

Series No.: A

Tranche No.: 1

Security Pool: A



PALLAS
FUNDS

Pallas Funds Pty Ltd
(ACN 604 352 347)

as trustee of the Pallas FM Trust
("Issuer")

Issue of
A\$10,000,000 7.50% Fixed Rate Notes due 31 December 2024
("Notes")

The date of this Issue Supplement is 15 December 2020.

This Issue Supplement (as referred to in the Information Memorandum dated 9 December 2020 ("**Information Memorandum**")) relates to the Tranche of Notes referred to above. It is supplementary to, and should be read in conjunction with:

- (a) the terms and conditions of the Notes ("**Conditions**") contained in the Information Memorandum;
- (b) the Note Trust Deed dated 9 December 2020 between the Issuer and the Note Trustee; and
- (c) the Security Trust Deed dated 9 December 2020 between, amongst others, the Issuer and the Security Trustee.

Unless otherwise indicated, terms defined in the Conditions have the same meaning when used in this Issue Supplement.

This Issue Supplement does not constitute, and may not be used for the purposes of, 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. No action is being taken to permit an offering of the Notes or the distribution of this Issue Supplement in any jurisdiction outside Australia where such action is required.

The particulars to be specified in relation to the Tranche of Notes referred to above are as follows:

1	Issuer	: Pallas Funds Pty Ltd (ACN 604 352 347) as trustee of the Pallas FM Trust
2	Type of Notes	: Fixed Rate Notes
3	Placement Manager	: Australian Bond Exchange Pty. Limited (ACN 605 038 935)
4	Note Trustee	: AMAL Trustees Pty Limited (ABN 98 609 737 064)
5	Registrar	: AMAL Management Services Pty Limited (ABN 46 609 790 749)

6	Issuing & Paying Agent	:	AMAL Management Services Pty Limited (ABN 46 609 790 749)
7	Calculation Agent	:	AMAL Management Services Pty Limited (ABN 46 609 790 749)
8	Security Trustee	:	AMAL Security Services Pty Limited (ABN 48 609 790 758)
9	Aggregate principal amount of Tranche and Series	:	<p>A\$10,000,000, with the ability to raise more.</p> <p>It is intended that the aggregate amount of the Series of which this Tranche forms a part will be A\$150,000,000, with commitments from prospective Series A Noteholders open for acceptance by the Issuer up to and including 31 March 2021 (or such later date as the Issuer may determine). The actual amount of the Series may be more or less than this amount.</p>
10	Security Pool	:	The Notes form part of Security Pool A.
11	Security Pool Collateral	:	<p>All present and future (after acquired) rights, property and undertaking of whatever kind and wherever situated, of the Issuer or to which the Issuer becomes entitled other than any future rights, property and undertaking which is acquired after the Issue Date and which is either:</p> <p>(a) specified as being Security Pool Collateral in respect of a Security Pool other than Security Pool A in another Issue Supplement; or</p> <p>(b) which the Issuer otherwise notifies to the Noteholders as not forming part of the Security Pool Collateral in respect of Security Pool A.</p>
12	Other credit support	:	<p>In addition, the Issuer has entered into an IP Deed between the Issuer and the family trusts ("Sponsors") associated with the directors of the Issuer and dated 9 December 2020 ("IP Deed"). Pursuant to the IP Deed the Sponsors are obliged to make subordinated loans to the Issuer, the proceeds of which are to be utilised by the Issuer as required to avoid any default in the payment of interest or principal on redemption of any Notes. The amount to be loaned by the Sponsors under the IP Deed is equal to:</p> <p>(a) 5% of the aggregate principal amount outstanding of the Notes from time to time; plus</p> <p>(b) in respect of each deficiency in monies received by the Issuer from investments by it, an amount up to the greater of:</p> <p>(i) A\$1,500,000;</p> <p>(ii) an amount equal to 20% of the largest single Loan or SPV Investment; and</p> <p>(iii) the lesser of the amount of the deficiency and 5% of the aggregate principal amount outstanding of the Notes on the date the deficiency arose.</p>
13	Maximum LVR	:	65%
14	Issue Date	:	21 December 2020.
15	Issue Price	:	100.00%
16	Denomination	:	A\$10,000

17	Minimum parcel size on initial issue	:	A\$10,000
18	Maturity Date	:	31 December 2024
	Extended Maturity Date	:	30 June 2025
19	Record Date	:	As per the Conditions
20	Condition 7 (Fixed Rate Notes) applies	:	Yes
	Interest Rate	:	<p>7.50% per annum payable quarterly in arrear from (and including) the Issue Date to (but excluding) the Maturity Date or, if earlier, the date on which the Notes are redeemed in full.</p> <p>9.50% per annum payable quarterly in arrear from (and including) the Maturity Date to (but excluding) the Extended Maturity Date or, if earlier, the date on which the Notes are redeemed in full.</p>
	Fixed Coupon Amount:		<p>For the period from (and including) the Issue Date until (but excluding) the Interest Payment Date falling on 31 March 2021, A\$205.48 per A\$10,000.</p> <p>For the period from (and including) the Interest Payment Date falling on 31 March 2021 until (but excluding) the Maturity Date or, if earlier, the date on which the Notes are redeemed in full, A\$187.50 payable quarterly per A\$10,000 (or a pro rata amount for a part period).</p> <p>For the period from (and including) the Maturity Date to (but excluding) the Extended Maturity Date or, if earlier, the date on which the Notes are redeemed in full, A\$237.50 payable quarterly per A\$10,000 (or a pro rata amount for a part period).</p>
	Interest Commencement Date	:	Issue Date.
	Interest Payment Dates	:	31 March, 30 June, 30 September and 31 December in each year, commencing on 31 March 2021 up to, and including, the Maturity Date or the Extended Maturity Date (as applicable) or any earlier redemption date.
	Business Day Convention	:	Following Business Day Convention
	Day Count Fraction	:	RBA Bond Basis
	Default Rate	:	9.50% per annum
21	Condition 8 (Floating Rate Notes) applies	:	Not applicable
22	Noteholder put	:	Not applicable

- 23 Issuer Call : Applicable. The Issuer may redeem all or some of the Notes at their outstanding principal amount and any interest accrued to (but excluding) the applicable early redemption date.
- However, the Issuer may only do so if:
- (a) the amount of Notes to be redeemed is a multiple of their Denomination;
 - (b) the Issuer has given at least 30 days' (and no more than 90 days') notice to the Note Trustee, the Registrar, each Noteholder and each other Agent; and
 - (c) the proposed early redemption date is after 1 July 2021.
- If the Issuer exercises the Issuer Call it must pay a premium on redemption, calculated as follows:
- (a) if a Note is redeemed in the period from 1 July 2021 to 30 June 2022 (inclusive), A\$300 per A\$10,000;
 - (b) if a Note is redeemed in the period from 1 July to 30 June 2023 (inclusive), A\$200 per A\$10,000; and
 - (c) if a Note is redeemed in the period from 1 July 2023 to 30 June 2024 (inclusive), A\$100 per A\$10,000.
- If only some of the Notes are to be redeemed under the Conditions, the Notes to be redeemed will be specified in the notice and selected, in so far as is possible, pro rata across all Notes or otherwise in a fair and reasonable manner.
- Any notice of early redemption is irrevocable.
- 24 Australian interest withholding tax : 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.
- 25 Collection Account designation : Name: Pallas FM Trust Collection Account
- BSB: 032-143
- Account No.: 489 751
- Bank: Westpac Banking Corporation
- 26 Voting Beneficiaries : All Noteholders holding Notes in respect of Security Pool A.
- 27 Additional Beneficiaries : Nil
- 28 Clearing system : Austraclear System.
- 29 ISIN : AU3CB0275915
- 30 Common Code : 225828130
- 31 Austraclear I.D. : PFMT01
- 32 Listing : None
- 33 Rating : None

- 34 Additional Conditions – Extended Maturity Date : If the Extended Maturity Date applies in respect of the Notes, the Austraclear System will require each person in whose Security Record (as defined in the Austraclear Regulations) such a Note is recorded (each an “**Austraclear Participant**”) to enter such dealings in the Austraclear System as are then required by the Austraclear System to give effect to the Extended Maturity Date. The Issuer and the Issuing & Paying Agent (“**IPAR**”) have agreed that the Issuer will notify the IPAR if the Extended Maturity Date will apply and, if so notified, the IPAR will modify the Maturity Date until the Extended Maturity Date. If any dealings are so required and there is a failure to enter any such dealings in a timely manner, the IPAR may take such action (including entering into such dealings) on behalf of an Austraclear Participant as may be required at the applicable time including the removal of the relevant Notes from the Austraclear System in accordance with the Conditions. Neither the Issuer nor the IPAR are responsible for anything Austraclear or the Austraclear System or any other clearing system does or omits to do with respect to the above, which is a matter for Austraclear, its nominees (if any), the Austraclear Participants and the Noteholders.
- 35 Additional Conditions – Event of Default : For the purposes of Condition 14.1(c), it is an Event of Default if there is a breach of the IP Deed by the Sponsors and the breach is not rectified within 10 Business Days after notice of such breach is given by the Issuer to the Sponsors.
- 36 Additional Conditions – Application of proceeds : The Issuer will apply the proceeds of Issue in making Qualifying Loans and/or in investing in SPV Lenders that have made or will make Qualifying Loans.
- For the purposes of the definition of “Loan” in the Conditions, each Loan in connection with this Series A will be a Qualifying Loan.
- A “**Qualifying Loan**” is a loan in respect of which the Issuer has formed the view that:
- (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 by 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 qualified valuer dated no more than three months prior to the date on which the Issuer commits itself to make the loan;
 - (e) the maximum amount that may be outstanding under the loan 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 perform their obligations under the loan; and
 - (h) there is a clear ‘exit strategy’ (i.e., path to repayment).

An investment in an SPV Lender ("**SPV Investment**") is an equity investment in a special purpose vehicle that has itself made or will make a Qualifying Loan.

37 Additional Conditions –
Diversification rules

: The Issuer will diversify its investment between various Qualifying Loans and SPV Investments, so as to reduce its exposure to any single loan/borrower.

To reflect this strategy, the Issuer will not:

- (a) incur any Loan Commitment or SPV Investment in excess of an amount equal to 25% of the aggregate principal amount outstanding pursuant to the Notes ("**Issue Size**") if Issue Size is less than A\$75 million; or
- (b) incur any Loan Commitment or SPV Investment in excess of an amount equal to 15% of the Issue Size if the Issue Size is A\$75 million or more; or
- (c) allow a Loan Commitment or 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 A\$75 million; or
- (d) allow a Loan Commitment or 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 A\$75 million or more,

where "**Loan Commitment**" is the maximum amount that may be outstanding in accordance with the terms of any loan by the Issuer.

These restrictions will not apply until the earlier of:

- (a) the date on which the aggregate amount of the Series reaches A\$50 million; or
- (b) the first anniversary of the Issue Date,

so as to allow the Issuer to take up Loans/SPV Investments at a time when the Issue Size has not yet have reached A\$50 million. During this period the Issuer will not make a single Qualifying Loan or a single SPV Investment in an amount exceeding A\$7,500,000.

If at any time the Issuer is in breach of this covenant:

- (a) 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
- (b) 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.

A breach of this covenant will be an Event of Default if not rectified within 20 Business Days.

38 Additional Conditions –
Related party transactions

: The Issuer may make a Qualifying Loan to a Related Party and/or take up an SPV Investment where the SPV Lender has or will made a loan to a Related Party, but only if:

- (a) such Qualifying Loan is made on an arms-length commercial basis or 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.

The "Independent Supervisor" is an independent expert appointed by the Issuer from time to time for the purpose of scrutinising any proposed Qualifying Loan to a Related Party or proposed SPV Investment where the SPV Lender has or will make a loan to a Related Party.

At the date of this Issue Supplement the Independent Supervisor is Guy French-Wright of Align Property Partners (<http://www.alignpropertypartners.com.au>).

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 (Cth)*.

39 Additional Conditions – Distributions by the Issuer : Distributions by the Issuer in respect of units issued by the Issuer (representing profit available for distribution) may be made quarterly in arrear.

However, no distributions of any type will be made by the Issuer:

- (a) if any Sponsor is in default under the provisions of the IP Deed; or
- (b) if any amount due and payable in respect of any Note is in arrears; or
- (c) if the Issuer is in breach of any covenant concerning the conduct of the Pallas FM Trust.

The Issuer accepts responsibility for the information contained in this Issue Supplement.

Date: 15 December 2020

CONFIRMED

For and on behalf of
Pallas Funds Pty Ltd as trustee of the Pallas FM Trust

By:
 Name: **PATRICK KEENAN**
 Title: **DIRECTOR**

By:
 Name: **DAN GALLAN**
 Title: **DIRECTOR**