UNCONVENTIONAL WISDOM

Unique investor insights from Wattle Partners

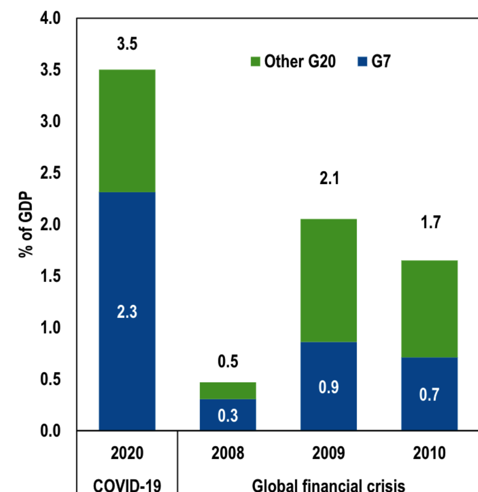
April 2020

The month that was...

- That was fast.....sharemarkets around the world returned to a bull market in April, with the US leading the way the S&P 500 up close to 13% in April; that's the fastest growing month since 1987. Australian markets were similarly strong, up 8.8%, a similar record but without the froth that is appearing in the US. The market recovery came despite the first look at how bad the global economy may be. The Chinese were first off the block, recording a -9.8% fall for the first quarter, followed closely by the US, -4.5% and Europe, -3.8%. The worst news was US unemployment, which increased by 26.5 million people in just 6 weeks, the same amount of jobs created in the last decade.

- After the initial capitulation in March as OPEC+ struggled to come to terms with supply agreements, the oil price moved into the negative, that's right negative, during April, suggesting someone is truly wrong with the global economy. On closer inspection, it was clear that oil prices peaked in 2019 and $70 per barrel was simply unsustainable but this was pre-COVID 19. The intricacies with the negative oil price come from the fact that most 'investors' in oil purchase futures, represent the requirement to take delivery of oil. However, with demand dropping off a cliff, storage filling up and little other uses of crude oil, futures holders were being forced to pay others to take the futures off their hands. As expected, the traditionalists continue to suggest oil stocks are a good buy, even in this environment, and having falling 70% in some instances.

- It's clear that central banks and governments were generally much more prepared for the potential impacts of COVID-19, at least from the economic rather than medical side of things, which is reflected in the chart below from Franklin Templeton, a global asset manager.



The table compares the huge stimulus delivered thus far in the 'Great Virus Crisis' against the peak of the GDP and its clear the impact has been huge. This crisis is somewhat unique in that it is a one-off, uncontrollable and external event that has effectively shut the global economy down, significantly different from GFC which was a credit and debt related slowdown. It is this understanding that gives us and Governments some confidence that the issue will pass. Now, we don't doubt that the implications of COVID-19 will be felt across the world, but we do query the scaremongering occurring across the global media.

- April saw the release of March quarterly updates from fund managers and journalists alike and as you would expect the results were mixed. Those managers with a focus on risk outperformed heavily, such as Nick Griffin of Munro Partners (more below) and those riding last year's momentum bore the brunt. Regal Funds, the aggressive Australian equity and smaller company manager saw their flagship funds for 34% and 59% respectively in March. We are always excited to read the results of outspoken investment managers, which have tended to outperform their tomes of wisdom. Our own Drew Meredith was quoted in the Australian Financial Review this month offering our views on where you should be investing today.

- The long awaited industry super fund performance reports were delivered. With the median balanced falling 8.9% in March but Australian Super's oft-quoted 'Balanced' fund falling closer to 13%. The industry super fund came under immense pressure to explain how holding huge allocations to high risk and illiquid investments like private equity, venture capital and real assets, could be justified in this environment. The Future Fund said it best when disclosing that many of their unlisted assets were not valued at 31 March as they did not offer the flexibility to switch options on a daily basis. The issue with the likes of Australian Super is of course that they offer their members the option to redeem on any given day. Our concern, amid many others, is that those investors who decide to stay put are disadvantaged by those who decide to redeem. Interestingly, the Future Fund are on the hunt for cheaply valued private equity investments that will no doubt need to be sold by industry funds receiving redemption requests en masse.

- Calastone, a group dedicated to measuring fund flows released figures suggesting that the majority of outflows ($1bn) in Australia came from domestic and global bonds amid the mayhem of March with some $900m moving into equities and $200m into gold. Interestingly, it was the institutional and wholesale market, including advised investors, who were increasing equity exposures, as opposed individual investors who were seen to be selling.

- 'I'm no Skase' said James Mawhinney, head of alternative investment fund Mayfair Platinum. The group has been targeting 'Sophisticated' investors for several years by offering an alternative to term deposit that yielded from 4-7% per annum. The only problem? The funds were being loaned to a series of sometimes connected and other times capital starved businesses with limited transparency. The result has been a freeze on redemptions and ASIC successfully applying to the court to restrict the group from continuing to market its products. As we have constantly suggested, it was only a matter of time until this group was uncovered, despite spending millions on advertising.

- Despite the Federal Reserve's decision to commence buying junk bonds issued by previously investment grade corporates, an entire generation of zombie companies is being uncovered in the current shutdown. Companies seeking revenue growth but without cash flow have been caught out, as have those showing profits but no cash. We have one of our own at home it appears with an analyst from CLSA suggesting Lend Lease had generated $1.3bn in free cash flow and raised $2bn in equity in the last 11 years, signaling it may be in a worse position than during the GFC. That was until their recent capital raising. Virgin Australia also moved into voluntary administration, with cash in the bank and some 20 investors now circling. Looking back the subordinated debt issue pushed by the likes of Crestone and Escala Partners in 2018 may not have been such a good idea for investors. April also saw the much awaited collapse in the junk bond listed investment company sector with the likes of KKR and Partners Group's income products falling 20-30% on average.

- It is clear there is a diverse range of views facing investors. On the one hand there are overly optimistic managers suggesting the worst has passed, despite themselves underperforming during the crisis. On the other hand are pessimistic economists who struggle to see a recovery on the other side of this shutdown. The winner has no doubt been Modern Monetary Theory which has been put into practice in full flight. The markets themselves are reflecting the same mix of optimism and pessimism with valuations dispersed to extreme levels between 'quality' and 'concerned' businesses. Warren Buffet seems to be similarly split, indicating he had made minimal purchases during March but confirming the sale of investments in struggling airlines.

- To finish, we have include some insightful quotes from CEO's around the world:

"We've seen two year's worth of digital transformation in two months. From remote teamwork and learning, to sales and customer service, to critical cloud infrastructure and security"

Satya Nadella, CEO, Microsoft Corp

"It is clear that there has been a seismic and most likely enduring shift in consumer behaviour away from traditional shopping centres to shopping online"

Daniel Agostinelli, CEO, Accent Group Ltd

"I think we've all learned in this environment how to work virtually and quite honestly, I think there'll be more of that. There'll be less of those business trips that are needed. And so I think you will probably see an inevitable decline in air travel"

Stephen Squeri, CEO, The American Express Company

Model Portfolio Update

- Investment Committee -

Index	Index Points - March	Index Points - April	Performance 1 Month	Performance 1 Year
S&P/ASX 200	5076.83	5076.83	8.78%	-12.70%
All Ordinaries	5110.56	5110.56	9.53%	-12.79%
US Dow Jones	21917.16	21917.16	11.08%	-8.45%
US S&P 500	2584.59	2584.59	12.68%	-1.13%
Hang Seng (HK)	23603.48	24643.59	4.41%	-17.02%
FTSE 100 (UK)	5671.96	5763.06	1.61%	-22.31%
Nikkei 225	18917.01	19619.35	3.71%	-11.86%

Top 5 Performers	1 Month	Bottom 5 Performers	1 Month
Boral Ltd	54.31%	Telstra Corporation Ltd	-0.65%
Link Administration Holdings Ltd	20.62%	Gold Bullion	-0.38%
Seek Ltd	14.91%	ANZ Banking Group Ltd	-0.35%
BHP Group Ltd	11.63%	JP Morgan Global Macro Opportunities	-0.31%
Aoris International Fund (Hedged)	11.62%		

Sector	April
A-REIT	13.73%
Communications	4.57%
Cons. Discretionary	15.95%
Cons. Staples	2.39%
Energy	24.80%
Financials	2.83%
Healthcare	4.38%
Industrials	12.70%
IT	22.52%
Materials	14.21%
Utilities	2.74%

It was a 'unique' month in global markets but in general a positive one. Wattle's Model Portfolio continues to outperform many of the well-known benchmarks, including Australian Super's Balanced option, which fell 13% and Morningstar's Growth option which fell a similar 12% for the March quarter. Most importantly, our approach which is truly predicated on protecting and growing capital benefitted from holdings in gold bullion, global leaders like Microsoft and Amazon, as well as our Targeted Return Bucket, and limited exposure to the flailing oil and gas sector. This compared positively to the more aggressive private equity and index approach utilised by the alternatives. April saw most markets return to a bull market, rallying 20% of their March bottoms, but the headlines hide some more difficult facts.

The global economy is entering a recession, as highlighted by the US and European GDP results and there is little doubt that COVID-19 will change the way we work and live in the years to come.

Whilst this change may not be as substantial as many in the media suggest, it is clear that digitisation, e-commerce, travel and work flexibility will be front of mind in the future. Back to what the headlines hide, and that is a divergence in valuations and performances of businesses. Whilst the key market indices are recovering strongly, they are increasingly driven by less and less companies, with the top names like CSL, Microsoft and Amazon, moving ever higher, but the rest of the market still some 30-40% below their peaks. This is where we believe the greatest opportunities will lie for patient investors.

National Australia Bank (NAB): The National Australia Bank unexpectedly brought forward their earnings report, announcing a 51% fall in cash profit to 'just' $1.44bn and stunning the market with a $3.5bn capital raising. The bank is seeking to increase CET 1 capital from 10.4% to 11.2% in order to offset expected increases in bad debts. Management noted that some 70k home owners and 34k businesses had taken advantage of the repayment deferral options. The company also announced a 60% cut to the interim dividend, dropping to just 30 cents per share, as flagged by the falling share price. The offer will be at a 10% discount of around $14.15 per share. We are advising clients to take up the offer.

ANZ Bank (ANZ): ANZ shocked the market (and us for that matter), announcing the decision on their interim dividend would be deferred until after the crisis. Is this a deferral or an outright cut? Only time will tell. Following NAB's lead the bank announced a 51% fall in statutory profit after increasing loan impairments to 0.53% from 0.13% a total of around $661bn. They have already received repayment holiday requests for $36bn worth of home loans. Fortunately, there was no capital raising announced.

Woolworths (WOW): Woolworths announced a 10.7% increase in sales for the March quarter, with online sales up 34% and reaching close to 5% of their total. If anything the lockdown seems to be pushing more and more people online which can only be positive in the long-term. It wasn't all good news with management highlighting the increased costs due to COVID-19, 22,000 new staff and the fact that their hotel business costs $30-$35m to run each month.

Link Administration: After once again stress testing LNK's balance sheet during the month we remain confident in the company's debt and capital position. A simple phone call to the likes of Australian Super and you understand why Link is so important to these behemoth institutions, undertaking all of the outsourced administration tasks. The company is supported by some 80% in recurring revenue and whilst its European operations may be tested in the short-term, the COVID-19 is only pushing more sectors online. For instance, it was reported during the month that the UK is now interested in Link's PEXA online property settlement platform, with difficulties arising for in person settlements.

Macquarie Group (MQG): The share price recovered quickly but remains well below its fair value. There are many smaller exposures within Macquarie that may be impacted by this shutdown, but importantly the company is far better run than prior to the GFC. It is now an asset management business and leader in both infrastructure and renewable energy financing around the world; both sectors which will benefit from an expected increasing in fiscal spending. Macquarie Capital (or Mac Cap) has been a key winner out of the spate of capital raisings, topping the leader board with 10 of the major raisings thus far, ahead of UBS (7) and JP Morgan (6).

Munro Global Growth Fund: There could be no better evidence of the value that active management, overseas investment and absolute return investing can have than Munro's performance during March and since. The fund which invests only into globally listed companies with a preference for those with large addressable audiences, not only outperformed its benchmark but delivered a positive return in both March and for 2020 thus far. Importantly, it did so with far less risk and volatility than the many alternatives. Munro's performance was driven by its investment into leading companies like Amazon, Microsoft and Apple, understanding that earnings growth was misunderstood by 'value' investors. The fund also institutes tight stop losses on all positions and in this case, had established short positions on both the S&P 500 and various parts of the energy sector in the lead up to March on valuation concerns. The rest, as they say, is history.

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Qube Holdings (QUB): Qube was another of the companies announcing a capital raising during the quarter, but in their case it was one focused on growth opportunities. Qube's operations have remained reasonably strong in the incredibly challenging conditions, with its diversity of contracts across agricultural, consumer and hard commodities providing some protection. However, after a number of recent contract wins and the increasing demand for space at the Moorebank Intermodal Terminal, management saw fit to reach out for additional capital to fund this expenditure. The have launched a rights issue at $1.95 per share, 22% below the current price and remain in negotiations to sell a portion of the valuable Moorebank asset. We are advising clients to take up the offer.

Ramsay Healthcare (RHC): Similarly to Qube, private hospital operator Ramsay has taken the opportunity to tap investors for additional capital. The company carried substantial borrowing following the Capio acquisition, but this raising is more focused on future investments. Global governments have guaranteed Ramsay's costs will be covered, in return for the cancellation of all elective surgeries and ongoing availability of patient beds for COVID-19 sufferers. The issue price will be $56 per share and once again, we are advising clients to take up the opportunity.

Quantitative what?

- Jamie Nemtsas -

What is quantitative easing?

A discussion with our Chairman, Ian Murdoch, suggested it would be worth offering readers an insight into what the term Quantitative Easing or QE actually means.

To start, quantitative easing forms part of the 'monetary policy' implemented by central banks around the world, including the Reserve Bank of Australia and the United States Federal Reserve. The role of these institutions has traditionally been to focus on 'price stability' meaning to ensure inflation is neither falling or rising too quickly and to maintain an efficient banking and financial system. The latter objective being broad enough to effectively allow anything.

How does QE work?

The how of QE is quite simple, central banks used money cash on their own balance sheets to purchase Government (and potentially other) bonds from recognised institutions like banks, pension funds and investment institutions. For some background, all banks and insurance companies across the globe are required to hold a certain amount of capital to

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support their lending activities, with Government bonds the main portion of this.

The cash can either be from money they already have, or alternatively like in the case of Australia, the Reserve Bank may simply 'create' money out of thin air by adding say $5bn to their digital accounts. So the Reserve Bank is simultaneously increasing their size of their assets and liabilities (being the account of the seller) by the same $5bn.

Another QE policy announced by the Reserve Bank in March was the provision of a $90bn line of credit to

Why do QE?

The aim of quantitative easing is ultimately twofold; to reduce interest rates for borrowers of all kinds and to facilitate the faster flow of capital around the economy. You see every investment and loan in the world is priced off Government Bond or 'Risk Free' interest rates. In the case of investments, Government bonds indicate the return investors receive for taking little to no risk and hence the base return requirement to invest into riskier assets. The action of purchasing Government bonds en masse increases the value of these bonds but also reduces the yield they offer to investors like banks and pension funds, which ultimately forces them to look elsewhere with their capital. In the case of Australia, the Reserve Bank is specifically targeted an interest rate of 0.25% on three year Government bonds. As you would expect, when interest rates are near 0% or negative in some cases, banks are disincentivised to leave funds in cash with the central bank for an extended period of time. Central banks hope that this results in the influx of cash being deployed to offer new loans to business and consumers.

In the case of lowering interest rates, every type of loan in the world is also benchmarked against government bond rates. With residential mortgage rates for example, determine by setting a 'risk margin' above the prevailing bond rate to ensure the bank is being rewarded for any additional risk. This includes the bonds issued by the banks themselves to raise capital to lend to their own customers. Importantly, these bond rates are not only the 'cash rate' announced by the central bank, but the daily traded bonds of all maturities from 1 to 30 years. Intuitively, by keeping the banks own cost of funding low (at 0.25%) and the returns on any excess capital near zero, banks are able to lend profitably and confidently.

How does it work in Australia?

Importantly, QE has at least five different stages, form QE 1 through to QE 5, with the Japanese one of the first to embark on the program in 2000. Not only are the stages different but so is the implementation. In the case of Australia, the Reserve Bank has expressly stated that they will only be purchasing Government Bonds via the secondary market, i.e. from existing owners and not directly from the Government itself; a very different and complex proposition.

In the case of Australia, the Reserve Bank have specifically indicated that will purchase as many bonds as required to keep interest rates on three year bonds at or below 0.25%. In addition, the Reserve Bank has also announced a $90bn line of credit will be made available to the banking sector directly, secured by their own cash holdings, at a fixed rate of 0.25%. Again, the aim being to fix a portion of the banks cost of capital at 0.25% and allow them to lend more at today's ultra-low interest rates of ~2.5% whilst still remaining solvent. The last point here is key. If a bank lends at 2.5% but must pay 3.0% for that capital, they will simply not lend and the economy will contract.

Side note – How does QE relate to our Government spending?

One last side note, as many readers will likely be questioning where the c$100bn the Federal Government is spending will actually come from. The Government funds its spending via a combination of tax revenues and bond issuance,

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with our debt to GDP of around 40% well below the likes of the US (100%) and Japan (300%). These bonds are issued by the Australian Office of Financial Management (AOFM) with terms up to 30 years and typical buyers including banks and insurance companies, who must hold minimum amounts of capital, as well as pension funds, sovereign wealth funds and investors like clients of Wattle Partners.

The actions of the Reserve Bank outlined above, of purchasing government bonds and pushing yields down to 0.25%, effectively increases the attractiveness of newly issued bonds and ensures that they remain in high demand. In fact, the AOFM delivered their largest bond auction in history in April, raising $13bn, but receiving over $200bn in bids. The split of buyers was enlightening:

Investor sector	Per cent
Bank - Trading	31.5
Bank - Balance sheet	20.6
Fund manager	25.3
Central bank	5.4
Hedge fund	17.3
Other	0

Never sell stocks...

- Drew Meredith -

You may remember us writing about the 'diversified' development, construction and property management business Lend Lease. It was sold out of our model at a price of around $15 from memory and has proceeded to fall a further 33% amid the COVID-19 shutdown. Yet walking around the suburbs it seems that the construction sector is the only one that has not really been impacted by these restrictions.

An article published in the AFR last week piqued our interest, announcing Lend Lease's intention to securitise, or on-sell the cash flows expected to be received from pre-sold apartments at their major buildings in Sydney. Confused? Well it seems that Lend Lease has a cash flow issue for its $100bn in work in hand, and is attempting to sell the profits or future settlement from apartments yet to be finished onto an external party to provide short-term fund. In theory it makes sense, you bring forward profits to reinvest into anotehr project; yet we arent operating in normal conditions.

Our concerns

Our original concerns around Lend Lease remain but have since been added to by the incredible events and changes occuring due to the pandemic. We suggested selling the business after they announced a substantial writedown on a number of major projects, due primarily to cost and delivery blowouts; our concern being that this issue was more widespread than it appeared. The company subsequently rallied some 30%, before falling 50% to where it is today.

During this time, management announced the sale of their engineering division to Spanish giant Acciona, but this will actually cost Lend Lease at least $500m, if not $1bn based on the views of some research analysts. Not only did it cost money, but they were required to retain a number of troublesome projects including Melbourne's own Metro Rail Tunnel which is now at a standstill as

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negotiations with the Government continue over cost blowouts; sounds all too familiar. More recently, management attempted to sell the Services division, which was previously known to have one of the worst NBN installation contracts, but has since improved; yet the primary bidders in ASX-listed Service Stream pulled out late in 2019.

There is little doubt the company has delivered a strong growth profile, with over $30bn in property assets under management through their funds and a pipeline of some $112bn in residential and commercial property projects across the world. Yet is this area where we are becoming concerned. Lend Lease is increasingly looking like Macquarie Group pre-GFC with a substantial amount of its own capital invested into its projects, meaning when markets fall, as they are now, cash flow, gearing and other pressures increase. Consider for instance that they currently have some 37,000 residential units that need to be sold around the world, in what can only be considered an extremely uncertain environment.

Our biggest concern, however, now lies in the combination of residential and commercial property they manage on behalf of primairly institutional investors like pension funds. Recent superannuation changes and market volatility have seen substantial switches between investment options and demands for increasing transparency on asset valuations in properties just like these. The last few week's has even seen rare redemption requests for Industry Funds Management direct property options as funds like Host Plus cash up to fund drawdowns. What does this look like for Lend Lease? Will they also need to offer redemption requests, will the values of these assets be reduced, effectively reducing the value of the properties still under construction? Or will borrowing from tomorrow be enough to avert disaster?

Whilst their current debt isnt demanding, falls in revenue across every business unit except low margin construction and cash flow conversion of just 5% should be concerning for investors. In an environment where everything is on sale, we think there is better value with less uncertainty elsewhere.

Franklin Absolute Return Bond Fund

- Drew Meredith -

FRANKLIN TEMPLETON

Fixed income or fixed loss? The question is becoming increasingly popular in the current environment as Government Bonds gravitate towards 0% and maturities extend out to 30 years. In recent years, fixed income investors have been able to deliver equity like returns by simply holding duration, being bonds with many years to maturity. This worked because ever lower short term interest rates increased the attractiveness and value of these bonds. The key beneficiaries were traditional bond investors, bond indices, pension funds and anyone willing to take on duration risk.

Chris Siniakov
Melbourne, Australia
Years With Firm: 5
Years Of Experience: 26

Andrew Charles Canobi
Melbourne, Australia
Years With Firm: 5
Years Of Experience: 26

But there is a growing chorus of concern about what happens when interest rates inevitably rise. Whilst unlikely right now, there is little doubt it will happen eventually. This makes fixed income a more complex decision for those seeking to protect their portfolios. It is for this reason that we commenced due diligence on the Franklin Absolute Return Bond Fund. As always, we will never engage with any group unless we are able to meet the managers face-to-face and understand them both as investors but also as people. Our analysis follows"

Why Franklin?

The Absolute Return Bond Fund is one of the few unconstrained fixed income funds available in Australia. Unconstrained or absolute return refers to the flexibility afforded to the manager to take vastly different positions to that of the underlying index and to actively rather than passively manage the portfolio of bonds it owns. For instance, at

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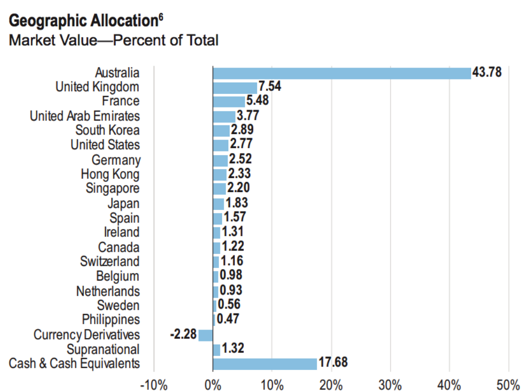
present a traditional Government Bond benchmark such as the Australian Composite Bond Index carries duration of 5 years. Given interest rates in Australia and around the world are nearing 0% it is clear that the returns available from further falls are diminished and that the risk in the coming years will be that bonds deliver negative returns as rates normalise. This fund allows investors to maintain an exposure to high quality bonds, but to reduce this risk by affording the managers flexibility to stray completely from the index, via a duration target of positive and negative 2.5 years. This means they can protect your capital from both further falls and hikes.

Why Capital Stable Bucket?

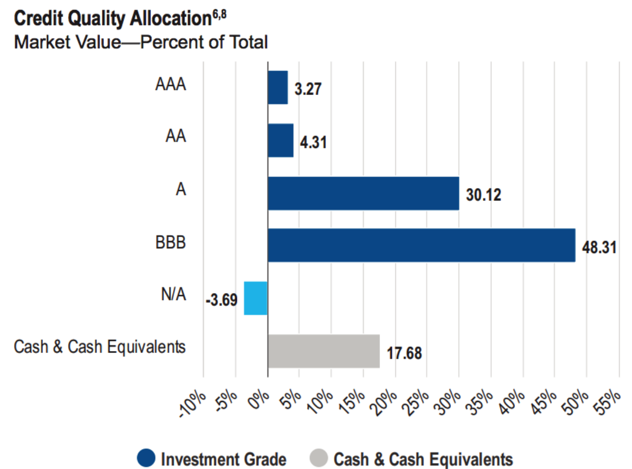
The fund meets the objective of the Capital Stable Bucket as it seeks to provide the traditional benefits of a fixed income investment, being capital security, low correlation with sharemarkets and a consistent income, without exposing your portfolio to the risk of increasing interest rates. The underlying portfolio is 73% investment grade, meaning the bond issuers have a credit rating exceeding BBB, and include both Government and bonds issued by Australian and international corporates in AUD.

Performance & Top Holdings: T

he $420m domestic portfolio is highly diversified across 180 individual holdings with below investment grade opportunities limited to 20% and non-AUD issues 35% of the portfolio (these are all hedged back to AUD). The fund underperformed traditional benchmarks in 2019 due to its lack of duration, but delivered a positive return of 2.14% for the 12 months to 31 March 2020. The geographic allocation is as follows:



Whilst the credit quality is primary investment grade including senior secured, unsecured and subordinated bonds:



The managers seek to restore the defensive characteristics of fixed income by reducing duration risk, 0.74 years versus 5 for the index. The fund has delivered a consistently monthly income, only missing its first payment in March 2020 as the managers sought to retain capital for opportunities.

Reasoning: Before the onset of COVID-19 it was becoming clear that the traditional benefits of bond and fixed income allocations were beginning to reduce. Whether due to the increasing duration risk (out to 7 years in some cases) or the gravitation of all interest rates towards zero, bond markets were suggesting change was required. The fund is fully hedged back to AUD and seeks to leverage off the knowledge and research of the global Fixed Income team. It is 'Recommended' by research house Lonsec and Approved by Zenith Investment Partners.

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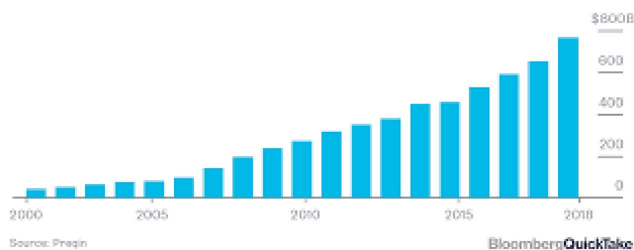
- Moelis Credit-

- Drew Meredith -

Any long-time readers will be well aware of our concerns for the private credit and high yield of junk bond market in recent years. The sectors had become increasingly popular throughout as investors sought income wherever they could find it amid a reasonably benign global economic enivonment. Our concerns at the time were the reducing returns available and the markedly higher risk that had seemingly been under appreciated by industry super funds, LIC investors and many of our competitors. But how things can change in just a few weeks. March saw many of these 'low-risk' diversified income and bond funds fall anywhere from 10% to 20% as investors flooded for the exit. The result saw credit spreads including on bank preference shares spike beyond GFC levels, even as conditions are markedly better. As usual, this piqued our interest, as credit is now offering equity like returns but at substantially lower risk.



For this reason, we met with the manager of the Moelis Private Credit Fund, Oliver Trajcevski, who has been involved in over $2.5bn in transactions. The fund invests solely into senior secured debt issued by Australian and international corporates and is available only to wholesale investors, with a minimum investment of $100,000 unless accessed via a platform. The fund is seeking to take advantage of dislocations and opportunities in the $2.8tn domestic loans market and negotiated either directly with businesses ranging from transport, to healthcare and logistics to offer loans where traditional banks have decided to exit the sector.

This last point being key, the likes of Moelis and previously pension funds, have been filling an important gap of providing sound businesses capital that the Big Four Banks are simply unwilling to offer anymore.

The fund targets an average investment size of $15m and an annual return of 8-10% with substantially less volatility than equities. Importantly the fund will distribute quarterly, targetting 5%, supported by interest and loan repayments. The team is tasked with undertaking in depth due diligence supported by the broad resources and capital raising desks as well as the global operations of the Moelis Group. The fund is somewhat unique in that it only opens to investors when it has a loan ready to fund, which typically occurs on a monthly basis. The benefit of this strategy compared to many alternatives is that a specialised private debt investors like Moelis, as lead manager of any loan syndication, can access substantially more detailed information on each loan than what is available in listed markets.

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