue for a period exceeding 90 days if the Issue Size is \$75 million or more, <p>where Loan Commitment is the maximum amount that may be outstanding in accordance with the terms of any loan by PFM Trust or the amount invested in any single SPV Investment.</p>

<p>Diversification Strategy/ Maximum Single Exposure</p> <p>(Continued)</p>	<p>These restrictions will not apply until the earlier of:</p> <ul style="list-style-type: none"> a. the date on which the Issue Size reaches \$50 million; or b. the first anniversary of the first Issue Date of any Notes, <p>so as to allow PFM Trust to take up attractive Loans/SPV Investments at a time when the Issue Size has not yet have reached \$50 million. During this period the Issuer will not make a single Qualifying Loan or a single SPV Investment in an amount exceeding \$7.5 million.</p> <p>If at any time PFM Trust is in breach of this covenant:</p> <ul style="list-style-type: none"> c. it must immediately notify the Note Trustee and the Noteholders, setting out the reason(s) for that breach and the steps it is taking to rectify that breach; and d. it may not enter into any new Loan Commitment or any new commitment to make an SPV Investment until it is back in compliance with this covenant covenant. <p>A breach of this covenant will be an event of default if not rectified within 20 Business Days.</p>
<p>SPV Lenders</p>	<p>Each SPV Lender will be controlled and/or managed by a member of the Pallas Group. Typically the SPV Lender will be a unit trust and the investment will take the form of a holding of units in that trust. The Issuer may not hold all of the units in the SPV Lender.</p> <p>Each holder of units in an SPV Lender will receive a pro rata share of any distribution of capital or income by the SPV Lender, representing a pro rata share of principal and interest recovered by the SPV Lender under the Qualifying Loan made by it.</p>
<p>Restriction on Distributions to Pallas Group</p>	<p>Distributions by PFM Trust to Pallas Capital representing profit available for distribution may be made quarterly in arrear.</p> <p>No distributions of any type will be made by PFM Trust to Pallas Capital:</p> <ul style="list-style-type: none"> a. if any Sponsor is in default of any provision of the IP Deed; or b. if any amount due and payable in respect of any Note is in arrears; or c. If PFM Trust is in breach of any covenant concerning the conduct of the Trust.
<p>Related Party Transactions</p>	<p>PFM Trust may make a Loan to a Related Party and/or take up an SPV Investment where the SPV Lender has or will made a Qualifying Loan to a Related Party, but only if:</p> <ul style="list-style-type: none"> a. such Qualifying Loan is made on an arms-length commercial basis and such SPV Investment is made on an arms-length commercial basis; and b. such Qualifying Loan or SPV Investment has been approved by the Independent Supervisor; and c. such Qualifying Loan (or the Qualifying Loan by the SPV Lender) is jointly and severally guaranteed by the related persons that hold a beneficial interest in the borrower.

<p>Related Party Transactions</p> <p>(Continued)</p>	<p>The Independent Supervisor is an independent expert appointed by the Trustee from time to time for the purpose of scrutinising any proposed Loan to a Related Party or proposed SPV Investment where the SPV Lender has or will make a loan to a Related Party.</p> <p>At the date of this IM the Independent Supervisor is Guy French-Wright of Align Property Partners (www.alignpropertypartners.com.au).</p> <p>For this purpose a Related Party is any member of the Pallas Group or any related party of any such member, as defined in the Corporations Act 2001 (Commonwealth).</p>
<p>Reporting</p>	<p>PFM Trust will report to Noteholders through the Note Trustee. Such reports will include quarterly updates, which will include:</p> <ol style="list-style-type: none"> a. a commentary on Qualifying Loans made and SPV Investments Commitments taken up within the period; b. the performance of all current Loans and SPV Investments; c. a compliance certificate on behalf of the PFM Trust, confirming that the trust is in compliance with all obligations under the Transaction Documents and that no event of default is subsisting (or, in the case of any non-compliance or event of default, a description of that non-compliance or event of default and of the steps being taken to rectify it); and d. confirmation of compliance with the various parameters governing PFM Trust (e.g., compliance with the average and maximum LVR requirements and the Maximum Single Exposure limit), to be confirmed by independent audit. <p>Audited annual financial statements will be lodged with the Note Trustee and available to Noteholders on request.</p>
<p>Risks and Mitigating Factors</p>	<p>A list of key risks, and factors that mitigate those risks, is set out under Section 4 – Risks and Mitigating Factors of this IM.</p> <p>This list does not purport to be a complete list of risks or mitigating factors, and potential investors need to make their own enquiries.</p>
<p>Transaction Documents</p>	<ol style="list-style-type: none"> a. The Information Memorandum issued by the Trustee and dated 9 December 2020 (as updated, supplemented or replaced from time to time). b. The relevant Issue Supplement issued by the Trustee on or after the date of this IM. c. The trust deed executed by the Trustee and dated 5 June 2020, which established the Pallas FM Trust. d. The Note Trust Deed executed by the Trustee and the Note Trustee and dated 9 December 2020. e. The Investment Management Agreement executed by the Trustee and the Manager and dated 5 November 2020. f. The Security Trust Deed executed by the Trustee and the Security Trustee and dated 9 December 2020. g. The General Security Deed executed by the Trustee and the Security Trustee and dated 9 December 2020. h. The IP Deed executed by the Trustee and the Sponsors and dated 9 December 2020.

4.0 Further Information

4.1 About Pallas Capital

The trustee of PFM Trust is Pallas Funds Pty. Limited and the Manager of the issue of Notes is Pallas Capital Pty. Limited. Both of these are members of the group of companies owned by Pallas Group Pty. Limited (**Pallas Group**).

Information on the Pallas Group, including in relation to the directors and management, can be found at www.pallasgroup.com.au.

Pallas Capital is a specialist commercial real estate financier and investment manager. It arranges relatively short-term loans for its experienced and successful client borrowers and then offers financial investments in those loans to its investors. These investors are actively seeking **superior risk adjusted fixed income returns** backed by real estate assets and company and/or personal guarantees.

The Pallas Capital team has direct investment and development experience across market cycles and across the asset classes in which PFM Trust will invest. This knowledge, combined with its structured lending experience, is a unique combination that sets the group aside from other lenders.

Pallas Capital's highly experienced executive team possess decades of Australian and global financial markets and real estate debt and equity experience including funds and asset management, law, investment banking, development and valuation, corporate finance, private equity, technology and accounting. The business strives to attract and retain talent that embody its values of integrity, transparency, agility and reliability, and that possess diverse backgrounds and skill sets that are complementary to the team as a whole.

4.2 Key Personnel

Patrick Keenan, Executive Chairman

Patrick Keenan brings to Pallas Capital 38 years of experience as a lawyer, investment banker, owner/manager of an international financial services group and investor/manager in various development projects. Patrick commenced his career as a lawyer with Freehill Hollingdale and Page. After a period as a Director of Australian investment bank Dominguez Barry Samuel Montagu, he became one of three owner/managers of Prebon Yamane Group, with 1,650 staff in 24 cities around the world. He has invested in and managed various real estate projects since 1999 and is actively involved in the day-to-day activities of Pallas Group. Patrick is a member of the Pallas Capital Investment Committee.

Dan Gallen, Executive Director & CIO

Dan Gallen commenced his property career with 10 years at Balmain, one of Australia's largest independent debt originators and fund managers. Over his career of 17 years, Dan has written and managed over A\$2bn in structured real estate transactions, acting over that period as lender, developer, investor and debt advisor and fund manager. Dan applies this breadth of experience in analysing and managing real estate debt and development transactions. Dan is a member of the Pallas Capital Investment Committee.

Steve Lawrence, Executive Director – Lending

Steve Lawrence is an industry veteran having worked in banking industry since 1978 and has held senior operational and lending roles in large organisations in London, Sydney and Melbourne. These organisations include La Trobe Financial, Reliance Bank (UK), Prudential Assurance Co. (UK), Australian Bank, Advance Bank Australia, Overseas Chinese Banking Corporation (OCBC) and Westwater Property Group. Steve has 26 years of specific residential and commercial real estate credit experience. He has established and managed start-up mortgage origination programs, overseen credit departments, been responsible for adherence to credit policies, underwritten and managed \$300 million credit facilities and underwritten substantial commercial loans of up to \$45 million in size. He also has significant experience in the management of delinquent loans and management of mortgage book portfolios. During his 13 years with Latrobe Financial, Steve also held additional posts such as Deputy Chairman of the Origination & Credit Committee (OCC), member of the Audit & Risk Committee (ARC), Deputy Chair of the Large Loans Sub-Committee (LCC) and a member of the Executive Committee (EXCO). Steve is a member of the Pallas Capital Investment Committee.

Charles Mellick, Executive Director

Charles Mellick brings an in-depth knowledge of the property development industry, gained over 30 years, with a reputation for the delivery of high-quality projects. Charles has funded and directed many residential and commercial projects across Sydney and Melbourne's inner-city suburbs. Charles has developed extensive industry networks and a comprehensive skillset of engaging professional firms servicing the development, construction and asset management sectors. Charles is a member of the Pallas Capital Investment Committee.



**Mark Spring,
Executive Director**

Mark Spring has over 30 years' experience in international capital markets encompassing broking, leadership and senior executive roles across a range of entities within the Asia Pacific region, including Prebon Yamane Group and BGC Partners. Mark's primary focus is growing Pallas' distribution capabilities both in Australia and the Asia Pacific region by introducing and maintaining relationships with Asset Managers, Family Offices, High Net Worth Individuals and sophisticated investors.

**Craig Bannister,
Executive Director – Distribution**

Craig Bannister brings over 20 years' experience in the Asian financial markets having worked in Singapore in a variety of senior roles with international financial services firms, including BGC Partners and Prebon Yamane. In these positions he was responsible for client liaison with senior managers and financial traders at most of the trading banks across the Asia Pacific region. Craig's experience enables him to manage and build Pallas Capital's investor base of HNW, Family Office and Wealth Planning channels.

4.3 Illustrations of Qualifying Loans

Set out below are summaries of three recent first mortgage loans arranged and funded by Pallas Capital.

East Grove – 1569 Malvern Road, Glen Iris VIC

eastgrove.com.au



<p>Description First Mortgage refinance.</p> <p>Security Registered First Mortgage, GSA, Personal Guarantee.</p>	<p>Facility Size \$17,500,000.</p> <p>LVR Term 66%* 14 months.</p> <p>Primary Exit Settlement of apartments upon completion</p>	<p>Comments</p> <ul style="list-style-type: none"> • Residential development with a GRV on completion of \$29,000,000 • 23 of 25 apartments presold • Development completed in May 2020 and loan repaid in June 2020 • Upon completion and at the time of settlement of the apartments, the presales represented 140% debt coverage on the first mortgage loan
--	--	---

8 & 9 Hillside Ave, Vacluse NSW



<p>Description First Mortgage refinance.</p> <p>Security Registered First Mortgage, GSA, Personal Guarantee.</p>	<p>Facility Size \$19,850,000.</p> <p>LVR Term 66.7%* 12 months.</p> <p>Primary Exit Refinance via construction loan.</p>	<p>Comments</p> <ul style="list-style-type: none"> • Two residential homes with rental income. Existing permit held for a three lot subdivision • Amended DA lodged in April 2020 for four luxury residences (two free-standing houses and one dual-occupancy (two semis) • Loan settled in May 2020 and repayment expected in May 2021
--	--	---

45 Wangaratta St, Richmond VIC



Description

First Mortgage
Construction funding.

Security

Registered First
Mortgage, GSA,
Personal Guarantee.

Facility Size

\$9,571,000.

LVR | Term

63.8% | 14 months.

Primary Exit

Sale of building upon
completion (tenanted
or "as is") or refinance
through an investment
facility

Comments

- First Mortgage Construction funding for a Boutique Office Development (7 levels and carparking)
- Loan settled in August 2019
- Completion expected in December 2020

4.4 Lending Philosophy

The success of the investments generated by Pallas Capital has been founded on the depth and breadth of its in-house team, covering all aspects from deal origination to asset recovery.

Each loan arranged by Pallas Capital is secured against one or more quality property assets with a recent valuation. These loans are further supported by:

- a. detailed due diligence in relation to the experience, financial position and reputation of the borrower and sponsor/guarantors;
- b. a clear and achievable exit strategy, typically including at least two or three alternative exits;
- c. experienced third-party legal firms engaged to document all loans to ensure each loan is correctly secured; and
- d. active management of all loans by the Pallas Capital team throughout the term, including asset recovery if required.

Pallas Capital arranges loans secured against the following real property asset types:

- a. Eastern Seaboard cities, with a focus on metropolitan Sydney and Melbourne;
- b. secured property values generally in the \$5 - \$40 million range, where buyer and refinance liquidity is relatively deep; and
- c. non-specialised property assets including land with residential use, completed apartments, generic commercial property and construction loans.

More specifically, and as part of the credit assessment process, Pallas Capital considers critical underwriting metrics including:

- a. location and site amenity;
- b. land acquisition value and terms, relative to an independent professional valuation;
- c. conditions precedent and ongoing covenants and conditions subsequent;
- d. the security structure;
- e. LTV/LTC; and
- f. borrower income, other net assets and repayment history.

In the case of a loan secured by a development site, including a construction loan, Pallas Capital will also look at:

- a. the amount of equity invested to date and available from the sponsor, funding sources and expected terms; and
- b. sponsor track record, professionalism and credit checks;
- c. the projected development margin; the contingency allowance;
- d. presales debt cover and other factors mitigating risk;
- e. planning controls, and the likelihood of achieving a positive planning outcome;
- f. attributes including any contamination or heritage issues;
- g. design efficiency and attractiveness to purchasers/end users;
- h. the product target market, expected pricing and absorption;
- i. construction costs and support for cost estimates; and
- j. the sales and marketing plan, program and expertise of sales agents.

Rigorous due-diligence and analysis are undertaken at the outset of a transaction. Pallas Capital's credit analysis focusses on risk assessment, mitigation and management.

Pallas Capital considers the competence, experience and reputation of the borrower and the underlying sponsor just as carefully as it does the value of the primary security asset.

Pallas Capital structures each security package to provide robust protections, including clear covenants with respect to parameters of the loan facility, detailed default interest clauses in favour of the lender in loan documentation and step-in rights.

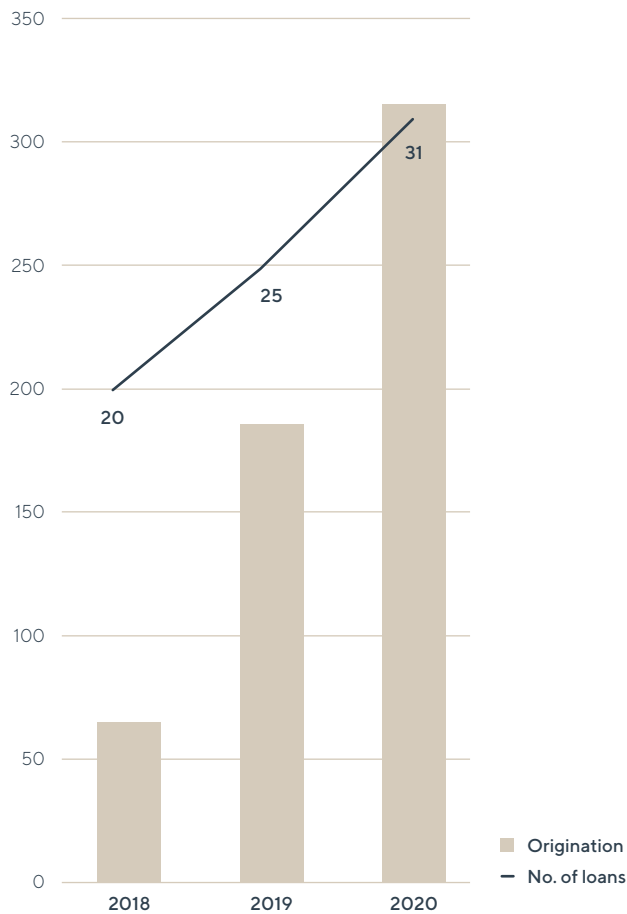
4.5 Track Record

Pallas Capital has built a strong track record and investment book in its own right since its inception in 2016, as illustrated in the graph below.

Since inception Pallas Capital has written over A\$610 million of total investments (debt and equity) across 97 transactions. These transactions were supported by properties covering a wide range of real estate sectors (land, retail, commercial, residential and industrial).

As a result, Pallas Capital has approximately A\$436 million of current Funds Under Management and has returned in excess of \$170 million of investment monies with no defaults or impairments.

Loan Origination (\$Mn)



4.6 Fortis Development Group

Operationally, Pallas Capital benefits significantly from its association with Fortis Development Group (**Fortis**), with both operations being wholly owned by the Pallas Group.

Fortis, established in 2015, is a developer focussed on boutique residential and commercial projects in the affluent, inner-metro suburbs of Melbourne and Sydney. Fortis currently has 15 development projects underway representing a total end project value in excess of A\$1.75 billion (see www.fortis.com.au).

Fortis borrows from a wide range of lenders and has strong banking relationships (particularly with ANZ Melbourne and Commonwealth Bank in Sydney) and non-banking relationships. Fortis also borrows under loans arranged by Pallas Capital, and currently represents approximately 15% of first mortgage loan origination by Pallas Capital.

Pallas Capital benefits from its relationship with Fortis in a number of ways.

Fortis has a high-profile and rapidly growing 'presence' in the markets in which it operates, and it has developed strong and co-operative relationships with other developers, builders, lenders, architects, planners, estate agents and valuers. These relationships generate a significant flow of loan opportunities for Pallas Capital. Given the quality of Fortis projects and its pre-eminent reputation in its market segments, its relationships (and, therefore, the loan opportunities it generates) tend to be with other highly reputable market participants. This is the part of the market targeted by Pallas Capital as a lender.

In addition, the Pallas Capital team has a unique knowledge of property development in the markets in which it currently concentrates its lending activities, partly because it has day-to-day access to the expertise of the Fortis team. This advantage is magnified by the fact that both operations concentrate on similar geographic areas.

Melbourne



Pallas Capital: 36 investments* \$219m
 *Excludes pooled discretionary funds that lend across geographies



Fortis: 9 projects \$600m GRV

Sydney



Pallas Capital: 33 investments* \$170m
 *Excludes pooled discretionary funds that lend across geographies



Fortis: 11 projects \$640m GRV

This is illustrated by the above maps, showing the location of loans and other investments originated by Pallas Capital in each of Melbourne and Sydney, together with current development projects being undertaken by Fortis in those cities.

These maps illustrate both the extent of geographic concentration of the operations of both Pallas Capital and Fortis, and the high degree of overlap between those operations.

This 'in-house' market expertise assists Pallas to closely monitor the industry, markets, projects and partners associated with its loan exposures.

It also enhances the ability of the Pallas Capital team to analyse the credit of each potential loan, and to structure and price those loan opportunities that it wishes to pursue.

In the final resort, the relationship with Fortis creates the possibility of Fortis stepping in to assist in the 'work-out' of a non-performing development or construction loan, or even to replace a defaulting borrower and complete the project, thereby underpinning the recoverability of the Pallas Capital loan. (This has not been required to-date as all Pallas Capital loans have been repaid in accordance with their terms.)

5.0 Asset Class

5.1 The Opportunity

Investment in non-bank loans secured against property assets is a relatively new asset class in Australia, but one that is well established in developed economies overseas.

The Australian Prudential and Regulatory Authority (**APRA**) has reported that, as at March 2020, the total of property related exposures held by various reporting institutions was \$371 billion. Of this, about 73% was held by major banks, about 22% was held by other authorised deposit-taking institutions (**ADIs**) and about 5% was held by non-bank lenders, such as Pallas Capital.

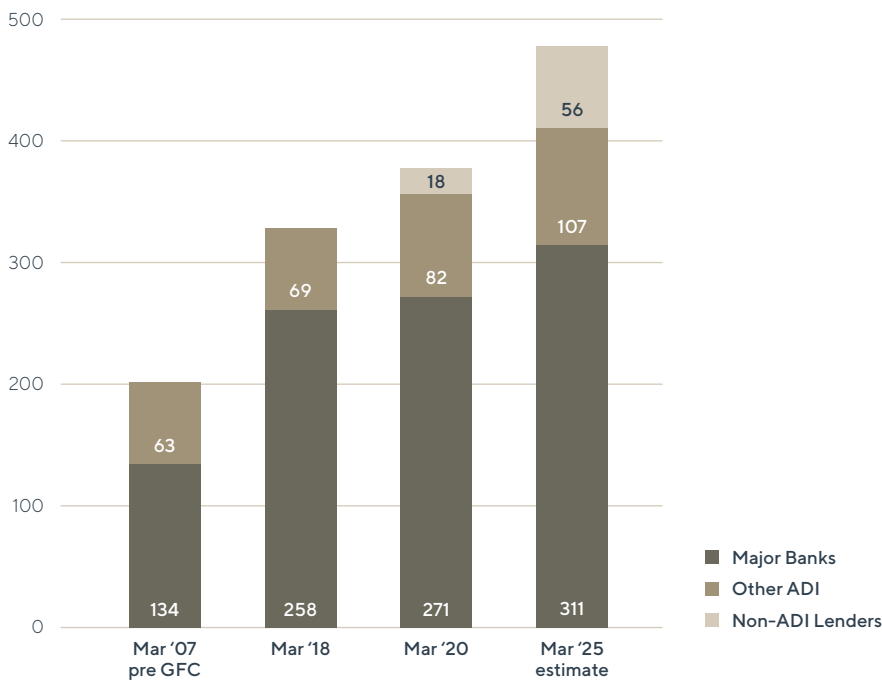
The proportion of total property exposures by non-bank lenders has grown rapidly in recent years. However, it is still low by international standards. It is estimated that in Europe non-bank lenders account for about 35% of all property exposures and in the USA they account for about 50% of all property exposures.

The total of property exposures are projected to increase to about \$474 billion, an increase of about 28% over five years. Non-bank lenders are projected to increase their total property exposures to about \$56 billion by March 2025, an increase of 211% over the same period.

On this basis, the proportion to be held by major banks is expected to fall to about 66%, the proportion to be held by other ADIs is expected to remain stable at about 22% and the proportion held by non-bank lenders is expected to increase to about 12%.

These figures are reflected in the graph below.

Property Exposure (\$Bn)



Source: Australian Prudential Regulatory Authority (APRA), Quarterly ADI Property Exposures March 2020, RBA Market Stability Report 2019

¹Source: FCIC FSB

² www.rba.gov.au/publications/fsr/2019/apr/box-d.html

5.2 Track Record

Investment in property loans is an asset class that provides an attractive rate of return for the level of risk. It is a relatively stable asset that is well insulated from movements in market prices. This feature has been well illustrated since the impact of COVID-19.

The graph below shows the rate of return recorded for various asset classes from late 2017 until early 2020. It calculates rate of return on a rolling 12-month basis, so it does not show daily movements, which were far more dramatic than the rolling 12-month rates of return.

Over this period, only Cash (the Bloomberg AusBond Bank Bill Index) and Pallas Capital first mortgages have offered a stable rate of return, although the rate available on Pallas Capital mortgages is substantially higher, ranging between about 12% in late 2017 and about 9% in mid-2020. These rates did not move to any appreciable degree over the period, even as markets for other asset classes were severely affected by the onset of COVID-19.

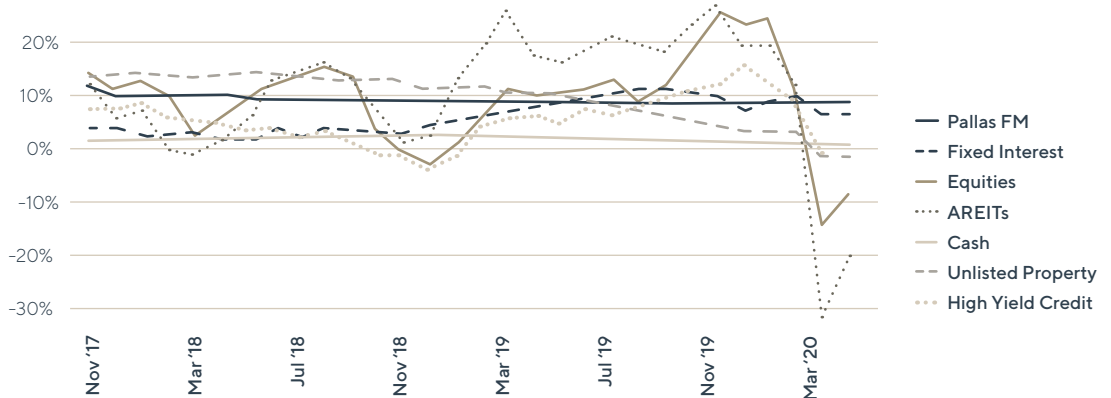
By contrast, the return on all other asset classes moved dramatically during the period, and all other asset classes recorded negative returns – even on a 12-month rolling basis – at some point

during the period, except Fixed Interest, which fell to about a 2.5% annual rolling return in the second quarter of 2018 and again in late 2018.

It is important to note that the rate of return on Pallas Capital first mortgages is not affected by the rate of return on Unlisted Property, even though those mortgages are secured against that class of assets. This is because Pallas Capital generally only lends up to 65% of the recent valuation of the property against which it is secured, and generally only up to 24 months. Accordingly, movements in the market value of the property which secures a first mortgage loan will not affect the rate of return on that loan provided that the value of the property exceeds the amount outstanding on the loan throughout the loan term.

Typically Pallas Capital also takes a personal guarantee from the directors or other sponsors of the borrower, which further insulates the value of the first mortgage loan from movements in the value of the property against which it is secured.

Rolling 12 Month Return Comparison Since Inception



In the graph Equities refers to the S&P 200 Accumulation Index, Cash refers to the Bloomberg AusBond Bank Bill Index, Fixed Interest refers to the Bloomberg AusBond Composite Index and AREITs refer to the S&P AREIT Index.

6.0 Note Issue Structure

6.1 Transaction Structure

The detailed structure through which the Notes are to be issued is fully disclosed in the Transaction Documents. This structure may be represented as shown on the right.

Notes will be issued by Pallas Funds Pty. Limited, as trustee for PFM Trust. The offer of Notes to investors will be arranged by Pallas Capital Pty. Limited through various dealers holding appropriate financial services licences.

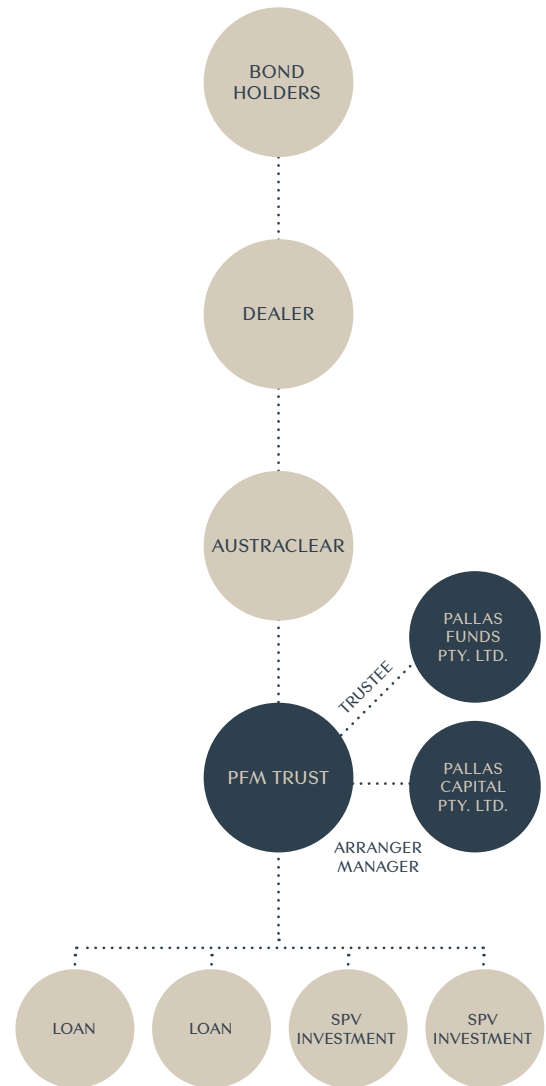
Once issued, transactions concerning any Note will be cleared through the Austraclear System.

Investors will purchase and sell Notes through a dealer that is an Authorised Representative (directly or through an agent) in the Austraclear System.

PFM Trust will interact with the Austraclear System through the Issuing and Paying Agent / Registrar, AMAL Trustees Pty. Limited (**AMAL Trustees**).

Once Notes are issued, they will be registered and assigned within the Austraclear System by AMAL Trustees. The purchase and sale of Notes by Noteholders will be transacted with the relevant Dealer who, in turn, will report those transactions to the Austraclear System through the relevant Custodian.

PFM Trust will put AMAL Trustees in funds to enable it, as IPAR, to make interest payments and redemption payments in accordance with the terms on which the Notes are issued.



(This diagram has been simplified by not showing the Note Trustee, the Security Trustee or the IPAR.)

6.2 Security Trustee and Registrar

The Security Trustee for the Issue is AMAL Security Services Pty Ltd (ACN 609 790 758). The Registrar and Issuing/Paying Agent (**IPAR**) for the Issue is AMAL Trustees Pty Ltd (ACN 609 737 064) (IPAR).

The Security Trustee will hold the assets of the PFM Trust and will comply with the relevant obligations under the Transaction Documents referred to in this IM. In that capacity, if action is required to safeguard the interests of Noteholders, the Security Trustee will seek instructions from the Noteholders, in accordance with the Security Trust Deed and the Note Trust Deed and will take appropriate action to recover monies due to the PFM Trust.

The IPAR will maintain the register of Noteholders, liaise with Austraclear in relation to the issue of Notes and make payments of Interest and principal upon redemption to Noteholders in accordance with the terms of issue of the Notes.

AMAL Group was established in 1994 as a specialist third-party servicer of loan receivables and corporate trustee. Funds under administration and supervision across the group are in excess of \$A15 billion.

AMAL Trustees has over 80 clients and over 130 deals across a variety of markets and structures focused on the note and syndicated loan markets.

AMAL's internal controls framework is based on ISO 9001:2015 Quality Management System and includes both preventative and detective controls. In addition, it maintains a comprehensive, ongoing internal audit process across all areas of the business. The identification, analysis, monitoring and treatment of risks both within and outside of the business are a continual process, overseen by AMAL's Risk Management Committee.

AMAL is subject to a number of external audits including an annual servicer evaluation by Standard & Poor's Ratings Services (S&P), now in its tenth year. In April 2017, S&P affirmed its overall STRONG ranking for AMAL (the highest possible ranking) as a servicer in Australia and New Zealand.

7.0 Risks and Mitigating Factors

The risks listed below are not all of the risks associated with the activities of PFM Trust or with an investment in Notes.

Credit Risk: Defaults on Loans by PFM Trust, or by an SPV Lender in which PFM Trust holds an SPV Investment may result in a loss of principal invested in Notes and/or interest payments due under those Notes. This risk is increased where there is a substantial fall in relevant property markets.

This risk is mitigated by:

- a. the experience of the PFM Trust/Manager teams;
- b. the requirement that sponsors behind the borrowers generally give guarantees and that borrowers and/or sponsors are experienced;
- c. the requirement for a recent valuation of underlying property by a Pallas Capital Panel Valuer;
- d. the relatively short term nature of Qualifying Loans;
- e. the prudent LVR parameters governing PFM Trust.

Property Market Risk: A material decline in the value of properties in relevant market segments will erode the value of the property against which a Loan is secured.

This risk is mitigated by:

- a. the factors referred to under 'Credit Risk' above; and
- b. the requirement for a recent valuation of underlying property by a Pallas Capital Panel Valuer.

A list of Pallas Capital Panel Valuers is available on request.

Interest Rate Risk: A general increase in interest rates may lead to a reduction in the value of properties and/or increase financial pressure on the borrowers/guarantors.

This risk is mitigated by the factors referred to under 'Credit Risk' above.

Loan Concentration Risk: It is possible that monies held by PFM Trust will be deployed in a small number of Loans and/or SPV Investments, creating a 'concentration risk'.

This risk is mitigated by the Diversification Strategy and (after the first 12 months of the Issue Term) the Maximum Single Exposure restriction.

Exposure to the Pallas Group: Both the Trustee and the Manager are members of the Pallas Group, and these entities share management teams including key personnel.

This risk is mitigated by PFM Trust being established as a separate, special purpose vehicle and by the appointment of the Security Trustee.

Liquidity Risk: Although there will be a secondary market in Notes, there is no guarantee as to the volumes that will be transacted through this market from time to time. In addition, the Trustee may not exercise its right to redeem any Note during the Issue Term

Negative Carry: PFM Trust may be unable to identify Investments in Qualifying Loans, or be able to do so only at rates of interest to PFM Trust lower than the rate payable under the Notes.

This risk is mitigated by the right of the Trustee exercise the Issuer Call.



8.0 Directory

Trustee: Pallas Funds Pty Ltd atf Pallas FM Trust

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

Email: info@pallascapital.com.au
Phone Number: +61 2 8188 1108
Website: www.pallasgroup.com.au

**Arranger & Investment Manager:
Pallas Capital Pty Limited**

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

Email: info@pallascapital.com.au
Phone Number: +61 2 8188 1108
Website: www.pallasgroup.com.au

Note Trustee: AMAL Trustees Pty Ltd

Address: Level 9, 9 Castlereagh Street,
Sydney NSW 2000

Email: mail@amaltrustees.com.au
Phone Number: 1300 832 51

**Issuing, Paying Agent & Registrar (IPAR):
AMAL Management Services Pty Ltd**

Address: Level 9, 9 Castlereagh Street,
Sydney NSW 2000

Email: mail@amaltrustees.com.au Phone
Number: 1300 832 51

**Security Trustee: AMAL Security Services
Pty Ltd**

Address: Level 9, 9 Castlereagh Street,
Sydney NSW 2000

Email: mail@amaltrustees.com.au
Phone Number: 1300 832 51

