

Millbrook Credit Fund Diversified

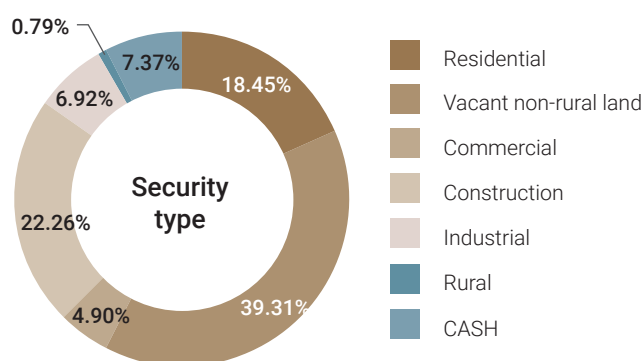
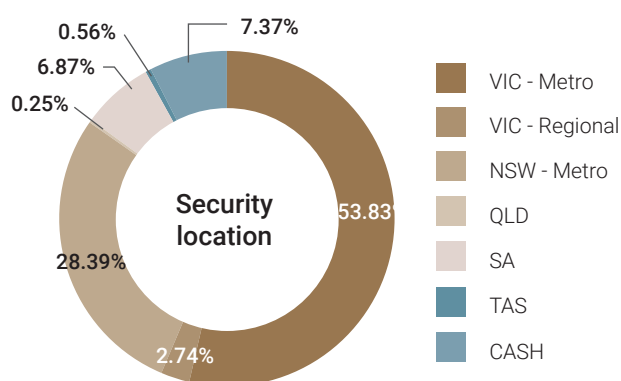
Quarterly Insights 30 September 2023

The Diversified Option provides investors with the ability to invest in a diversified range of registered 1st mortgages with different security, terms and LVR's, while knowing your interest return is underwritten by Millbrook Group. The minimum term is 12 months. **We treat your money like it is our own.**

Fund reporting & performance

MCF Diversified - Key metrics as at 30/09/23	
Current return	7.00%pa
Benchmark	Bloomberg AusBond Bank Bill Index + 1.50%
Average weighted LVR	53.90%
No. of loans invested in	64
Loan terms	6-24 months
Current Diversified Option size	\$18,424,321
Overall Credit Fund size	\$147,434,229

Historical performance	Return	Benchmark	Performance
1 Month	0.58%	0.46%	+0.12%
6 Months	3.41%	2.74%	+0.67%
1 Year	6.42%	5.06%	+1.36%
3 Years pa	6.64%	2.88%	+3.76%
Since inception pa	6.71%	2.71%	+4.00%



Highlights

- Growth** Another strong quarter with funds under management now \$147.43m. Overall group FUM \$372m. Six loans were repaid and six loans were added in the quarter. Of the loans added we have strategically added some warehouse and residential land assets to the portfolio. The residential housing pipeline is strong, and cash will be deployed into this sector.
- Demand** Demand remains strong although it has come off the highs of early 2023. We remain focused on originating deals backed by strong fundamentals with a particular focus on overall borrower strength. The refinance market remains slow with settlement timings often blowing out – this has at times impacted loan repayments.
- Types of loans** Majority of loans continue to be written on variable rates. Over 63% of the loan book is variable.
- Arrears** Currently sitting at 1.18%. Our Credit team continues to closely monitor and manage any loan arrears.
- Market insight** We are of the view that rates are close to their peak but not expecting any rates cuts until mid/late 2024. Our loan book is well positioned to take advantage of rate movements given the short duration of the portfolio (average duration of 12 months).

Millbrook perspective

What is Vintage Risk – and how to reduce it?

At Millbrook Group we often discuss Vintage Risk as part of our overall risk management strategy. When we think of vintage risk we're not thinking of a Barossa Shiraz past its prime (although this does occasionally get discussed) but rather how this impacts the quality of our loan portfolio.

When we originate a loan we assess the borrower's capacity to repay based on financial information obtained at that point in time. Mortgages are often set-and-forget propositions for a bank and unless there is a default, the lender will often have little visibility over a borrower's financial circumstances during the loan term. However post origination, a borrower's circumstances can change which could affect their ability to meet repayments. A borrower who is eligible for a loan today may not meet a lender's requirements in two years time. Therefore the longer the loan duration the greater the potential for something to adversely affect a borrower's position and hence the greater the *vintage risk*.

At Millbrook, our loan terms range from 6–24 months with an average term of 12 months. The shorter-term nature of our loan book helps reduce the impact of *vintage risk* – we can be more confident that a borrower's circumstances won't change significantly over a 12-month period than we would be if our average loan duration was 5+ years. This is not to say a borrower's circumstances won't change but we can have more confidence given the shorter tenor in conjunction with our rigorous origination process.

Market forecasts

Bank	RBA cash rate forecast
CBA	Peak of 4.10%
ANZ	Peak of 4.10%
WBC	Peak of 4.10%
NAB	Peak of 4.35%

Economic forecasts	2023	2024	2025
GDP (y/y%)	1.8	1.1	2.2
Household consumption	1.5	0.3	1.9
Resi construction	-3.2	-5.6	3.5
CPI headline (y/y%)	5.8	3.6	2.9
Wages growth (y/y%)	3.9	4.0	3.7
Unemployment (%)	3.7	4.5	4.8

Source: NAB Market Research 19 September 2023

Looking for further investment opportunities?

If you would like to discuss investment opportunities in any of our property credit funds, please contact us directly.



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