

Pallas FM Trust First Performance Update Q4 2020



Pallas Funds Pty. Limited (ACN 604 352 347) atf Pallas FM Trust

Key Metrics as at 31 December 2020

Bond	
Note Type	Fixed Rate Notes
ISIN	AU3CB0275915
Austraclear Series I.D.	PFMT01
Common Code	225828130
Bloomberg	FIGI# BBG00YNB5ZY5 (BB#BN2156758)
Notes on Issue	3,000 Notes (\$30 million)
Issue Limit	15,000 Notes (\$150 million)
Issue Term	4 Years
Term to Maturity	48 months
Fungible	Yes
Fixed Coupon	7.50% p.a. paid quarterly in arrears
Issue Date Tranches 1 and 2	21 December 2020
Maturity Date	31 December 2024
Rating	n/a
Withholding Tax	S.128F Compliant
Underlying Portfolio	
Total Issue Size	\$30,000,000
Total Invested Amount	\$25,699,975
Total Cash Amount	\$4,300,025
Total Current SPV Investments	6
Average Portfolio LVR	63.9%
Average Portfolio LVR (IP)*	60.1%
Weighted Average Loan Maturity	7.9 months
Investments in Arrears	NIL

*including Investment Protection (IP) mechanism when applied only once to an individual loan within the PFMT01 portfolio.

Investment Objective & Strategy

Provide bond investors with access to a high-yield, fixed-rate bond supported by a portfolio of underlying SPV investments. Each SPV investment is secured by a registered first mortgage over a quality, Australian real estate asset, predominately located in Sydney and Melbourne metropolitan areas. The SPV portfolio gives investment diversity by geography, sponsor, loan tenor and loan type.

Key Service Providers

Trustee	Pallas Funds Pty. Limited AFSL No. 473475
Investment Manager	Pallas Capital Pty. Limited (ABN 50 616 130 913)
Note Trustee	AMAL Trustees Pty. Limited (ABN 98 609 737 064)
Registrar, Issuing & Paying Agent	AMAL Management Services Pty. Limited (ABN 46 609 790 749)
Security Trustee	AMAL Security Services Pty. Limited (ABN 48 609 790 758)

Investment Activity

As at the 31 December 2020, proceeds from Pallas FM Trust Bond Series A (PFMT01) Tranches 1 and 2 were invested across six SPV-first mortgage investments, specifically participations in the following Trusts:

Investment	Amount (A\$)	Initial LVR	Effective LVR
Marmont FM Trust	7,500,000	64.5%	51.6%
10 Male Street FM Trust	5,619,500	62.5%	45.8%
Palmerston Street Capital Trust	950,000	65.0%	0.0%
54 Montclair Avenue FM Trust	744,678	64.0%	0.0%
Richmond Capital Trust	6,165,000	63.8%	48.3%
Bennelong Crescent Capital Trust	4,720,797	64.3%	44.3%
Total	25,699,975	63.9%	n/a

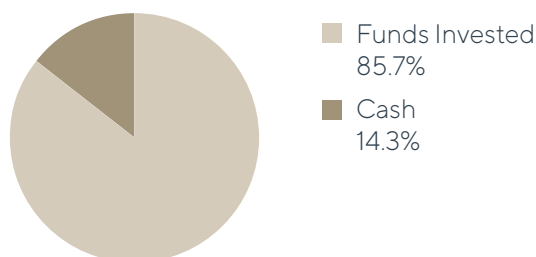
The Notes benefit from an investment protection (IP) mechanism which requires parties associated with Pallas FM to lodge cash and/or bank guarantees equal to 5% of the total principal amount outstanding in respect of the Notes. At 31 December 2020 Pallas FM held \$1.5 million of cash, in addition to monies invested by Noteholders, as IP Reserve.

The table above shows the loan to value ratio (LVR) on which each Qualifying Loan was made and the effective LVR, net of this IP protection. The table shows that of the six investments as at 31 December 2020, the highest effective LVR was below 51.6% and in the case of two investments the effective LVR was 0%.

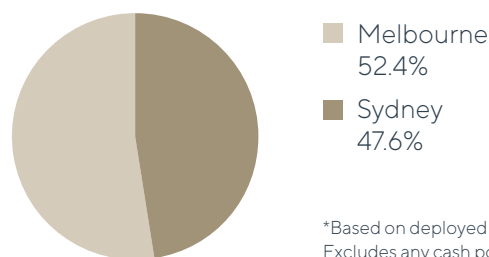
As the Notes were issued seven business days before the first reporting quarter end period, some of the proceeds were not yet been deployed by the reporting date. Pallas FM intends to issue additional Notes and to further diversify its portfolio in coming months.

All investments held by Pallas FM are performing. Investment Manager Pallas Capital is satisfied with the deployment of Pallas FM funds to date.

Portfolio Composition

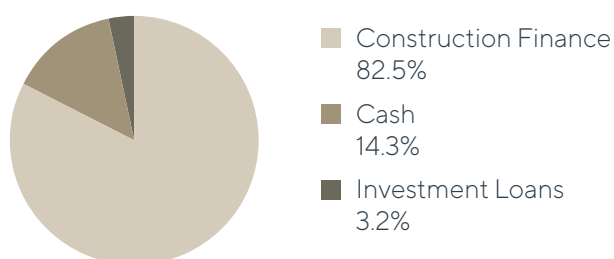


Geographic Diversification



*Based on deployed funds only.
Excludes any cash position of Pallas FM.

Investment Type Diversification



As stated in its Investor Memorandum dated 15 December 2020, until the earlier of:

- the date on which the Issue Size reaches \$50 million; or
- 21 December 2021, the first anniversary of the first Issue Date of any Notes,

the restriction on the maximum single exposure is a requirement that the Issuer will not make a single Qualifying Loan or a single SPV Investment in an amount exceeding \$7.5 million.

Compliance Certification

Appendix 1 – Compliance Certificate signed by Directors of the Issuer.

Appendix 2 – Independent Verification Report prepared by AMAL Management Services Pty Limited.

About The Investment Manager

Pallas Capital is an Australian commercial real estate financier and investment manager that has originated and managed \$640 million since December 2016 across 100 transactions.

The platform offers a range of risk-adjusted, real estate-backed single asset and diversified debt and equity investment opportunities for wholesale investors. Pallas Capital has offices in Sydney and Melbourne.

Pallas Capital currently has Funds Under Management (FUM) exceeding \$460 million.

Pallas Capital has a pristine track record. All of the transactions by Pallas Capital have either been repaid together with all investment returns, or are fully performing. Pallas Capital has repaid A\$180 million to investors with no impairments.

Pallas Capital offers a range of investment types across the 'capital stack', including:

- diversified pooled first mortgage portfolio investments,
- bespoke first and second mortgage investments, and
- preferred equity and ordinary equity investment offerings in real estate development projects.

Investor Queries

02 8188 1108

pallascapital.com.au

[linkedin.com/company/pallascapital](https://www.linkedin.com/company/pallascapital)

**INDEPENDENT VERIFICATION REPORT FOR
QUARTER ENDING 31 DECEMBER 2020**

Commercial in Confidence

3 February 2021

TO: Noteholders

Pallas FM Trust (PFM Trust) – 7.5% Fixed Rate Bonds Due 2024

We refer to the Investment Memorandum dated 15 December 2020 issued by Pallas Capital Pty. Limited (ACN 616 130 913) acting as the Corporate Authorised Representative (ASIC No. 001257625) of Pallas Funds Pty Ltd (ACN 604 352 347) as trustee of the Pallas FM Trust (**Issuer**) (**Investment Memorandum**).

This independent verification report is issued in accordance with the reporting provision set out in Section 3 (**Key Terms**) of the Investment Memorandum.

Terms used in the Investment Memorandum have the same meaning in this report.

AMAL Management Services Pty Limited (ACN 609 790 749) in its capacity as Verification Agent for the Pallas FM Note Trust (**AMAL**) has undertaken an independent verification for the PFM Trust and confirms that as at 31 December 2020 it has reviewed the primary source documents confirming the following:

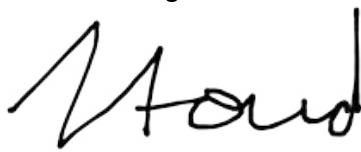
1. (**Security**): that each loan is secured by a registered first mortgage on Australian real estate and has been provided with documents showing that it is supported by the personal guarantee of the sponsor(s) behind the borrower (and in some cases, security over other assets) in each case, in favour of the Issuer;
Verification methodology: AMAL has reviewed copies of the independent source documents (i.e. mortgage, certificate of title / land title search issued by the relevant land registry office, personal guarantees) for the purpose of verifying that this statement is true and correct.
2. (**Nature of security property**): that the property securing each loan is a development site, residential property or commercial property;
Verification methodology: AMAL has reviewed a copy of the independent source document (i.e. a valuation report prepared by a Pallas Capital Panel Valuer) for the purpose of verifying that this statement is true and correct.
3. (**Type of loan**): that each loan is an investment loan, construction loan or residual stock loan;

Verification methodology: AMAL has reviewed copies of the independent source documents (i.e. loan agreement and associated security documents) for the purpose of verifying that this statement is true and correct.

4. (**Valuation**): the security property for each loan is supported by a valuation by a Pallas Capital Panel Valuer dated no more than three months prior to the date on which the lender committed to make the loan;
Verification methodology: AMAL has reviewed a copy of the independent source document (i.e. a valuation report prepared by a Pallas Capital Panel Valuer) for the purpose of verifying that this statement is true and correct.
5. (**Loan-to-value ratio (LVR)**): the Loan Commitment of each 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).
Verification methodology: AMAL has reviewed copies of the independent source documents (i.e. loan agreement and associated security documents) for the purpose of verifying that this statement is true and correct.
6. (**Term**): the term of each loan is less than or equal to 24 months;
Verification methodology: AMAL has reviewed copies of the independent source documents (i.e. loan agreement and associated security documents) for the purpose of verifying that this statement is true and correct.
7. (**Diversification Strategy / Maximum Single Exposure**): that each loan falls within the limitation on the Maximum Single Exposure;
Verification methodology: AMAL has reviewed copies of the independent source documents (i.e. unit certificates, holding statements) for the purpose of verifying that this statement is true and correct.
8. (**Investment Protection Mechanism**): that as at 31 December 2020, the PFM Trust holds bank guarantees and/or cash equivalent to 5% of the Issue Size (i.e. the aggregate principal amount outstanding in respect of all Notes on issue from time to time);
Verification methodology: AMAL has reviewed copies of the independent source documents (i.e. bank statements, bank guarantees) for the purpose of verifying that this statement is true and correct.

9. (**SPV Lenders**): that each SPV Lender is controlled and/or managed by a member of the Pallas Group and the PFM Trust does not hold all of the units in each such SPV Lender; and **Verification methodology**: *AMAL has reviewed copies of the independent source documents (i.e. unit certificates, holding statements) for the purpose of verifying that this statement is true and correct.*
10. (**Related Party Transactions**): that each loan to a Related Party and/or SPV Investment where the SPV Lender has made a loan to a Related Party:
- (i) has been made on an arms-length commercial basis;
 - (ii) has been approved by the Independent Supervisor, who is appointed to scrutinise such loan or SPV Investment; and
 - (iii) is jointly and severally guaranteed by the related persons that hold a beneficial interest in the borrower.
Verification methodology: *AMAL has reviewed copies of the independent source documents (i.e. Independent Supervisor's report, personal guarantees) for the purpose of verifying that this statement is true and correct.*

Signed for and on behalf of
AMAL Management Services Pty Limited (ACN 609 790 749)



Position: Authorised Officer

Date: 3 February 2021

**COMPLIANCE CERTIFICATE FOR QUARTER ENDING
31 DECEMBER 2020**

Commercial in Confidence

TO: Noteholders

Investment Memorandum – Pallas FM Trust 7.5% Fixed Rate Bonds Due 2024

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This Compliance Certificate is issued in accordance with the reporting provision set out in Section 3 (**Key Terms**) of the Investment Memorandum.

Terms used in the Investment Memorandum have the same meaning in this certificate.

As at 31 December 2020, the Issuer hereby confirms that:

- (a) the Issuer is in compliance with all obligations under the Transaction Documents referred to on page 12 of the Investment Memorandum; and
- (b) no event of default under the Transaction Documents is subsisting.

Signed for and on behalf of
Pallas Funds Pty Ltd as trustee of the Pallas FM Trust:



Director: Patrick Keenan

Date: 22 January 2021



Director: Charles Mellick

Date: 22 January 2021