Zagga Investments Lending Trust

This report has been prepared for financial advisers only

Superior

March 2024

INTRODUCTION

Key Principles

SQM Research considers (but is not restricted to) the following key review elements within its assessment:

1. Business profile - product strategies and future direction
2. Marketing strategies and capabilities, market access
3. Executive Management / Oversight of the investment management firm
4. Corporate Governance / fund compliance / risk management
5. Investment team and investment process
6. Fund performance, investment style, market conditions, investment market outlook
7. Recent material portfolio changes
8. Investment liquidity
9. Investment risks
10. Fund/Trust fees and expenses

Currency of Reports

This Research Report is current as at the date on the report until it is replaced, updated or withdrawn. SQM Research reports are generally valid for a term of approximately 12 months but may be replaced, withdrawn or changed at any time as judged appropriate by SQM Research.

Star Rating*

Investment products are awarded a star rating out of a possible five stars and placed on the following website: **www.sqmresearch.com.au**

Licensed Investment Adviser

SQM Research is licensed as an Australian Financial Services Licensee, Licence No. 421913, pursuant to section 913B of the Corporations Act 2001. The licence authorises SQM Research to carry on a financial services business to provide general financial product advice only.

Privacy Policy

SQM Research collects only a limited amount of personal information from its clients. Our privacy policy can be viewed at **www.sqmresearch.com.au**. This will enable you to understand your rights, our obligations and what SQM Research does with any information it collects about you.

Fees charged for Report

SQM Research has received a fee from the fund manager for this report and rating.

General Financial Product Advice

This advice will not take into account you, or your clients, objectives, financial situation or needs and will not be provided in respect of any other financial products. Accordingly, it is up to you and your clients to consider whether specific financial products are suitable for your objectives, financial situations or needs.

For ratings reports covering superannuation, life products, and retirement savings accounts, including IDPS, SQM Research Pty Ltd acts as an authorised representative of Interprac Financial Planning Pty Ltd, ABN 14 076 0930 680, AFSL 246638. Authorised Representative Number 404383.

More information on the Interprac Pty Ltd Financial Service Guide can be found below:

https://interprac.com.au/wp-content/uploads/2021/07/InterPrac-FSG-Part-1-v12.0.pdf

Report Date: 6 March 2024

Star Rating*	Description	Definition	
4½ stars and above	Outstanding	**Highly suitable for inclusion on APLs** *SQM Research believes the Fund has considerable potential to outperform over the medium-to-long term. Past returns have typically been quite strong. Product disclosure statement (PDS) compliance processes are of a high-calibre. There are no corporate governance concerns. Management is extremely experienced, highly skilled and has access to significant resources.*	High Investment grade
4¼ stars	Superior	**Suitable for inclusion on most APLs** *SQM Research considers the Fund has substantial potential to outperform over the medium-to-long term. Past returns have tended to be strong. PDS compliance processes are high-quality. There are no material corporate governance concerns. Management is of a very high calibre.*	High Investment grade
4 stars	Superior	**Suitable for inclusion on most APLs** *In SQM Research's view, the Fund has an appreciable potential to outperform over the medium-to-long term. Historical performance has tended to be meaningful. PDS compliance processes are strong. There are very little to no corporate governance concerns. Management is of a high calibre.*	High Investment grade
3¾ stars	Favourable	**Consider for APL inclusion** *SQM Research concludes the Fund has a moderate potential to outperform over the medium-to-long term. Past performance has tended to be reasonable. Management is experienced and displays investment-grade quality. There are no corporate governance concerns, or they are of a minor nature.*	Approved
3½ stars	Acceptable	**Consider for APL inclusion** *In SQM Research's view, the potential for future outperformance in the medium-to-long term is somewhat uncertain. Historical performance has tended to be modest or patchy. Management is generally experienced and capable. SQM Research has identified weaknesses which need addressing in order to improve confidence in the Manager.*	Low Investment grade
3¼ stars	Caution Required	**Not suitable for most APLs** *In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is very uncertain. Historical returns have tended to be disappointing or materially below expectations. PDS compliance processes are potential substandard. There are possible corporate governance concerns. Management quality is not of investment-grade standard.*	Unapproved
3 stars	Strong Caution Required	**Not suitable for most APLs** *In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is unlikely. Historical performance has tended to be unacceptable. There may be some material corporate governance concerns. SQM Research has a number of concerns regarding management.*	Unapproved
Below 3 stars	Avoid or redeem	**Not suitable for most APL inclusion**	Unapproved

Event-driven Rating	Definition
Hold	*Rating is suspended until SQM Research receives further information. A rating is typically put on hold for a period of two days to four weeks.*
Withdrawn	*Rating no longer applies. Significant issues have arisen since the last report date. Investors should consider avoiding or redeeming units in the fund.*

* The definitions in the table above are not all encompassing and not all individual items mentioned will necessarily be relevant to the rated Fund. Users should read the current rating report for a comprehensive assessment.

CONTENTS

SQM Rating ★★★★½

Superior. Suitable for inclusion on most APLs.

Fund Details	
Trust Name	Zagga Investments Lending Trust
APIR Code	Not Applicable
Manager	Zagga Investments Pty Limited
Trustee	Zagga Investments Pty Limited
Investment Details	
Trust Inception	Zagga Investments Lending Trust – June 2017 Zagga Feeder Fund – December 2018 Zagga Wealth Fund – February 2021 Zagga CRED Fund – Sep 2023
Loan Size	It will differ for each loan. The minimum loan size is $3 million to commence investments, up to $50 million
Trust Type	Lending platform
Loan Book Size (Active)	$675.41 million as of Jan 2024
Return Objective	Variable according to each loan. The objective is to deliver a fixed, annuity return to the investor at a significantly better rate than for cash/near-cash without a commensurate increase in risk
Internal Return Objective	IRR of 11% p.a.
Risk Level	Assessed as low. Variable according to the credit risk of each Borrower
Benchmark	Not Applicable
Number of positions	One loan per offering
Gearing	None
Investment Specifications	
Minimum Application	Zagga Wealth Fund, Zagga Feeder Fund - $100,000 Zagga CRED Fund - $50,000
Redemption Policy	On completion of the specific loan term
Distribution Frequency	Zagga Wealth Fund, Zagga Feeder Fund - Interest is payable monthly in arrears Zagga CRED Fund – Monthly
ICR	Not Applicable
Management Fee	Variable according to each loan or parcel of loans or Fund
Performance Fee	Nil
Buy/Sell Spread	Nil
Time Horizon for Investment	Variable according to each loan Typically, a minimum of 6 months, extending up to 24 months

Trust Summary

Description

The **Zagga Investments Lending Trust (the "Trust")** is an open-ended, **unregistered lending/investment platform** open to wholesale clients or AFSL holders in Australia. The Zagga investment platform connects wholesale investors with borrowers via an online marketplace.

Invested funds are used to finance loans to a variety of borrowers on the condition that each loan is secured by a first registered mortgage at a loan-to-value ratio (LVR) acceptable to Zagga.

The objective of the Trust is to deliver a fixed annuity return to the investor at a significantly better rate than for cash/near-cash without a commensurate increase in risk.

Loans may be made purely:

- **Directly Peer to peer** basis (one to one or many-to-one)
- By pre-seeded loans held through:
  - The **Zagga Feeder Fund (ZFF)** – targets higher returns for higher average loan-to-value ratios (LVR)
  - The **Zagga Wealth Fund (ZWF)** – provides investors with an attractive rate of return with the added flexibility of access to funds on 30 days' notice
  - The **Zagga CRED Fund (ZCF)** – is a wholesale fund that aims to provide investors with an attractive rate of return and regular, risk-adjusted income by investing in a specifically curated portfolio of credit-vetted, mortgage-secured loans. It seeks to achieve its targeted return through a mix of high loan-to-value ratios and stretched senior loans within its loan investments. It is a unitised fund available on external platforms for financial advisers

Loans held by the Zagga Feeder Fund and the Zagga Wealth Fund are then sold down to the platform.

	ZAGGA WEALTH FUND	ZAGGA FEEDER FUND	ZAGGA CRED Fund
Minimum Investment	$100,000		$50,000
Target Net Return	RBA OCR + 3% p.a.	RBA OCR + 5% - 6.5% p.a.	RBA OCR + 4% p.a.
Target Average LVR	60%	65%	65%
Minimum Lock-Up Period	3 months	12 months	12 months
Withdrawal Notice Period	30 days	90 days	1 month (after the lock-up period)
Management Fee	0.25% p.a.		0.50% p.a. of the GAV

Zagga operates an online marketplace lending/investment platform. Each investment in the Zagga Investments Lending Trust is fractional and held separately via a dedicated **investment lending trust** (not unitised or SPV). The Funds, above all exclusively invest directly into the investment lending trust.

There is an **Information Memorandum specific to each approved loan.** Under this investment structure, investors' funds are never pooled. Investors' fractional share of the loan and underlying security is protected by the Investments Lending Trust structure.

Zagga has launched its first **unitised fund (Zagga CRED Fund),** which is listed on external platforms.

Each mortgage is individually registered in the name of Zagga Investments as a Trustee for Zagga Investments Lending Trust, and each investor is recorded as a beneficiary for their fractional share of the loan and underlying security in a specific sub-trust.

Trust Rating

The Trust has achieved the following rating:

Star Rating	Description	Definition	Investment Grading
4.00 stars	**Superior**	**Suitable for inclusion on most APLs**	**High Investment Grade**

Previous Rating: 4.00 stars (Issued Apr 2023)

SQM Research's Review & Key Observations

About the Manager

Zagga Investments Pty Limited is an Australian marketplace / non-bank lender and investment manager.

Zagga Investments is the AFSL holder and Trustee of the **Zagga Investments Lending Trust (ZILT)**, which houses all the loans and related security in separate sub-trusts under the Zagga Investments Lending Trust.

Zagga is a boutique investment manager and non-bank lender focussing primarily on the **Commercial Real Estate Debt ("CRED")** sector. Zagga was founded in 2016 and funded its first loan investment in June 2017. Zagga has originated more than $1.5bn in loan investments, with no losses to investors as of Jan 2024.

Zagga operates with an '**investor first'** approach, led by a strong executive team and supported by highly experienced credit and operations teams.

Zagga's objective is to generate high-yielding (in comparison with bank deposits or similar products) alternative investment opportunities by facilitating the funding of high-quality loan transactions. It does this via both a pooled investment fund model and a direct, fractional model on its proprietary platform.

Since its inception, Zagga has originated more than $1.5bn in loan investments across 240+ transactions, with no losses to investors, across a spectrum of loan purposes, including business, commercial, residential and property, helping borrowers bring major projects to fruition whilst also providing investors with attractive returns.

Zagga provides a link between the funders of the loans (the investors in the Trust) and the borrowers by allocating to each investor a fractional share in the loan.

Zagga is responsible for the development of the technology that enables the **fractionation of loans and the management of loan accounts** for each investor.

The **functions** performed by Zagga Investments include the origination of loans, credit assessment of borrowers, portfolio oversight (diversification/credit ratings), ongoing monitoring of loan performance, and follow-up of any defaults.

Investment Team

Zagga has a well-experienced head office and credit management team based in Sydney that has cross-functional expertise in business management, lending, compliance management and technology. The team has an average of 14.5 years of industry experience.

There are some key man risks in **Mr Greenstein** being the founder, CEO and a majority shareholder. These risks have been mitigated in the past 2 years with the expansion of the team to 18 FTE and further team structure across the Credit and Investments Teams.

The Executive Leadership Team and Board are capable of covering the CEO role if the CEO is incapacitated.

The **key-person risk** of the Trust is deemed to be modest.

1. Investment Philosophy and Process

Loan Universe

The Trust provides loan funding to businesses or individuals.

The underlying assets are short- and medium-term (up to 24 months), first-mortgage secured, and senior loans to approved borrowers. These loans are originated, funded and administered via the Zagga platform.

In each case, the mortgagee will be Zagga Investments Lending Trust.

2. Performance & Risk

Length of Track Record

There is a limited track record of performance for this Fund in aggregate.

Each loan has a separate return.

However, SQM notes that Zagga has been operating the platform since June 2017 and has generated an average return on the current active book (as of 31 Jan 2024) between 6.9% to 9.5% p.a. All loans are variable return based on movements in the RBA Official Cash Rate or BBSY.

Current returns on direct investments in loans sit at 9.75% p.a., with new & re-termed deals generating 9-10% p.a.

Return Objective & Performance

Each loan has its own target return stated in the Information Memorandum for that loan. The return is dependent on the credit quality of the Borrower, as assessed by the Zagga Credit team and on the term and purpose of each loan.

SQM notes that each investor's return will differ from any other investor's return as each investor will have a different set of loan investments depending on when they subscribed to the ZFF or ZWF or selected their own portfolio of loans and if and when they invested additional funds.

The return objective stated in the Information Memorandum for the ZWF is that the Trust aims to generate an annualised OCR + 3% p.a. on capital deployed (target return from 7.35% p.a. as at 1 January 2024. After expenses and any applicable management fees)

The target return for the Zagga Feeder Fund is OCR + 5% p.a. to 6.50% p.a. on capital deployed (target return from 9.35% p.a. as at 1 January 2024. After expenses and any applicable management fees).

The target return for the Zagga CRED Fund is RBA Official Cash Rate + 4% p.a.

Strengths of the Trust

- A sophisticated software platform that enables fractionation of investment risk and the customisation of a return profile for individual investors, according to the investor's investment requirements and asset allocation preferences
- The loan originations have shown a steady and material increase over time since their inception. Loan originations have increased significantly since the 1st of Jul 2021, with no impact on the quality or performance of the book
- Investors receive income as it is earned on the loan interest repayments, with real-time reporting of the performance of the loan book to which the investor is exposed
- A close working relationship with the originator and Borrower of the loans
- Management fees are only charged on successful receipt of principal and interest on each loan, not on invested FUM
- Exposure to smaller loans reduces the risk inherent in larger-sized failures
- Typically, shorter-term loans, with terms from six months up to 24 months
- Transaction-specific interest rates recognise the individual risk inherent in each loan
- A well-experienced management team that has cross-functional expertise in business management and credit lending assessment
- The majority of loans include capitalised interest and, either up-front or per tranche, servicing. Interest arrears are generally rare
- Zagga had no loans exposed to developer or builder failure, and overall, all construction projects are active, albeit delayed for the respective reasons

Weaknesses of the Trust

- An investor may not be able to protect their capital in a timely manner, given the illiquidity of the investment where returns of capital are dependent on interest payments and principal repayment schedules
- High exposure to property development and construction loans
- The loan book is highly concentrated in NSW. The Manager has advised that this is because VIC was severely impacted by COVID-19, and Zagga reduced the number of loans written there in the last 3 years

Other Considerations

- The Trust targets net returns in excess of those typically achieved from traditional commingled fixed interest, term deposits, enhanced cash, or credit-managed funds. This is not achieved without a commensurate increase in risk, which is not simply measured by volatility alone. **Other risks that investors should recognise include property development risks, credit risk, illiquidity, market risk and exposure to only certain types of property and geographic concentration**
- The Zagga Trust is essentially an investment administration platform that allocates and manages fractional interests in a number of loans. It is not a traditional fixed interest fund manager selecting from an array of individual securities and conducting a detailed analysis of duration risk
- The returns on the Trust are largely dependent on the supply and demand for loan funding. Demand will be influenced by broader economic conditions as they impact the SME market and its requirement to fund loans
- The Trust is structured as a non-unitised fixed trust and a wholesale unitised option (ZCF)

- Some of the key metrics of the Trust are:
    - First registered mortgage secured only loan investments
    - The active loan book is $753,376,331
    - The active loan book weighted average LVR is about 66.9%
    - The average loan term across the total book is 18.1 months
    - The average loan size of the active book is $6.7 mil
    - Loan type: split is construction 66% / non-construction 34%
    - State allocation by value: NSW 90%, VIC 6%, QLD 1.4%, TAS 2%

Key Changes Since the Last Review

- Zagga CRED Fund was launched in Sep 2023. It is the first unitised fund available on external platforms for financial advisers
- Zagga has incorporated a new entity, Zagga Investments (Singapore) Pte Ltd, as an operational entity domiciled in Singapore, which has a Singapore bank account with UOB and pays operational expenses and locally domiciled consultants
- Zagga has launched a Zagga Real Estate Income Fund, a Variable Capital Company ('VCC') sub-fund domiciled in Singapore, of which VNAM are the owners of the umbrella VCC and Krypton Fund Services (Singapore) Pte Ltd as the fund administrator
- Further creation of bespoke funding entities (e.g. ZILT 8) to suit investor needs
- Peter Clare sold his shareholding in May 2023, with all shares being taken up by the existing shareholders proportionally
- The management fees for the ZWF and ZFF have been changed to 0.25% p.a.

The Zagga Platform

The Zagga lending platform allows investors' cash to be deployed into specific loans (each with its own specific risk, rate of return and term) and to allocate to each investor a **fractional economic interest** or **fractional share** in the loan.

Zagga uses its propriety platform to manage its investors and loans. Investors can invest in one or a portfolio of loans, which provides them with the ability to diversify their risk across the portfolio. Fractional beneficial economic ownership of each loan and diversification across different loans aim to limit the effect of any individual loan not being paid by the Borrower or recovered (i.e., defaulting) on the investor's portfolio return.

Zagga enters into a **loan agreement** with the Borrower to fund the loan. The Borrower generally repays the loan over a 6-to-24-month period through regular instalment payments that enable it to manage cash flows and its working capital requirements more effectively. A loan may be funded by one or more investments by a Zagga investor. To date, the average number of investors for each loan is nine.

There are three ways an investor can invest in the Zagga Investment Loan Trust:

- **Directly** into individual loans - Investors can select the specific loans that they wish to participate in and the terms and conditions of those loans
- Indirectly via the **Zagga Feeder Fund (ZFF) -** This is the original feeder fund that collects individual contributions and invests in new loans in a fractional way.
- The Feeder Fund's investment decisions are made by the Zagga management team. The Feeder Fund has a minimum investment of $100,000 and a lock-in period of 12 months. Interest is paid six-monthly, based on the aggregate return of all loans held in the ZFF. The ZFF has 90 days to sell all or a portion of the loan into the platform. ZFF will hold around 5% in cash for liquidity purposes.
- The target return for the ZFF is RBA OCR + 5% - 6.5% p.a., even if it has undeployed cash. Clients invested for less than 12 months receive a pro-rata share of any interest earned
- Indirectly via the **Zagga Wealth Fund (ZWF) -** This is the second 'feeder fund', which is aimed more at investors who prefer a shorter investment term. It operates similarly to the ZFF but has different characteristics.
- Investors in ZWF own a fractional share in each underlying loan. The minimum investment contribution is $100,000. The lock-in period is 3 months with a 30-day liquidity period. The mortgagee will be Zagga Investments Lending Trust. ZWF may own 100% of each loan that it funds for the specified period
- Directly via listed unitised the **Zagga CRED Fund (ZCF) -** This is a wholesale fund that aims to provide investors with an attractive rate of return and regular, risk-adjusted income by investing in a specifically curated portfolio of credit-vetted, mortgage-secured loans. The minimum investment contribution is $50,000. The minimum lock-up period of 12 months from the date of investment, which may be waived at the discretion of the Trustee

All funds invest in loans under the same conditions as the direct investors and are essentially just other participants in the loan.

Loan Management

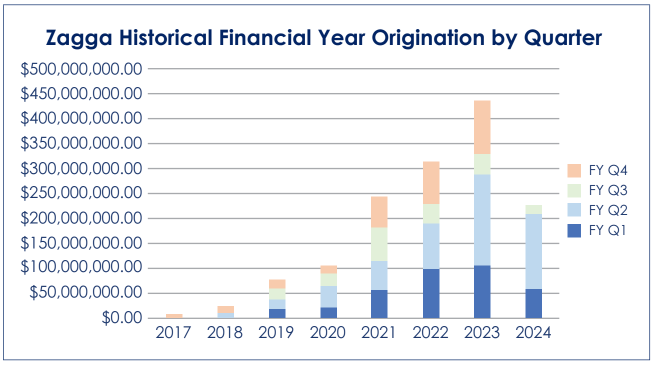
Loan Origination

While most loans come via accredited introducers, loan applications and enquiries may be submitted directly through the Zagga platform.

The accreditation process is done online and open to individuals and organisations that hold their own ACL or are a licensee of an ACL holder or Credit Representative. Zagga has developed relationships with a network of commercial brokers), professional services firms (accountants, lawyers, receivers) and advisors (financial planners, tax agents) who refer scenarios to Zagga.

Zagga also has direct enquiries from previous borrowers looking to fund their next transaction. Zagga probably funds less than 15% of the scenarios introduced. Commissions are agreed upon directly between the Borrower and their Introducer.

SQM believes a well-diversified source of loan origination is desirable as it will encourage a broader and more sustainable demand for loans and investment opportunities for investors. SQM notes that originations have shown a steady increase over time.



Types of Loans

- Zagga is a **short-term bridging funder**, so loan terms are usually between **6 and 24 months**, with a mix between construction/development and non-construction
- Zagga targets any loan type where it can access an Australian property securable via a registered first mortgage at an LVR acceptable to Zagga and a return attractive to Zagga's investor base
- Zagga never writes a loan purely for the fees
- Every loan is considered on its own merits

Zagga **does not write** the following types of loans:

- Residential home loans (except as bridging finance under two years)
- Agri-business loans
- Second mortgage secured loans (but will write its own stretched senior)
- Currently, aged care, hospitality, leisure, specialised assets (mines, quarries) loans
- Loans below $3m or over $50m
- High-rise apartments
- Specialised assets with limited exits

Loan Size

The minimum that can be borrowed is $3 million to a maximum loan size of $50 million.

Term of Loans

Loan terms differ between loan types and can range from six months to two years.

An investor's personal investment duration preferences can be selected when completing their investor profile to further refine the investor-borrower matching process.

The Zagga Lending Platform will be programmed to deploy investors' cash into those investments in accordance with the investor's asset allocation targets.

Lending Process

Every loan opportunity is considered on its own merits. Credit decisions are made according to the Zagga Credit Policy but with specific reference to loan-specific or market-specific conditions.

In all cases, the process is broadly as follows:

- Zagga receives an enquiry from the Borrower (directly or via introducer, via phone, email, or portal)
- Frank Hageali / Tom Cranfield reviews the high-level proposal for 'knock-out': too big, too small, wrong area, wrong type, wrong Borrower, etc. A response is given to the Borrower/introducer within 24 hours of receipt of an enquiry
- Should the enquiry (called a scenario) pass the 'knock-out test,' the credit team will ask for additional information in need and, once received, refer the scenario to the Zagga credit team for a high-level review
- **Indicative Terms Sheet** will be prepared and discussed with Alan Greenstein / Steven Levy. Once agreed upon, the Credit team will send the Indicative Terms Sheet (ITS) to the Borrower, setting out the basis on which Zagga will write the loan, indicative pricing, essential terms, conditions precedent, and timing. Every ITS is subject to full and proper credit assessment by Zagga once accepted by the Borrower. This applies to loans within policy. All ITS are sent to the Credit Committee. Anything out of policy must go to the Credit Committee
- On return of the signed Terms Sheet, the Credit team undertakes a detailed analysis; the valuation is ordered; external checks are done; financial information is reviewed, and the Credit team liaises with the Borrower to obtain/collate any further information needed
- As part of this process, the Credit team will
    - Meet with the Borrower
    - Engage with the valuer, QS, and builder
    - Visit the site

  - Evaluate the Borrower's feasibility
  - Confirm the creditworthiness, integrity and bankruptcy status of the borrower and related parties
  - DD the builder (including WIP), ATO portals, confirmation from sub-contractors around timeous payment, history with Office of the Building Commissioner
  - Determine any final conditions or requirements for inclusion in the Facility Agreement

- On completion of this process, Credit assigns a Credit Assessment Score (CAS) to the loan, and the Borrower executes a Borrower Agreement online, which includes the final loan terms and conditions
- Solicitors are instructed to prepare the Facility Agreement, undertake all necessary checks, confirm the satisfaction of counterparties, and manage the execution of the Facility Agreement and other documents. The Borrower must be represented by their solicitor
- When the solicitors are instructed, the Investment Team prepare the Investment Memorandum (IM) in readiness for sharing with potential investors
- Before funding commences, the IM will be shared with the Credit Committee for any final comments or objections
- Tom Cranfield / Alan Greenstein will review the Facility Agreement and related documents and will sign off on these once ready. Mr Greenstein approves the final form Facility Agreement and Solicitor's Certificate
- The loan is loaded on Zagga's Loan Management System by Leanne Hui and her team
- Funding commences
- The funds are transferred by RTGS to a solicitor's trust account the day before the settlement
- Post settlement, which takes place via PEXA, the soft copy documents folder, copy CT, and PPSR tokens are uploaded to the loan folder on the Zagga system
- The admin team prepares and uploads borrower/ investor statements

The **quality** of any loan application is assessed against the following key factors:

- _Personal factors_ - An assessment is made of the Borrower's character, integrity, and financial standing. Consideration is given to the place of employment, occupation and length of time employed in that particular position. This relates not only to the prime Borrower but also to any guarantor supporting the loan
- _Ability to repay_ - Supporting documentation and evidence required includes recent payslips (no longer than three months old), latest financial accounts, a letter from the employer confirming employment and income, ATO tax returns/ summaries
- _The amount required_ - This must be appropriate for the purpose
- _Security_ - All lending is to be secured. The loan-to-value ratio (LVR) is not to exceed 70% (i.e., there must be at least 30% equity in the property, based on the valuation). Registered valuations of not more than three months old are required for all lending transactions and are provided by a reputable valuer with regard to location, type, purpose, valuation/ LVR, sales history, specific features or limitations, special conditions
- _Purpose_ - This includes purpose/use, timing, exit and the reason for funding. Any loan will be declined where the purpose is unclear or does not meet Australian legal and legislative requirements, or there are reasonable doubts as to the actual purpose of the loan
- _Term required_ - The term of the loan should be structured in line with the Borrower's income flow and ability to repay (Loans for borrowers on a wage or salary would be suited on a monthly principal and interest basis, whereas loans to business enterprises would be structured in accordance with the Borrower's cash flow)

Credit Checks

Zagga, as the loan originator, performs the administration functions for the loans. As such, Zagga is responsible for the credit assessment of each Borrower.

Borrowers include property developers and owner builders, as well as SME borrowers seeking cash flow, working capital, inventory, trade or equipment finance. Loans can be made to individuals, companies, or trusts.

Zagga operates within a well-defined lending policy and process. Currently, all loans can only be assessed and approved by the General Manager Credit Risk, Senior Manager Credit Risk, CEO or directors and authorised officers of the Zagga Credit Committee.

All loans submitted via the Zagga online portal are informally reviewed for suitability by a committee comprising any three of the following: the Chairman of the Board, the CEO, the Executive Director, the ACL Responsible Manager, or any non-executive Director.

Before any loan is formally approved for the offer to a borrower, the Loan Term Sheet, together with all applicable information and supporting documentation, must be formally approved by the Zagga Credit Committee.

Credit Assessment Score

Zagga assesses loans using a **risk-based assessment score** derived from an analysis of the likelihood of **default** (the creditworthiness of the Borrower) and the **value of the security** (the loan-to-value ratio).

Zagga does not believe that all borrowers should pay the same interest rate and that 'safer' borrowers should pay a lower interest rate. Because of this, interest rates will differ from Borrower to Borrower and loan to loan, depending on a credit score.

The Zagga Credit Assessment Score (CAS) is an **alphanumeric grading** system assigned to borrowers based on the loan specifics and the information they have provided. The better the credit history, the better the credit score and the better the interest rate on the loan.

If the credit history is not perfect or the loan-to-security value ratio (LVR) on a loan is higher, the credit score will reflect this, resulting in a higher interest rate to match the higher inherent risk.

The **'alpha'** part of the Zagga CAS considers the Borrower's credit history and their expected ability to service the proposed loan.

The range is:

- A - Lowest risk. Default is considered remote
- B - Low risk. Default is considered highly unlikely
- C - Moderate risk. Default is considered unlikely
- D - Acceptable risk. Default is not anticipated
- E – Possibility of default. Risk features merit close attention and scrutiny
- F – High risk of default in the event of changes in the economic or business environment

The **'numeric'** part of the Zagga CAS considers the loan-to-security value ratio (LVR). This is the amount of the loan against the value of the security. For example, if the loan amount is $100,000 and the security is valued at $400,000, then the LVR will be 25%. The most secure band is 1, while the highest is 5.

The range is:

1. LVR under 20%
2. LVR 20% to 39%
3. LVR 40% to 59%
4. LVR 60% to 79%
5. LVR 80% or greater

While each loan is given a credit rating at the beginning of a loan, ongoing due diligence is performed throughout the loan term on all loans, irrespective of their credit rating. Ongoing due diligence includes, but is not limited to:

- Performing on-site visits
- Reviewing Quantity Surveyor reports throughout the term and prior to approving drawdowns
- Assessments of budgets vs progress
- Assessing any extenuating circumstances (e.g. weather or supply chain issues)

Arrears Management

Zagga is generally in receipt of all loan monies, including the interest component. The majority of loans include capitalised interest and, either **upfront** or **per tranche**, servicing. Interest arrears are generally rare.

Where there are arrears, these would incur default interest and would be recovered, together with the principal and any other outstanding monies, on discharge.

All arrears are recorded as against the term and tenor of the loan investment, as monthly in arrear outstanding, incurring default (higher rate) interest, in an amount of the missed payment.

Since January 2021, Zagga Investments has started to carry a loan loss reserve of 0.10-0.20% of the active book size as an additional buffer.

The Manager has advised that, to date, every loan has returned capital and interest to its investors.

Provisions for Loan Losses

Loan losses are carried by individual investors.

However, noting the nature and composition of Zagga's loan investments and the availability of first registered mortgage security over a real property asset, a permanent loss is not considered likely.

Since January 2021, Zagga Investments has started to carry a loan loss reserve of 0.10 - 0.20% of the active book size as an additional buffer.

Provisioning for problem loans is treated on a case-by-case basis.

Generally, Zagga will be guided in its assessment by the views of the valuer and the Credit team and market information regarding the saleability of the asset.

Given that the average LVR across the loan portfolio is 66%, the likelihood of investors incurring a capital loss is considered to be low.

Default Management

There can be regular '**technical**' defaults, e.g., a loan not discharging on the exact specified date owing to several possible reasons or breaching loan covenants.

These are managed by the **Operations team** on an as-needed basis, with the CEO making any final determination (after advice from externally Responsible Managers and solicitors and consulting with internal resources). In need, the board is consulted, and all situations are reported to the Credit Committee.

Where default is **material**, Zagga will instruct its solicitors to issue a formal default notice to the Borrower and, together with the solicitors, will manage the process to the required conclusion.

Where the default results in a **repossession**, then Zagga acts on the advice of its solicitors and any other required third-party advisors, such as a receiver. Zagga will consult with the investors invested in the specific loan investment to explain its proposed course of action for recovery. To date, there has been only one non-performing loan.

All defaults are reported to the Credit Committee, the Compliance Committee and the Board.

Portfolio Management

Research

The key members of the team (notably Alan Greenstein, Steven Levy, Tom Cranfield and Frank Hageali) conduct ongoing and continuous meetings with commercial brokers, builders, developers, institutions, and individual investors around the market dynamics.

Zagga is able to access external research from CoreLogic/RP Data, anything published by large property funds, information available from Government (e.g., ABS) and industry websites, valuers, and publicly available information.

Zagga also communicates with many others directly involved in the property sector.

All of this is factored into the team's decision-making processes on both the lending and investment activities. This information pool is further informed by input from the external Responsible Managers and the Directors, all of whom are market participants to a varying degree.

The core team meets multiple times each week and together with the Investment team, once weekly in the Sales Meeting, to discuss market trends, specific loan opportunities, market information and any recently published information and determine any specific changes to the Credit or investment strategies.

This information is shared with the operations team in the weekly stand-up meetings and with a larger team (including the Board Chair and two RMs) in the monthly Management Meeting.

The Zagga Investments Lending Trust is not a commingled fund where all investors have exposure to identical holdings in a portfolio at a particular point in time. Portfolio holdings are unique for each investor.

The Zagga platform builds a deployment profile for investors' funds into potential loans through an automated investment system according to the portfolio parameters the investor sets in their Investment Guidelines and their asset allocation targets.

As part of the onboarding and account opening process, investors are required to complete a Subscription Form that provides the following investment details to the Investment Manager:

- Subscription amount
- Investment guidelines and preferences
- Reinvestment option

Liquidity Management

All cash is held in a designated Zagga Investments Lending Trust bank account at St George's Bank until deployment. These are nominated trust accounts. Surplus funds may be invested with accredited money market funds on **T+3 liquidity**.

The settlement and discharge dates for loans are reasonably **predictable**, making it relatively simple to match funding to loan events. The Zagga team meets each day to discuss inflows, outflows, and deployment of funds. At any time, the 'feeder fund' can sell down loans onto the platform to generate liquidity, either for withdrawals or to fund new loan investments.

The **feeder funds hold 5% liquidity** as a standard liquidity buffer. The Manager endeavours to keep the funds fully deployed beyond this buffer. Zagga has several larger investors who will co-invest with Zagga in a loan investment, meaning that in some instances, Zagga only provides a percentage of the required funding via its feeder fund or platform.

The typical length of time for investors' cash to be lent out to borrowers is loan-specific.

Direct investors send their funds to Zagga two days before the scheduled settlement date and earn interest from the settlement date or the interest commencement date, whichever is earlier.

Where a Feeder Fund is used, in the majority of cases, the Feeder Fund will fund the loan on settlement. Depending on liquidity and cash demands, the Feeder Fund will sell down on the platform all or some of the loans.

The sell-down can happen at any time or several times as long as the Feeder Fund does not hold 100% of the loan after 90 days. Fund investors earn interest from the date of investment.

Loans are listed on the platform and funded weekly, usually on Thursdays. Fund investors earn interest from the date of investment.

Risk Management

Types of Risk

The risk management framework and how it is embedded in the loan approval process, and ongoing monitoring of loans are detailed below.

- **Borrower quality**: Borrower quality is assessed at the inception and as part of the Credit due diligence. It includes ID, credit bureau, AML-CTF and integrity checks, as well as verification of financial information and ESG status
- **The ongoing credit quality of assets**: Loan terms average 12.4 months, with an average LVR of 63% across the full portfolio. The LVR includes grossed-up interest and fees. As Zagga deals with real property, exogenous factors are monitored, as are views based on on-site visits and discussions with valuers and realtors
- **Cash flows**: Cash flows are not usually a consideration in the loans, but where there is a cash-flow component, this is monitored regularly by the team
- **Leverage**: The Trust is not leveraged
- **Interest rate risk**: All loans are variable rate
- **Operational risk**: Settlement and discharge are handled via PEXA and managed by the solicitors on both sides. Before settlement, Zagga's solicitors issue a solicitor's certification confirming that all conditions are met, required checks have been completed, and the matter may proceed to settlement
- **Regulatory risk**: This is managed by the external Responsible Managers, Zagga's internal Responsible Manager and the Compliance Committee. Regulatory adherence is reviewed annually by the auditors as part of Zagga's ASIC licence renewals
- **Early repayment risk**: All loans carry minimum interest for a specified term. Therefore, there is no early repayment risk

Risk Constraints

SQM notes that Zagga's due diligence is critical to the **credit assessment** and **pricing** of the underlying loans.

From an investor's perspective, investment risk is managed to minimise losses due to defaults:

- Diversification – Fractionalised ownership of the loans, with managed concentration risk relating to both borrowers and the purpose of the loans
- Credit and collection process – Oversight and monitoring of the borrowers' compliance with agreed policies and procedures. Zagga's credit team will typically have oversight on all loan drawdowns and will work with the Borrower to ensure the project progresses to plan, and investor funds are protected

Zagga aims to minimise exposure to the same borrower group or specific locations rather than applying a default diversification strategy to create an appropriately diversified portfolio.

The following **limits** are used as a general guide:

- Less than 60% exposure to construction and development risk as a percentage of the total active book
- A target 70%/30% spread between NSW and VIC. Other states are considered, except for NT and WA, but at low volumes
- Not more than two loans running simultaneously for the same Borrower
- Specific limitations based on market conditions, e.g., no aged care, hospitality, or leisure assets

The Manager looks to originate loans from new introducers for new borrowers in different locations on an ongoing basis.

Fund Investment Characteristics

Expected Returns

The ***investor's portfolio return (after fees) = Loan investment interest – Zagga management fee***

The actual margin above the target return will reflect the relative assessed risk of each loan. This, in turn, will be influenced by market interest rates, borrower credit risk and the competition to provide funding.

SQM notes that an individual investor's return will generally differ from any other investor's return due to the following factors:

- Each investor will potentially have a different set of loan investments depending on when they subscribed to the Fund, their risk preferences, and the risk characteristics of individual loans to which they have subscribed
- Each investor will generally hold a proportion of their investment in cash as it may not be possible to immediately deploy their funds into a loan or reinvest the proceeds from any loans that have been repaid
- The reinvestment option chosen by the investor will affect the monthly return achieved by the investor

Target Return:

Zagga Feeder Fund: The Target return is RBA OCR plus 5% - 6.5% p.a. on capital deployed

The Trust achieved 9.42% for the January 2024 distribution

Zagga Wealth Fund: The Target return is RBA OCR plus 3% p.a. on capital deployed

The Trust achieved 6.93% for the January 2024 distribution

Zagga CRED Fund: The Target return is RBA OCR plus 4% p.a.

The Fund achieved 9.99% for the January 2024 distribution.

The average return on the current active book (as of 31 Jan 2024 on direct loans) is 9.75% p.a., with new & re-termed deals generating 9-10% p.a. All loans are variable return based on movements in the RBA Official Cash Rate or BBSY.

Direct investments: Average return on the current active book (as of 31 Jan 2024) 9.75% p.a. (range 7.5% to 10.00%). All new loans since August 2022 are variable returns based on movements in the RBA Official Cash Rate or BBSY.

Risks to Investors

Investors face several risks that are peculiar to this type of investment:

- **Time to invest** - A lack of demand from borrowers could mean that subscribed funds to a feeder fund are not quickly invested. Investors may only receive the interest rate paid on their cash balance for a period of time
- **Concentration risk** - If the investor's loan portfolio is concentrated into one loan or one Borrower, there is an increased risk that part or all of the investment may be lost due to defaults. This is mitigated by Zagga's due diligence process on the viability of the project and the credit quality of each Borrower
- **Illiquidity** - Loan investments are not liquid securities (i.e., they are not able to be sold or liquidated into cash before the six-month lock-up period) and are redeemable only to the extent that the repayments (both principal and interest) of the loans have been paid. There is no secondary market for loans. Investors will only be able to withdraw their funds as and when the underlying loan is repaid

- **Changes in returns** - Zagga pays an interest rate on its loans, reflecting its current view of the market and borrower risk profile. The interest rate will be influenced by market interest rates, the competition to provide loan funding, and the cost of capital required by investors
- **Economic and market risk** - Adverse changes in economic and general business conditions (e.g., interest rates, global or local competition, changes in tax and regulatory regime, etc.) could adversely impact a borrower's ability to pay instalments on their funding or default, which will, in turn, affect the returns on loan. This risk is mitigated by the first mortgage security held by Zagga, although there may be some delay in securing the investor's capital in the event of a default
- **No deposit guarantee** - As Zagga is not a bank or an Approved Deposit-taking Institution, an investment in loans is not protected under the Financial Claims Scheme or depositor protection provisions in section 13A of the Banking Act
- **Technology risk** - Zagga relies on the integrity and reliability of its lending platform and administration system. However, SQM notes this platform appears to be robust and suitable for the purpose

SQM notes that for investments such as the Zagga Investments Lending Trust, credit risk, third-party risk and illiquidity are the primary risks, not volatility.

The absence of volatility in the Fund's target return profile does not reflect the true underlying risk investors may incur. Investors should also be aware that they do not enjoy the protections afforded to investors in term deposits and government-guaranteed holdings in Approved Deposit-taking Institutions.

Although all borrowers have been assessed by Zagga's Credit Team as being 'investment grade,' it is entirely possible that borrowers may experience difficulties in extreme market conditions if their other sources of income on which they are relying to pay interest on the loans are diminished.

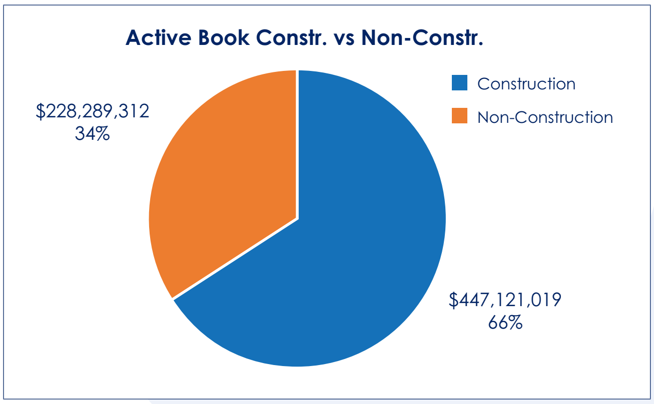
Diversification

The Fund's strategy is to diversify the portfolio across **geography, sectors,** and **borrowers**.

Because Zagga is a high-value, low-volume funder, it is not possible to rigidly apply concentration limits.

The chart below shows the dispersion of the current active loan book in terms of the purpose of the loans.

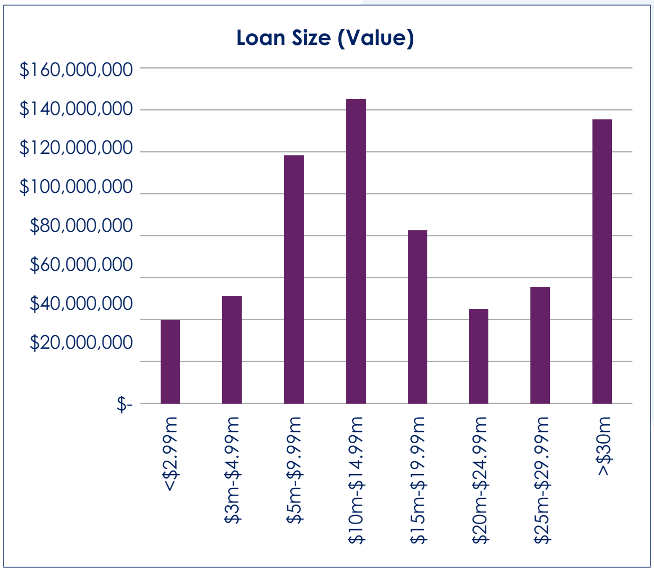
SQM notes that 66% of the loan value is for property construction purposes, with the remaining 34% being for non-construction purposes.

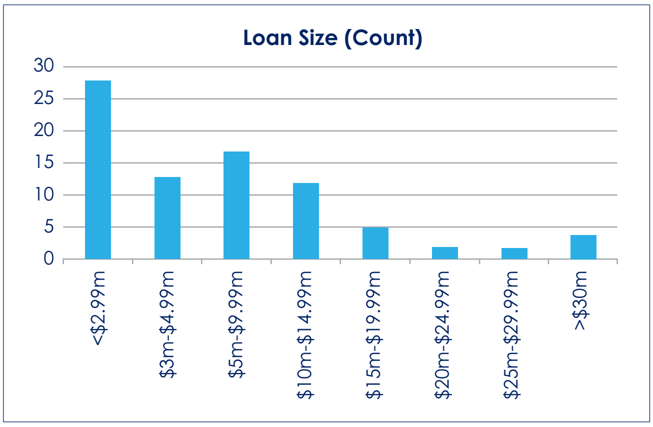


There is a good spread of loans by the size of borrowings, with approximately 31% of the loaned amount being for loans less than $10 million.

As of Jan 2024, the average loan size on the active book is $6.7m. Zagga will limit the loan size to between $3 million and $50 million.

In SQM's opinion, this mitigates the risk of loss that would otherwise arise from a smaller number of large defaults.





The chart below shows the **geographic** diversification for the active loan book as of February 2024.

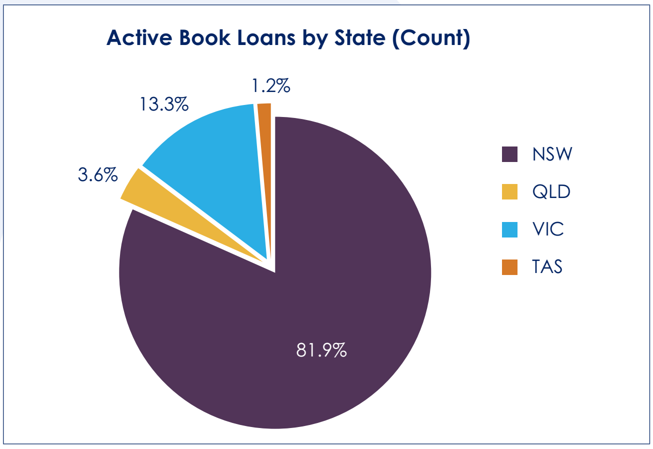
In terms of the value of loans funded, NSW has 90% of the active loan book or $559.4m, while accounting for 82% of the number of loans.

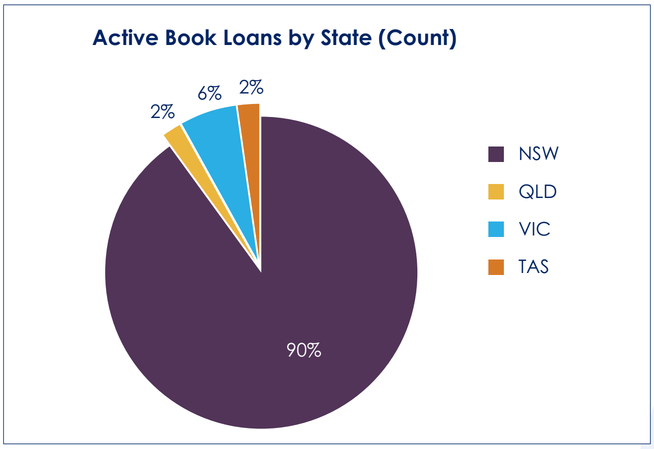
VIC has 6.4% of the portfolio, or $39m. During COVID, no loans were written in VIC, so the book is skewed to NSW concentration, but the Manager has started underwriting VIC risk.

They are also writing more regional loans in NSW and less so in VIC, given the demographic swings brought about by COVID.

NSW has a higher average loan size than VIC.

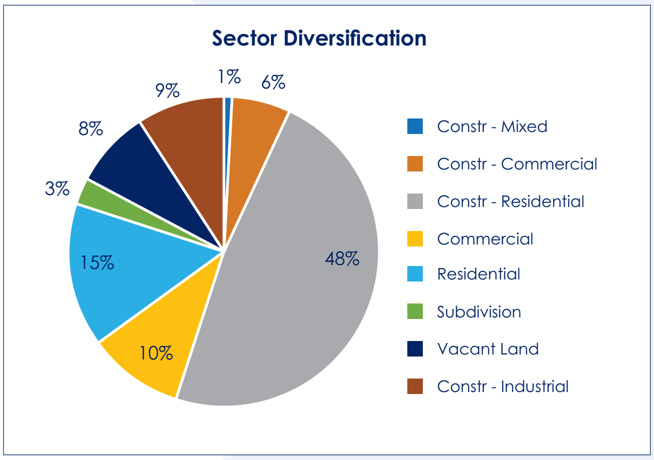
SQM observes that the average loan size in NSW is $8.8 mil across 63 loans, compared to an average loan size of $3.9 mil for VIC across 10 loans.

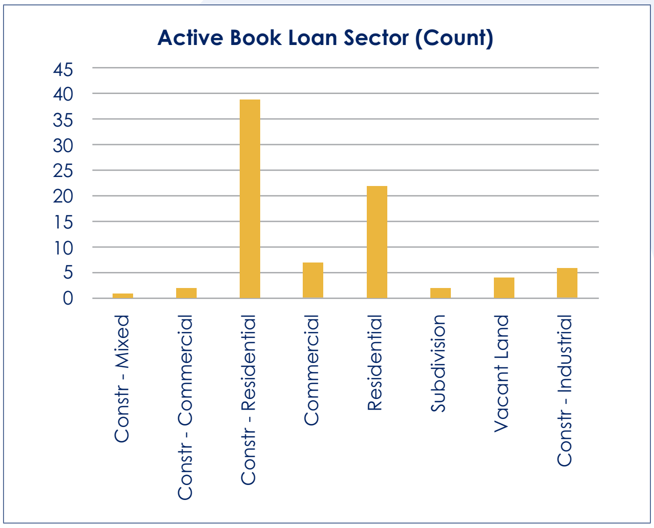


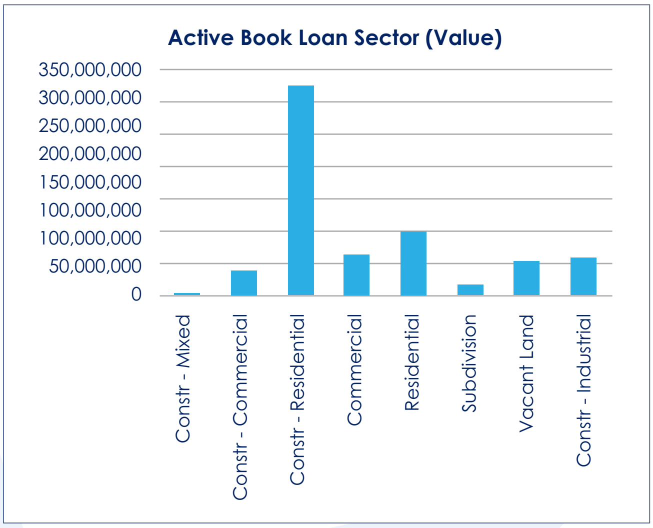


Sector diversification

The book is concentrated towards residential lending, with residential accounting for 63% of active loans and commercial accounting for 16% of the active loans.







Capacity

The capacity of the Trust is limited by available funding, at the right cost of funds, for creditworthy loans.

Zagga can roll its available funds every 90 days by releasing loan investments onto the platform.

Portfolio Characteristics

Structure

The Zagga Investments Lending Trust is not a commingled fund where all investors have exposure to identical holdings in a portfolio at a particular point in time.

Portfolio holdings are unique for each investor, which reflects the investor's personal Investment Guidelines and asset allocation targets.

The Zagga platform builds a deployment profile for investors' funds into potential loans through an automated bidding system according to the portfolio parameters set by the investor.

Fund Constraints and Risk Limits	Target Range or Limit
Property Type	
Residential	No direct residential exposure
Commercial	Max 65% LVR
Industrial	Max 65% LVR
Retail	Max 65% LVR
Construction / Development	55% of new loan originations
Rural	Not eligible
Vacant Land	Max 50% LVR
Loan Type	
Conforming	Not applicable
Non-conforming	Not applicable
Low-doc	Not applicable
Full-doc	Yes
First Mortgage	Yes
Second Mortgage	No
Loan Value	
Size for a single loan	Not less than $3 m
LVR for a single loan	Usually 60%
Other Constraints	
Maximum exposure to a single security	$50,000,000
Maximum exposure to single stock/company	Not applicable
Maximum exposure to a single sector	65% in construction
Maximum exposure to a single country	All loans are in AUS
Maximum exposure to geographic region	Not applicable
The limit for Holdings Not in Benchmark	Not applicable

Liquidity Management

All cash is held in a designated Zagga Investments Lending Trust bank account at St George's Bank until deployment. These are nominated trust accounts. Surplus funds may be invested with accredited money market funds on T+3 liquidity.

The settlement and discharge dates for loans are reasonably predictable, making it relatively simple to match funding to loan events. The typical length of time for investors' cash to be lent out to borrowers is loan-specific.

Direct investors send their funds to Zagga two days before the scheduled settlement date and earn interest from the settlement date or the interest commencement date, whichever is earlier.

Where a Feeder Fund is used, in the majority of cases, the Feeder Fund will fund the loan on settlement. Depending on liquidity and cash demands, the Feeder Fund will sell down all or some of the loans onto the platform.

The feeder funds hold 5% liquidity as a standard liquidity buffer. The Manager endeavours to keep the funds fully deployed beyond this buffer. Zagga has several larger investors who will co-invest with Zagga in a loan investment, meaning that in many instances, Zagga only provides a percentage of the required funding via its feeder funds or platform.

The core team meets weekly (sales meeting) and discusses each day the inflows, outflows and deployment of funds.

Risk Management

SQM notes that Zagga's due diligence is critical to the credit assessment and pricing of the underlying loans. The risk management framework is embedded in the loan approval process and ongoing monitoring of loans.

From an investor's perspective, investment risk is managed to minimise losses due to defaults:

- Diversification – Fractionalised ownership of the loans, with managed concentration risk relating to both borrowers and the purpose of the loans
- Credit and collection process – Oversight and monitoring of the borrowers' compliance with agreed policies and procedures. Zagga's credit team will typically have oversight on all loan drawdowns and will work with the Borrower to ensure the project progresses to plan, and investor funds are protected

Zagga aims to minimise exposure to the same borrower group or specific locations rather than applying a default diversification strategy to create an appropriately diversified portfolio.

The following limits are used as a general guide:

- Less than 60% exposure to construction and development risk
- Spread between NSW and VIC (Zagga does write other states, except for NT and WA, but at low volumes)
- Not more than two loans running simultaneously for the same Borrower
- Specific limitations based on market conditions, e.g., no aged care, hospitality or leisure assets in the current environment (reviewed regularly).

Risks to Investors

Investors face several risks that are peculiar to this type of investment:

- **Concentration** risk - If the investor's loan portfolio is concentrated into one loan or one Borrower, there is an increased risk that part or all of the investment may be lost due to defaults. This is mitigated by Zagga's due diligence process on the viability of the project and the credit quality of each Borrower
- **Illiquidity** - Loan investments are not liquid securities (i.e. they are not able to be sold or liquidated into cash before the six-month lock-up period) and are redeemable only to the extent that the repayments (both principal and interest) of the loans have been paid. There is no secondary market for loans
- **Economic and market** risk - Adverse changes in economic and general business conditions (e.g. interest rates, global or local competition, changes in tax and regulatory regime, etc.) could adversely impact a borrower's ability to pay instalments on their funding or default, which will, in turn, affect the returns on loan. This risk is mitigated by the first mortgage security held by Zagga, although there may be some delay in securing the investor's capital in the event of a default
- **No deposit guarantee** - As Zagga is not a bank or an Approved Deposit-taking Institution, an investment in loans is not protected under the Financial Claims Scheme or depositor protection provisions in section 13A of the Banking Act

- **Technology** risk - Zagga relies on the integrity and reliability of its lending platform and administration system. However, SQM notes this platform appears to be robust and suitable for purposes

The Fund's strategy is to diversify the portfolio across geography, sectors and borrowers. Because Zagga is a high-value, low-volume funder, it is not possible to rigidly apply concentration limits.

SQM notes that 66% of the loan value ($447.1 million) is for property construction purposes, with the remaining 34% being for non-construction purposes.

There is a good spread of loans by the size of borrowings, with approximately 31% of the loaned amount being for loans less than $10 million.

As of Jan 2024, the average loan size on the active book is $6.7 million. Zagga will limit the loan size to between $3 million and $50 million. In SQM's opinion, this mitigates the risk of loss that would otherwise arise from a smaller number of large defaults.

The book is highly concentrated towards residential lending, with residential lending value accounting for 63% of active and pending loans.

SQM notes that for investments such as the Zagga Investments Lending Trust, credit risk, third-party risk and illiquidity are the primary risks, not volatility.

The absence of volatility in the Fund's target return profile does not reflect the true underlying risk investors may incur. Investors should also be aware that they do not enjoy the protections afforded to investors in term deposits and government-guaranteed holdings in Approved Deposit-taking Institutions. Although all borrowers have been assessed by Zagga's Credit Team as being 'investment grade', it is entirely possible that borrowers may experience difficulties in extreme market conditions if their other sources of income on which they are relying to pay interest on the loans are diminished.

Leverage

This Fund does <u>not</u> employ direct leverage (through borrowing by the Fund) **or** economic leverage (through the use of derivatives).

Key Counterparties

Zagga Holdings Pty Ltd
Listed Holding Co. / Parent Entity

Zagga Investments Pty Ltd
Investment / Fund Manager

Zagga Investments Pty Ltd
Custodian

Zagga - Zagga Investments Lending Trust (ZILT)
Fund Under Review

Zagga Investments Pty Ltd
Responsible Entity

Distributions

Investments

Investors

Parent Company

Zagga Holdings Pty Ltd (ZH) is a group-holding entity. Zagga Investments Pty Limited (ZI) and Zagga Market Pty Limited (ZM) are wholly owned subsidiaries.

Zagga was founded in 2016 and funded its first loan investment in June 2017. Zagga directly holds both an AFSL via Zagga Investments Pty Ltd and an Australian Credit License ("ACL") via Zagga Market from ASIC.

Peter Clare sold his shareholding in May 2023, with all shares being taken up by the existing shareholders proportionally.

Marketplace Tech, which has the same shareholders as ZH (other than for FTZ) but is a separate entity, owns the IP and platform that operates both the AUS and NZ businesses

ZH's shareholders are:

- Zagga Holdings Australia Pty Ltd, a NZ holding company which is the owner of the original Zagga business in NZ (50.1%)
- Two individual private equity investors (17.1% each)
- Alan Greenstein (through his family trust) (10.2%)
- Frank Hageali and Tom Cranfield (through a corporate entity, FTZ) (5.4%)

Each shareholder has a Board Director. Edwin Morrison currently chairs the Board.

The board comprises six members, none of whom are independent.

Name	Responsibility / Executive	Independent	Years at Firm	Years in Industry
Edwin Morrison	Chair	No	6.5	22.0
Alan Greenstein	CEO	No	6.5	32.0
Kevin Berkowitz	NED	No	6.5	22.0
Michael Blumenthal	NED	No	6.5	22.0
Marcus Morrison	Exec Director	No	6.5	17.0

The **board** approves the annual strategy and business budget. The board regularly reviews the performance of the lending book, with specific regard to defaults. The auditor's report to the board in respect of the annual financial audit, annual ASIC returns and bi-annual AUSTRAC AML-CTF external review.

A number of sub-committees of the board provide supporting functions:

- The **Compliance Committee** covers all regulatory reporting aspects (ATO, ASIC, AUSTRAC), including compliance with ACL and AFSL conditions, risk management (concentration, defaults, key person) and regular policy reviews and updates
- The **Credit Risk Oversight Committee** reviews Credit Policy, reviews any special or unusual or extraordinary loan applications, authorises (via negative option) new loans for funding, sanctions changes or exceptions to Credit Policy
- An **Investment Risk Committee** reviews and oversees the management, deployment, and allocation of investment funds across the 'feeder funds' and looks to proactively manage the asset/liability mismatch
- An **ESG Committee** to develop and implement the Group's ESG Policy, as it applies to both new loan referrals and the group's own ESG ambitions and targets

Investment Manager and Trustee

Zagga Investments Pty Limited (ZI) is an Australian marketplace/private lender and investment manager.

Zagga operates a non-bank lending and boutique Commercial Real Estate Debt investment management business for first-registered mortgage secured-only loan investments.

Zagga Investments is the AFSL holder and Trustee of the Zagga Investments Lending Trust (ZILT), which houses all the loans and related security in separate sub-trusts under Zagga Investments Lending Trust.

The functions performed by Zagga Investments include the origination of loans, credit assessment of borrowers, portfolio oversight (diversification/ credit ratings), ongoing monitoring of loan performance, and follow-up of any defaults.

Credit Licence

Zagga Market Pty Limited (ZM) is the Australian Credit Licence holder. ZM has been appointed, in terms of a formal CL13 Servicer Agreement, as the credit provider for its associate company, Zagga Investments Pty Limited.

Responsible Entity

Lending Trust (ZILT), which houses all the loans and related security in separate sub-trusts under Zagga Investments Lending Trust.

The functions performed by **Zagga Investments** include the origination of loans, credit assessment of borrowers, portfolio oversight (diversification/ credit ratings), ongoing monitoring of loan performance, and follow-up of any defaults.

Zagga Market Pty Limited (ZM) is the Australian Credit Licence holder. ZM has been appointed, in terms of a formal CL13 Servicer Agreement, as the credit provider for its associate company, Zagga Investments Pty Limited.

The Board of Directors of the Responsible Entity (**Zagga Investments**) consists of **5** directors, **none** of whom are independent. SQM Research prefers the inclusion of independent members on the Board of Directors – it is a meaningful way to enhance governance and oversight. Board members have an average of **23.0** years of industry experience.

The Responsible Entity's **Compliance Committee** is composed of **7** members, **3** of whom are independent. The Chair **is not** independent. SQM Research views independence in a RE oversight body such as the Compliance Committee as a strong and favourable factor in Fund governance. Compliance Committee members have an average of **26.3** years of industry experience.

Management Risk

Zagga Investments is not required by ASIC to be registered as a 'Registered Financial Corporation' under APRA. There have been no regulatory or compliance issues or breaches. There is one loan in default, which is the subject of an application to the High Court. There has been no other litigation.

SQM believes funds management businesses rely on the operational capabilities of key counterparties. A critical element is the corporate ability of the Trustee to monitor operational performance and to meet the regulatory and statutory responsibilities required.

For any investment fund, there is a risk that a weak financial position or management performance deterioration of key counterparties could temporarily or permanently compromise their performance and competency. This can adversely affect financial or regulatory outcomes for the Trust or associated entities.

Based on the materials reviewed, SQM Research believes that Zagga and associated key counterparties are qualified to carry out their assigned responsibilities. Management risk is rated as being low.

Funds under Management (FUM)

The Trust is not a closed fund and will fund new loans as they originated on an ongoing basis.

As of Jan 2024, the Trust has $675.4 m in its active loan book, with a further $77.9m in hosted loans.

Zagga will offer new investment opportunities on a weekly basis.

Business Strategy

Lending

The market comprises investors seeking a better than the bank-rate yield for all or some of the cash portion of their investment portfolio. It now comprises financial institutions, fund managers, family offices, self-managed super funds (SMSFs) and high-net-worth individuals.

This base has been built through personal networks of the shareholders and word-of-mouth referrals and introductions. Zagga also receives introductions from advisors such as accountants, lawyers, financial planners, and tax agents, some of whom refer both borrowers and investors.

The business strategy going forward is as follows:

- The average loan size on the active book has been steady at $6.7m and continues to increase – better risk, better counterparties, more loan capacity to meet investor demand, better return for the same origination effort
- Capture more of the value chain (and diversify income streams) by extending into stretched senior security transactions, i.e., write more deals for the same Borrower across the same property
- Write more direct non-broker introduced business (now approximately 25%)
- Do not compromise loan quality

Funding

- Appeal to investor demand for broader-based returns
- Access cheaper cost of funds (institutional lines, Zagga Wealth Fund)
- Use the platform to turn feeder fund money every 90 days
- Do not chase returns over loan quality

In each of the above, Zagga will remain true to its core values of:

- Transparency
- Lending and investment integrity
- Robust credit and risk discipline
- Strong governance
- Investor-first approach

Access

The Trust is available to all individuals and entities that meet the criteria of a wholesale investor as defined under the Corporations Act 2001 (Cth).

Name	Responsibility / Position	Location	Years at Firm	Years in Industry
Alan Greenstein	CEO	SYD	6.5	32.0
Tom Cranfield	Director, Investments (Lending)	SYD	5.0	17.0
Frank Hageali	Director, Investments (Lending)	SYD	5.0	27.0
Steven Levy	Director, Investments & Treasury (Funding)	SYD	6.5	10.0
Matthew Harper	Senior Executive, Investments & Funding	SYD	1.5	21.0
Jacob Nightingale	Senior Executive, Treasury & Investments	SYD	2.5	5.0
Erica Geddes	Senior Executive, Investments & Funding	SYD	0.0	11.0
Mark Finch	Executive, Investments & Funding	SYD	1.0	18.0
Stefan Mekertichian	Executive, Investments & Funding	SYD	0.5	4.0
Eliza Murphy	Executive, Investments & Treasury	SYD	1.0	1.0
Michelle Mok	Head of Private Capital	SGD	0.5	10.0
Alok Kochhar	Senior Advisor	SGD	0.5	30.0

Investment Team

Zagga has a well-experienced head office and credit management team based in Sydney that has cross-functional expertise in business management, lending, compliance management and technology. The team has over 14 years of experience and typically a long tenure at Zagga.

All staff are across all aspects of the business, each with its own area of specific focus.

The investment team has grown to 8 FTE (PY: 3 FTE). The structure of the Investments Team has been split into 2 main roles:

- Treasury: Management of internal funds, investment allocation and cash flows
- Investments & Funding: Responsible for sourcing investor funding

Additional expansion of the investment team to Singapore with 3 contractors based in Singapore, 2 of which are seeking to raise funding.

Zagga has a dedicated **Credit team** of 6 FTE, who perform due diligence on all loans prior to signing loan documents.

Oversight of the investment and credit function is maintained by the I**nvestment and Credit Committees,** which continue to include external members (**Jim Tate and Richard Stacey**).

The **ESG Committee** is chaired by **Nikki Kemp** (formerly World Economic Forum - Director, Asia Pacific).

General oversight is via the Compliance Committee, the Chair is also external, Peter Clare.

SQM Research believes the practice of constant communication and the broad-based inclusion of team members in decision-making is a vital ingredient to the success of the process. Interactive peer review and collaboration across the management group will likely make the best use of their combined intellectual property and shared history.

Meeting Schedule

The table below shows regular meetings that form an essential part of the overall process.

Meeting	Agenda	Frequency	Participants
Board Meeting	Group Board - strategy, oversight, governance	Every 2nd month	Shareholder representatives
Compliance Meeting	Group compliance across all regulatory supervisors	Quarterly	Non-exec directors, management, external RMs

Meeting	Agenda	Frequency	Participants
Credit Risk Oversight	Oversee and monitor lending policy, loan performance, arrears and bad debts, and all matters loan-related	Monthly	Directors, external members, credit team reps
Investment Risk	Oversee and monitor investment flows, investment strategy and execution, performance, and all investment-related matters	Fortnightly	Directors, external members, investment team reps
ESG Meeting	Establish, implement and monitor ESG policy	Bi-monthly	Directors, external members, mgt rep
Sales Meeting	Internal meeting managing new loans/funds/ flows/targets	Weekly	Credit and Investment teams
Team Meeting	Operational management committee	Monthly	All team members play external RMs (x2)

SQM Research believes the practice of constant communication and the broad-based inclusion of team members in decision-making is a vital ingredient to the success of the process. Interactive peer review and collaboration across a tightly knit group of experienced investors will likely make the best use of their combined intellectual property and shared history.

Staffing Changes

Departures			
Date	**Name**	**Responsibility**	**Reason for Departure**
01-Nov-23	Smitha Keshavamurthy	Client Services Associate	Personal reasons
01-Oct-23	Diana Shoolman	Distribution Partner(external consultant)	Personal reasons

Additions / Hires			
Date	**Name**	**New Responsibility**	**Previous Position / Employer**
21-Mar-23	Rebecca Clare	Assistant, Marketing & Executive	Various
04-Apr-23	Eliza Murphy	Executive, Investments & Treasury	N/A - Graduate
30-May-23	Mark Finch	Executive, Investments & Funding	Triple A Super
01-Oct-23	Stefan Mekertichian	Executive, Investments & Funding	Wingate
01-Feb-24	Erica Geddes	Senior Executive, Investments & Funding	Australian Unity

SQM Research observes that the levels of investment experience and company tenure are strong across the investment team. The size and nature of staff turnover are not an issue of concern, in SQM's view.

Remuneration and Incentives

Salaries are market-related. They are reviewed annually, and any increases and bonuses/incentives are determined by and at the discretion of the board.

Alan Greenstein and **Tom Cranfield/Frank Hageali** hold **equity** via their family investment vehicles of 9% and 5% (Mr Cranfield and Mr Hageali together), respectively.

Zagga is precluded from investing its own capital in any loan investments, given its status as a Trustee of ZILT. Each of the shareholders (except for the NZ shareholder) invests directly in loan investments, at their discretion and of their choosing, via the entity of their choice.

A separate entity, **ZSFF Pty Ltd**, facilitates investment for Zagga staff, family, and associates. Zagga shareholders and ZSFF are registered and accredited Zagga investors and invest on the same terms applicable to any other investor. These investments, when made, are declared at the Compliance Committee and reported accordingly.

Other than for Alan Greenstein and Anthony Kalaf, none of the Investment team has invested personally/directly in a loan or any feeder fund.

Commission structures are in place for the Investments Team based on funding targets and raising an amount of funding as a multiple of their salary. There is no cap on the limit of their commission, which can be up to a maximum of 0.35% of the dollar amount of funds raised.

The shareholders of ZH are personally invested in ZILT7 (the Note entity) via ZFF as part of their Credit Enhancement obligations.

SQM Research believes remuneration in the form of firm equity and client-focused performance bonuses act as strong incentives for optimising staff engagement, retention, and productivity. The intention (and SQM believes the effect) is to align staff performance with client and shareholder objectives. It focuses on the customers' needs and medium to long-term results.

Fees

Management Fee

The Manager will earn fees from both borrowers and investors.

Borrowers pay:

- A Platform Fee (an establishment fee) is capitalised into the loan and paid to Zagga on settlement. This is 1.5% p.a. as of Jan 2024
- Interest at the assessed interest rate for the loan
- Zagga's broker fees, solicitor's charges, valuer charges, QS charges and other loan-related costs

Investors pay:

- For direct investors in the ZILT, investors pay a Loan Management Fee, being the differential between the loan interest paid by borrowers and the return to investors. This is paid to Zagga as and when interest on the loan is paid.
- For investors in the **Zagga Feeder Fund**, investors pay a management fee of 0.25%. This is calculated and accrued monthly on the last business day of the month and paid to the Trustee monthly in arrears.
- In certain instances, this management fee has been waived in 2023.
- For investors in the **Zagga Wealth Fund**, investors pay a management fee of 0.25%. This is calculated and accrued monthly on the last business day of the month and paid to the Trustee monthly in arrears.
- In certain instances, this management fee has been waived in 2023.
- **Zagga CRED Fund**: A management fee of 0.50% is paid on the Gross Asset Value (calculated and accrued monthly on the last business day of the month and paid to the Trustee monthly in arrears).

Direct Costs

Direct costs incurred in operating the Trust on behalf of investors, including audit, compliance, legal and tax consulting fees, will be recovered and payable to Zagga as the first deduction from income.

Overall Fees

The overall fee paid by investors is variable.

Redemptions

Zagga Wealth Fund - Investors have a minimum lock-up period of **3 months** from the date of investment. Thereafter, investments run on a rolling basis subject to 30 days' notice of withdrawal.

Zagga Feeder Fund - Investors have a minimum lock-up period of **12 months** from the date of investment. Thereafter, investments run on a rolling basis subject to 90 days' notice of withdrawal.

Zagga CRED Fund - Investors have a minimum lock-up period of **12 months** from the date of investment, which may be waived at the discretion of the Trustee.

Distributions

Investors in the Feeder Fund

Distributions from the Feeder Fund are made monthly and within 5 business days.

Investors in the Wealth Fund

Distributions from the Wealth Fund are made monthly and paid within 5 business days.

Investors in the CRED Fund

Distributions from the Wealth Fund are made monthly and paid within 10 business days.

Investors in Individual Loans

The return from each loan opportunity will be paid to investors according to the specific terms of the loan. Distributions are paid monthly (in most instances) or quarterly.

Repayment of principal occurs when the Borrower repays their principal. There is a direct link between the loan amortisation schedule and each investor's income from that specific loan. The repayments from the Borrower are split immediately on receipt and attributed to the investor's account.

Investors can select from the following reinvestment options:

- Reinvest the principal of loan investment and any interest earned into the Feeder Fund or any other currently available loan
- Receive a cash payment comprising the principal and any outstanding interest due

Taxation Issues

The taxable income of the Trust will comprise interest income less management and administration costs, reduced by realised revenue losses to the Fund. Provided the taxable income of the Trust is attributed to investors in each income year on a fair and reasonable basis, the Trustee should not be subject to tax on the taxable income of the Fund.

Instead, each investor will include a share of the taxable income that has been allocated to them in their own assessable income.

As it is intended that all interest earned on underlying investments in loans will be paid, it is not expected that the amount of capital repaid upon the termination of each individual investment will exceed the amount invested.

DISCLAIMER

Although all reasonable care has been taken to ensure that the information contained in this document is accurate, neither SQM Research nor its respective officers, advisers or agents makes any representation or warranty, express or implied as to the accuracy, completeness, currency or reliability of such information or any other information provided whether in writing or orally to any recipient or its officers, advisers or agents.

SQM Research and its respective officers, advisers, or agents do not accept:

- any responsibility arising in any way for any errors in or omissions from any information contained in this document or for any lack of accuracy, completeness, currency or reliability of any information made available to any recipient, its officers, advisers, or agents; or
- any liability for any direct or consequential loss, damage or injury suffered or incurred by the recipient, or any other person as a result of or arising out of that person placing any reliance on the information or its accuracy, completeness, currency or reliability.

This document contains statements which reflect current views and opinions of management and information which is current at the time of its release but which may relate to intended or anticipated future performance or activities. Such statements and financial information provided have been estimated only and are based on certain assumptions and management's analysis of the information available at the time this document was prepared and are subject to risk and uncertainties given their anticipatory nature. Actual results may differ materially from current indications due to the variety of factors.

Accordingly, nothing in the document is or should be relied upon as a promise or representation as to the future or any event or activity in the future and there is no representation, warranty or other assurance that any projections or estimations will be realised.

By accepting the opportunity to review this document the recipient of this information acknowledges that:

- it will conduct its own investigation and analysis regarding any information, representation or statement contained in this or any other written or oral information made available to it and will rely on its own inquiries and seek appropriate professional advice in deciding whether to further investigate the business, operations and assets of the business; and
- to the extent that this document includes forecasts, qualitative statements and associated commentary, including estimates in relation to future or anticipated performance, no representation is made that any forecast, statement or estimate will be achieved or is accurate, and it is acknowledged that actual future operations may vary significantly from the estimates and forecasts and accordingly, all recipients will make their own investigations and inquiries regarding all assumptions, uncertainties and contingencies which may effect the future operations of the business.

In providing this document, SQM Research reserves the right to amend, replace or withdraw the document at any time. SQM Research has no obligation to provide the recipient with any access to additional information or to release the results of or update any information or opinion contained in this document.

Reproduction

SQM Research assessment reviews cannot be reproduced without prior written permission from SQM Research. Each assessment review completed by SQM Research is held under copyright. Extracts may not be reproduced.

Requests to reproduce or use an SQM Research assessment review should be sent to **info@sqmresearch.com.au**

Disclosure

SQM Research has no involvement in this fund or any of the organisations contained in the product disclosure statement. This assessment does not constitute an investment recommendation. It is designed to provide investment advisers with a third party view of the quality of this fund, as an investment option. SQM Research charges a standard and fixed fee for the third party review. This fee has been paid under the normal commercial terms of SQM Research.

Analyst remuneration is not linked to the rating outcome. Where financial products are mentioned, the Analyst(s) may hold financial product(s) referred to in this document, but SQM Research considers such holding not to be sufficiently material to compromise the rating or advice. Analyst holdings may change during the life of the report. The Analyst(s) certify the views expressed in the report accurately reflects their professional opinion about the matters and financial product(s) to which the report refers.

SQM Research, under its Australian Financial Services Licence (Licence number 421913) operates under the provisions set down under ASIC Regulatory Guide 79.

Please note a Financial Services Guide and a Conflicts of Interest policy is available on our website. Subscribers to SQM Research receive access to the full range of fund research, ratings and fund updates.

For ratings reports covering superannuation, life products, and retirement savings accounts, including IDPS, SQM Research Pty Ltd acts as an authorised representative of Interprac Financial Planning Pty Ltd, ABN 14 076 0930 680, AFSL 246638. Authorised Representative Number 404383."

More information on the Interprac Pty Ltd Financial Service Guide can be found below:

https://interprac.com.au/wp-content/uploads/2021/07/InterPrac-FSG-Part-1-v12.0.pdf

This report has been prepared for Financial Advisers Only.

Address:
Level 16, 275 Alfred Street
North Sydney, New South Wales, 2060

Contacts:

Louis Christopher	02 9220 4666
Chetan Trehan	02 9220 4607
Paul Saliba	02 9220 4606

Analyst:
Smita Bhakat

Central Contacts:
Phone: 1800 766 651
Email: info@sqmresearch.com.au
Web: www.sqmresearch.com.au