Syndicated Loan Primer

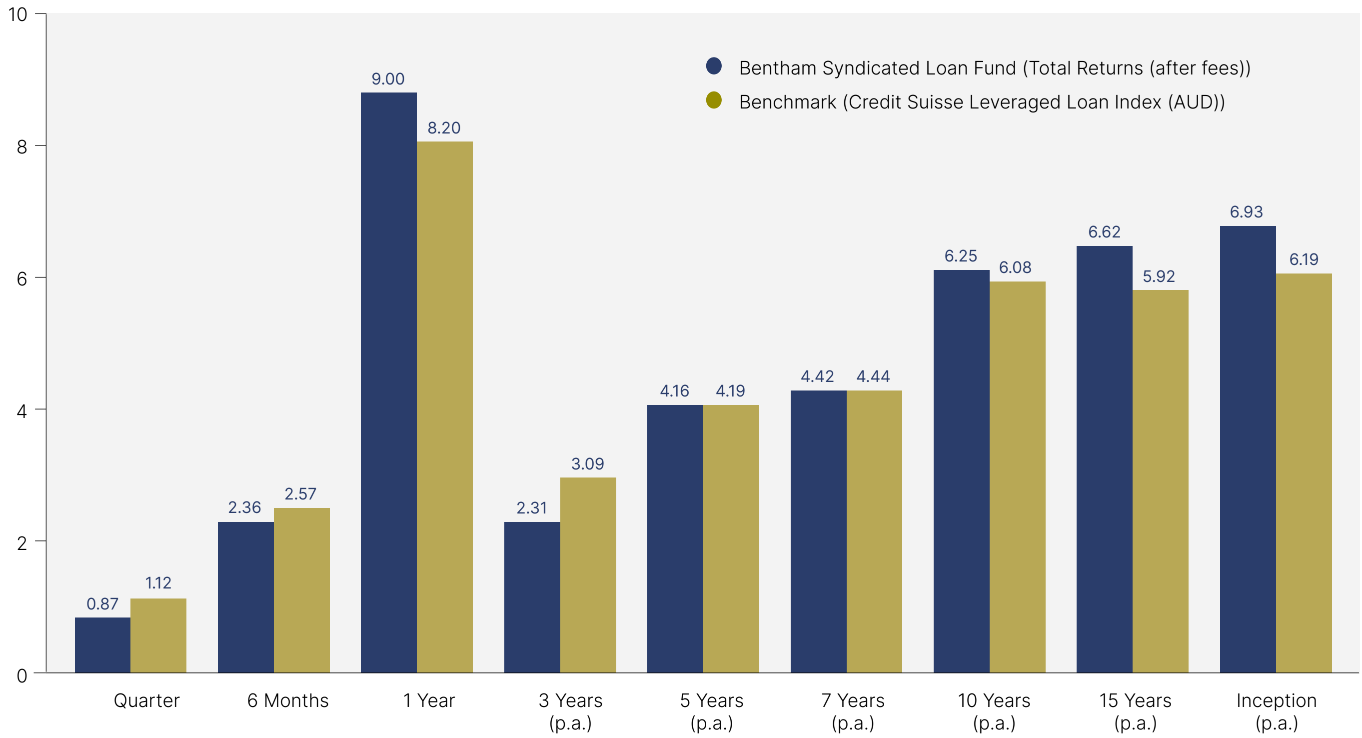
Investing in Senior Loans

Syndicated loans have developed into an institutionally accepted asset class because of their competitive absolute returns and strong risk-adjusted returns. When investing in Syndicated Loans it is important to consider managers that offer diversification, as well as access to new issues and hedging for $A investors.

Bentham Asset management has the longest running Syndicated Loans Fund in the Australian market, which was launched in August 2004. It has consistently outperformed the Credit Suisse Syndicated Loan Index and holds over 400 issuers with current yields in Australian dollars in excess of 5%.

The Bentham Wholesale Syndicated Loan Fund is sub-advised by Credit Investments Group (CIG) of Credit Suisse Asset Management, LLC, an SEC Registered Investment Advisor, and wholly owned subsidiary of Credit Suisse Group AG. CIG is one of the largest and most experienced non-investment grade credit managers in the United States and Western Europe.

The Bentham Syndicated Loan Fund is actively managed and focused on generating stable investment income. The Fund aims to provide investors with exposure to high-yielding investments primarily through the US syndicated loan market, with an active allocation to investments in different industries, issuers and geographies.



Source: Fidante Partners, Bloomberg

Past performance is not a reliable indicator of future performance. Returns may be volatile and may vary from year to year.

1 Gross Returns are calculated by using pre-distribution month end withdrawal prices, assumes all distributions are reinvested and fees and expenses that were deducted are added back. Please refer to the Fund's PDS for more information on fees and expenses.

2 The inception date of the Fund is 16 August 2004.

Investing in Senior Loans

'Syndicated loan' is a generic term for a secured loan, usually issued by large companies that have a credit rating of below investment-grade. The term 'Syndicated loan' has been used as the industry accepted term as "leveraged loan" has been found to create confusion as there is no leverage in the securities.

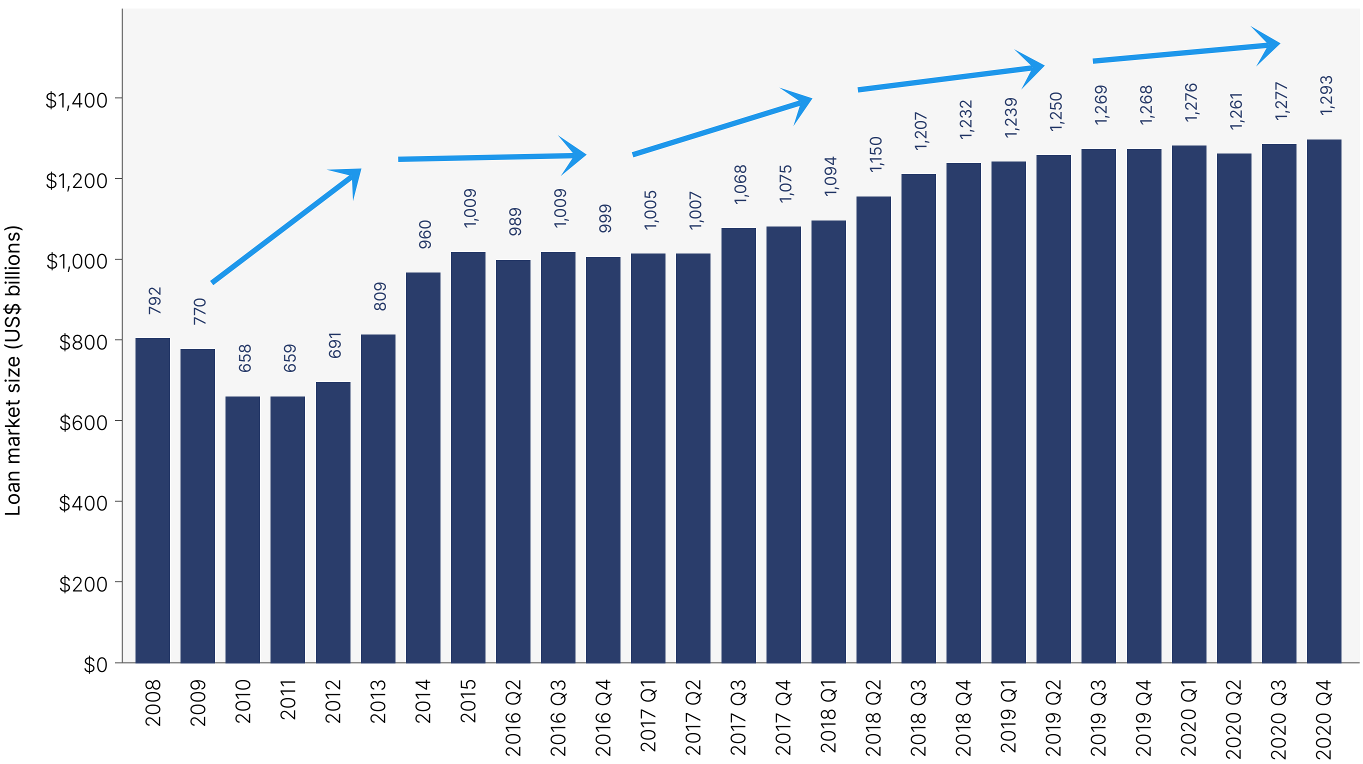
Banks and other financial institutions have been making corporate loans to sub-investment grade quality companies for decades. However, the structure of Syndicated loan market began to evolve in the 1980s with the boom in the Leveraged Buyout Market (LBO) market. By the mid-1990s, non-bank institutional investors started participating in the loan market with the creation of an institutional loan tranche ("TLB"), the introduction of public credit ratings, secondary market trading, mark-to-market valuations and Syndicated loan indices.

The development of an efficient and liquid Syndicated loan market in the US has greatly impacted its capital markets. The syndicated loan market bridges the private and public fixed income markets and provides borrowers with an alternative to high yield bonds and illiquid bilateral commercial bank loans.

The loan market now attracts a diverse group of investors in similar manner to other public debt securities such as high yield and investment grade bonds. Syndicated loans are actively traded in secondary markets with the total size of the syndicated loan market now in excess of $US1 Trillion, with secondary trading volumes in 2015 reaching $591 billion. Given the unique characteristics of syndicated loans, along with the size of the market and growing number of participants, syndicated loans are now an institutionally accepted asset class, and held by many of the world's leading pension and sovereign wealth funds.

The US Syndicated Loan market now consists of more than 1600 individual Loans to companies, many of which are well known brand names such as Callaway Golf, CoreLogic and Virgin media.

Growth of the Institutional Loan Market



Source: Credit Suisse, as at Dec 2021

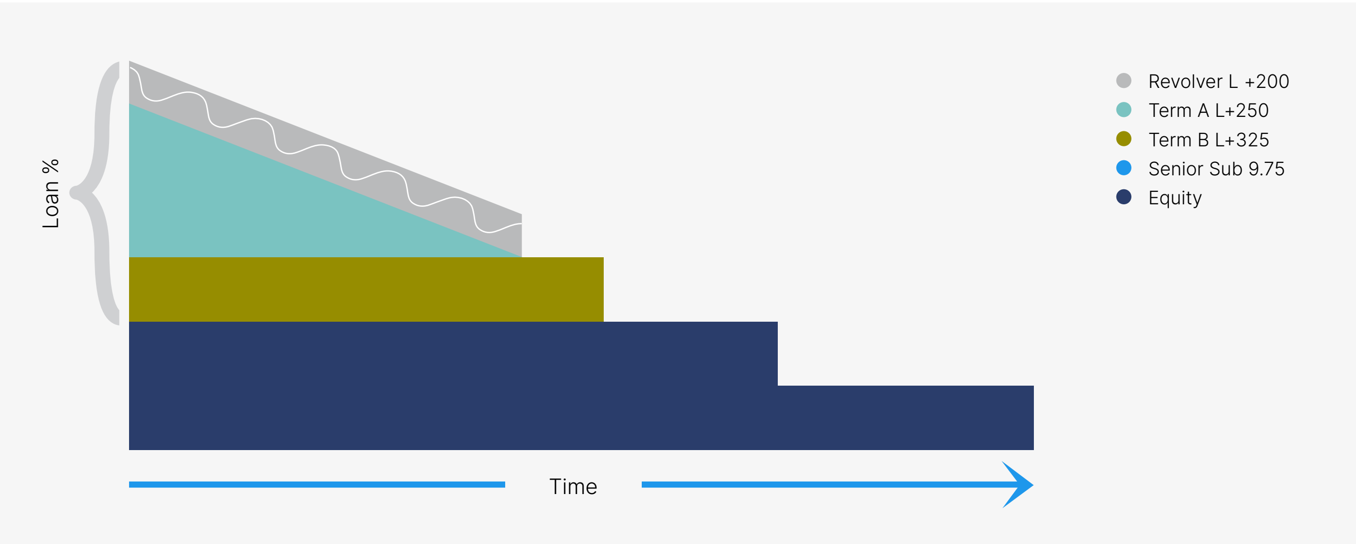
Key Features of Syndicated Loans

Most Syndicated loans possess the following six characteristics:

1. Seniority

Where an instrument ranks in priority of payment is referred to as seniority. Based on this ranking, a borrower will direct payments with the senior most creditors paid first and the most junior equity holders last. Syndicated loans typically sit at the top of the corporate capital structure. Subsequently, borrowers are contractually obligated to make payments (interest and principal) on their "Senior" loans before they make payments to other creditors, including most bondholders.

Attachment point in the capital structure (example)



Illustrative example - Attachment point in the capital structure (example)

$mm	PF LTM	Cumulative Multiple[1]	% of Cap
Revolver[2]	0.0	0.0x	0.0%
Term Loan B	450.0	3.1x	23.3%
Capital Leases & Other Secured Debt	94.0	0.6x	4.9%
Total Senior Secured Debt	**$544.0**	**3.7x**	**28.2%**
Senior Unsecured Notes	250.0	1.7x	13.0%
Total Senior Secured Debt	**$794.0**	**5.4x**	**41.2%**
Cash	(145.0)	(1.0x)	(7.5%)
Net Debt	**$649.5**	**4.4x**	**33.7%**
Market Capitalisation[3]	1,278.5	8.7x	66.3%
Total Capitalisation[4]	**$1,972.50**	**13.2x**	**100.0%**

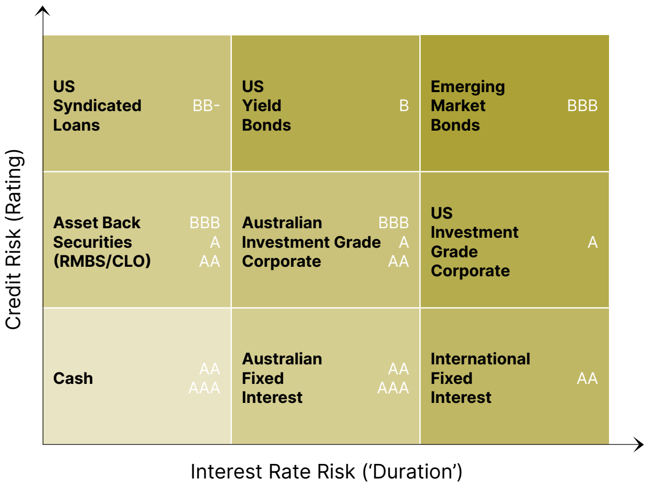
1. PF leverage stats based on 9/30/2014 Adjusted EBITDAMI of $146.2 million
2. $250 million Revolved Credit Facility due 2020
3. Share price as of 3/3/2015
4. Excludes Minority interest of $3.39.1 million as of 12/31/2014

2. Security

Syndicated loans are generally secured by the company's physical assets including cash, property, plant and equipment. The majority of Syndicated loans have a first ranking ("first-lien") priority against these assets in the event of a default. This means that in the event of a bankruptcy, liquidation or restructuring lenders have the right to take-possession of the business or assets in order to maximize their recoveries.

3. Floating Rate Coupon

The coupons for Syndicated loans, unlike most other debt instruments in the US (e.g. high yield bonds) - are floating rate in nature. They pay a spread over a specified benchmark, generally 3-month USD Libor. Accordingly, loans also have low sensitivity to rate movements because their coupons are typically reset every three months. As a result, loans have interest rate duration close to zero and provide investors some protection against rising rates.



Source UBS, Barclays, JP Morgan, Credit Suisse

Libor/bank bill floor

The rate of interest on a floating rate loan such as a Syndicated Loan is typically the sum of 3-month (often 1 month or 6-month) LIBOR and a credit spread, which is intended to represent the lenders' return for taking credit risk on the relevant borrower.

In recent years, short-term lending rates have dropped dramatically. To protect loan investors from the prospect of negative interest rates but also to entice yield based investors away from other asset classes (such as high yield bonds) the floating rate leveraged-loan market has responded to the low interest rate environment by adopting LIBOR floors, the purpose of which is to give leveraged loan investors a guaranteed minimum yield on the loans they invest in no matter how low LIBOR falls or for how long.

For example, a USD loan entered into at the beginning of 2016 with a margin of 5.00 per cent and a LIBOR floor of 1 per cent will pay 6.00 per cent despite the fact that 3 month USD LIBOR currently trades at 0.70.

Note that LIBOR is being replaced by new base rates from 2022 (including SOFR and SONYA).

4. Covenants

Syndicated loans offer lenders potential credit risk protections in the form of maintenance covenants, which require issuers to meet well-defined financial tests every reporting period. Borrowers in violation of these covenants may need to seek an amendment to their credit agreements from investors/lenders and pay fees or increase the fixed credit spread in exchange for investor/lender approval. Typical maintenance covenants are based on total leverage, interest coverage and maximum capital expenditures, and are usually tested quarterly. Incurrence covenants force the borrower to comply with predetermined criteria when the borrowers issue more debt. A breach of any covenant triggers a "technical default" which gives lenders crucial bargaining rights to renegotiate terms and protect their capital when a business is deteriorating.

Cov-Lite loans are loans without maintenance covenants. These loans typically have Incurrence covenants. In Cov-lite loans covenants typical exist in the form of spending restrictions (eg CAPEX) and controls of cash outside of the secured lender group.

5. Callability

The majority of the Syndicated loan market is continuously callable. In recent years, a "soft call" provision, generally at 101, has emerged to protect investors in the event the company wishes to refinance an existing loan with a new loan issuance within a limited time period. This callability puts a relatively low price ceiling on the loan market. While this feature gives Syndicated loans a negative convexity, fees are sometimes associated with these repayments, which can help offset the reinvestment risk.

6. Varying Repayment Profiles

A typical borrower in the Syndicated loan market will have a number of different facilities which rank equally to each other ("pari passu") in payment and security ranking but will have varying repayment profiles to suit the cash flow profile of the underlying business and the various investor types participating in the Syndicated loan market. These facilities typically include revolving credit facilities and amortizing tranches ("Pro-rata") tranches and bullet ("Institutional") tranches.

Table 2: A summary of typical loan structures

Facility Type	Key Features	Typical Investors
Revolving Credit / Letter of Credit Facilities	• Typically undrawn or partially drawn • Can be borrowed and repaid multiple times over the facility's life • Used to support company liquidity and unfunded guarantees	Banks
Amortizing Tranche	• Fully drawn capital • Repays gradually over life of facility according to pre-determined repayment profile	Banks
Bullet ("Institutional") Tranche	• Fully drawn capital • Repays at facility maturity, tenor varies but generally 6-8 years life	Institutional Investors

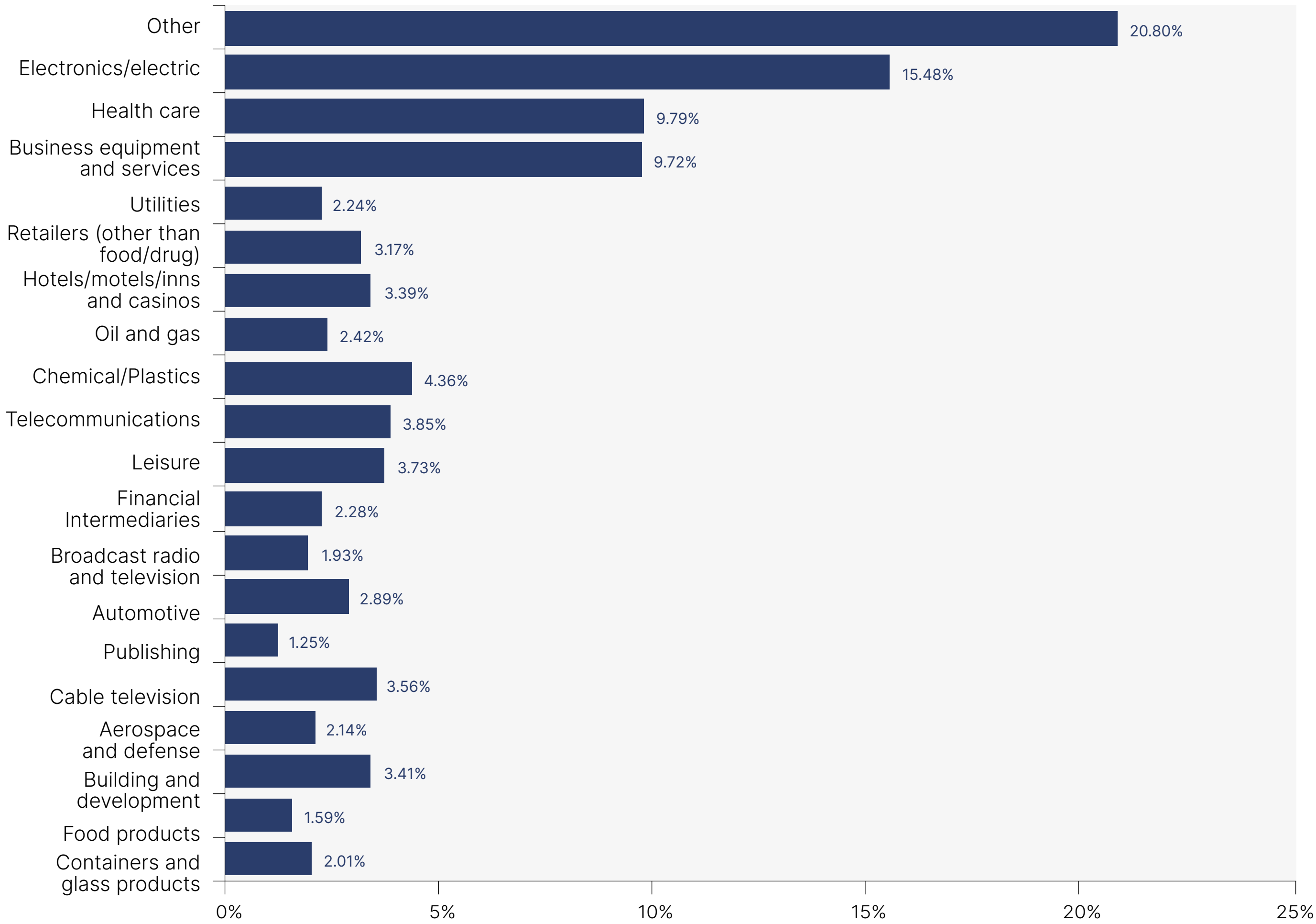
Source: Bentham, S&P LCD quarterly Data

Loan Market

Market Snapshot

The Global Syndicated loan market has a total value in excess of US$1 trillion with a highly diverse range of industries represented. The average Syndicated loan issuer is a large corporate with a external credit rating B. New issue transactions currently have Senior Leverage of 4.39x, Total Leverage of 5.2x and [ ]% contributed equity. New issuance over the 12mths to Sep 2021 total US$679 million.

Par Amount of Outstanding Syndicated Loans – By Industry



Source: Bentham, S&P LCD quarterly Data 24 Sep 2021

Key Participants

The primary participants in the loan market are banks and institutional investors.

Bank participants in the loan market include commercial banks, savings and loan institutions, securities' firms and investment banks. Banks typically provide the undrawn facilities (revolving credit facilities, letters of credit) and amortizing term loans under a syndicated loan agreement ("Pro Rata tranches"). While historically large participants in the loan market, banks only accounted for 13.8 percent of 2020 primarily volume in the loan market.

Institutional investor involvement in the loan market is very diverse and comprises investors with varying return, risk and liquidity profiles. Institutional investors primarily invest in the "Institutional Tranches" or Term Loan B structures in the market. There are four primary types of institutional investors: Collateralized Loan Obligations, Loan Mutual Funds, Insurance/Finance companies and Other Institutional Investors (Including High Yield Mutual Funds and Credit Hedge Funds). Institutional investors accounted for 86.2 percent of 2020 primarily volume in the loan market.

Table 3: The Syndicated Loan Institutional Investor Base

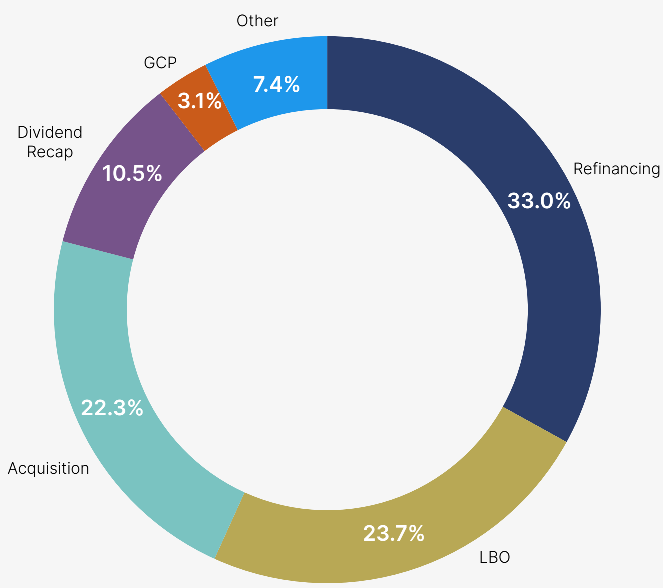
Investor Type	Summary Description	2021 Share of Primary Loan Demand
Collateralized Loan Obligations	• Special Purpose vehicle designed to manage pools of Syndicated loans • Financed by separate tranches of debt with public ratings from "AAA" to "B", as well as equity	73.8%
Loan Mutual Funds	• Open ended mutual funds focused on the loan market • Generally benchmarked to Syndicated loan indices	14%
Other Institutional Credit Investors	• Include High Yield Mutual Funds, Credit and Multi-strategy Hedge Funds • Various strategies with different return, risk and liquidity characteristics	5.9%
Insurance & Finance Companies	• Diverse mandates but more focus on asset backed and unrated tranches due to regulatory capital models	6.4%

Source: Bentham, S&P LCD quarterly Data Q1 Sep 2021

Sources of Loan Supply

Syndicated loan new issues are primarily driven by the corporate activity of sub-investment grade companies including mergers, acquisitions, special dividends and capital expenditures. Historically Syndicated buyout and M&A activity has been the primary source of new Syndicated loan deals.

New Issue Volumes by Purpose (YTD Sep 2021)

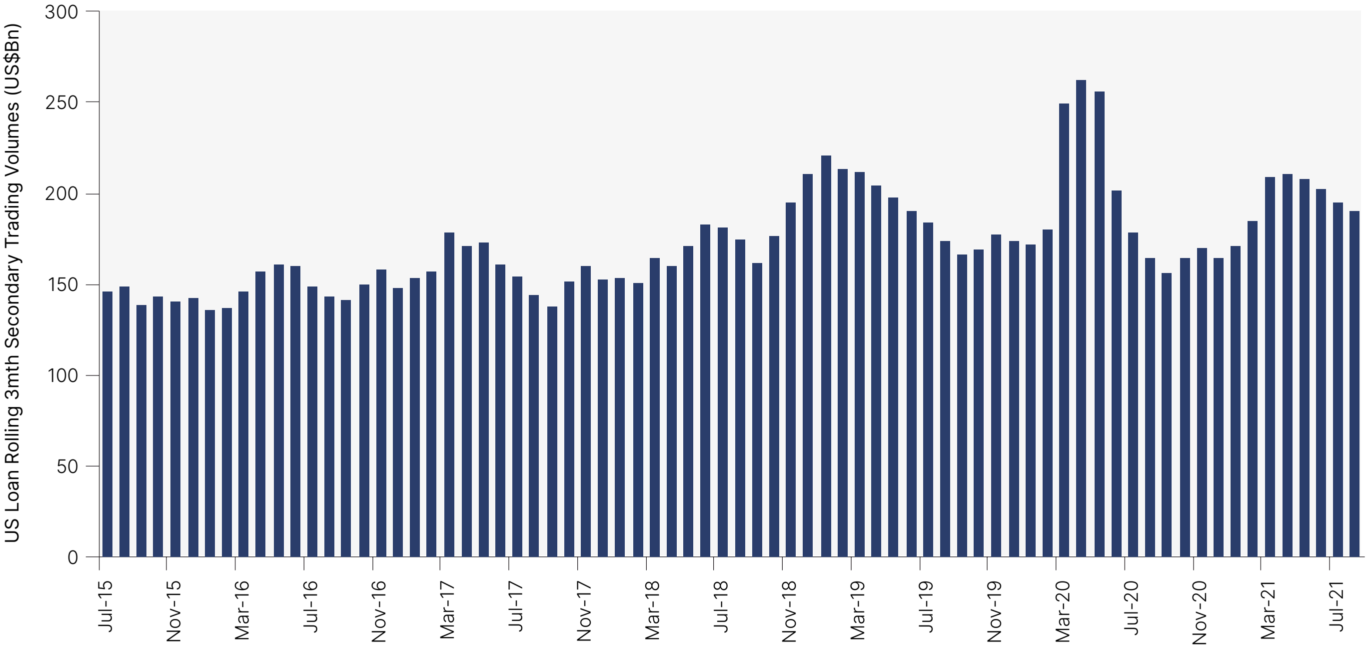


Source: S&P LCD quarterly Data Q3 Sep 2021

Secondary Market Liquidity and Trading

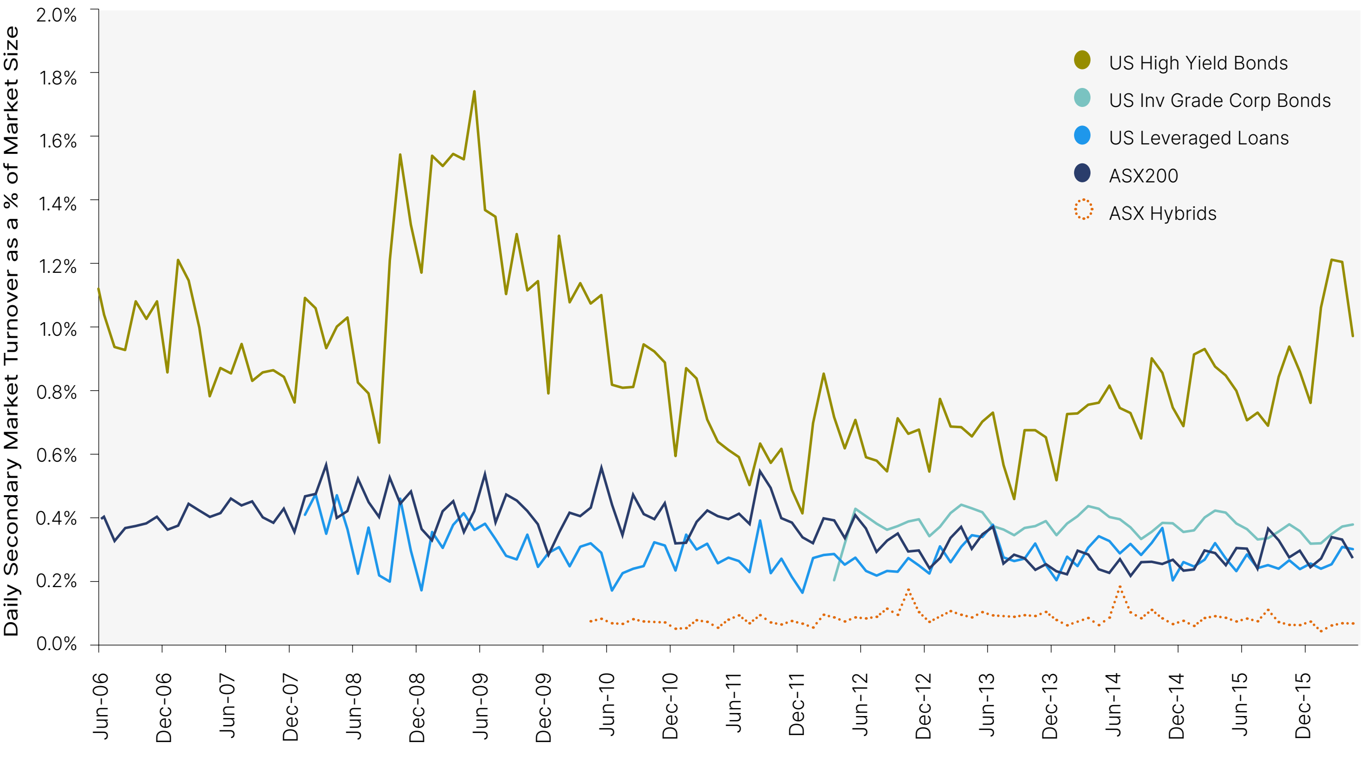
The loan market has an actively traded secondary market with secondary trading volumes for the 12mths to Aug 2021 reaching $754 billion (or c.60% of total loans outstanding). Typically secondary trading volumes increase during periods of volatility.

Loans Secondary Trading Volume



Source: LSTA, as at Aug 2021

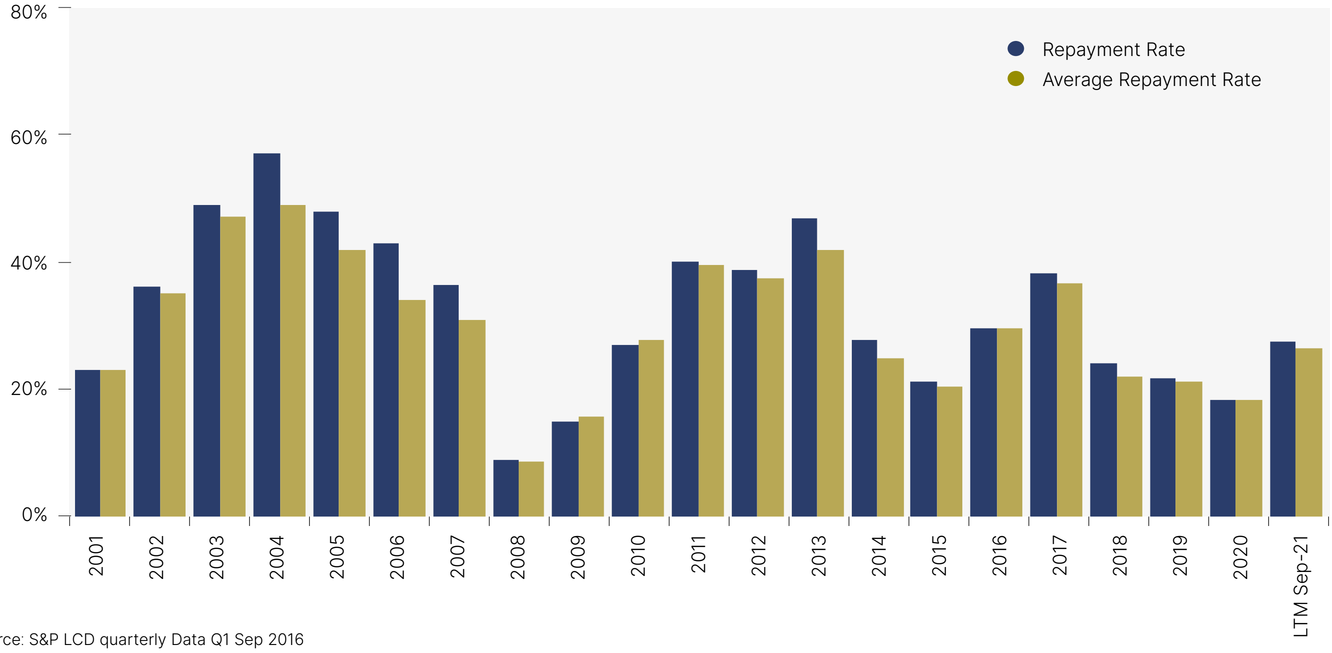
Loans Secondary Trading Volume



Source: Bentham, Bloomberg and S&P LCD.

Aside from secondary market liquidity, loans have an in-built liquidity mechanism given they are fixed maturity instruments. On average, greater than 20% of the loan market repays every year.

Repayment Rates by Year

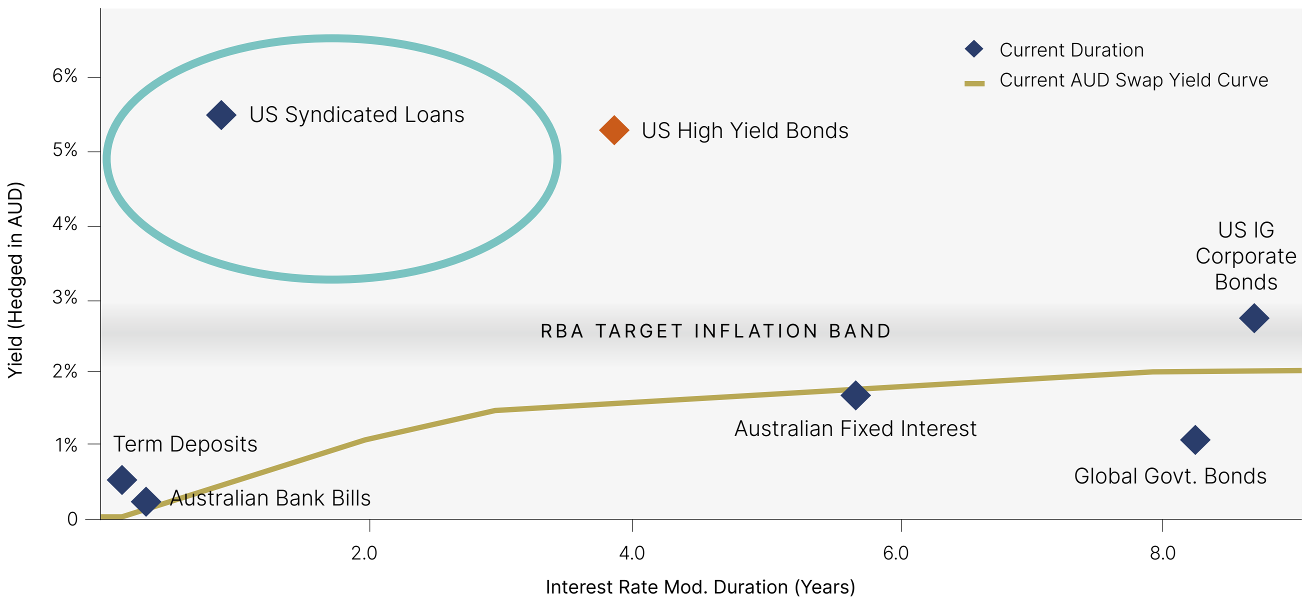


Source: S&P LCD quarterly Data Q1 Sep 2016

Syndicated Loans in a Portfolio

High Credit Spreads and Floating Rate Coupons

Syndicated loans offer high credit spreads relative to investment grade and other fixed income and comparable credit spreads to high yield bonds. As a floating rate instruments, syndicated loans are also insulated from rising rates, unlike the majority of other fixed income instruments which carry more interest rate risk (see chart below).

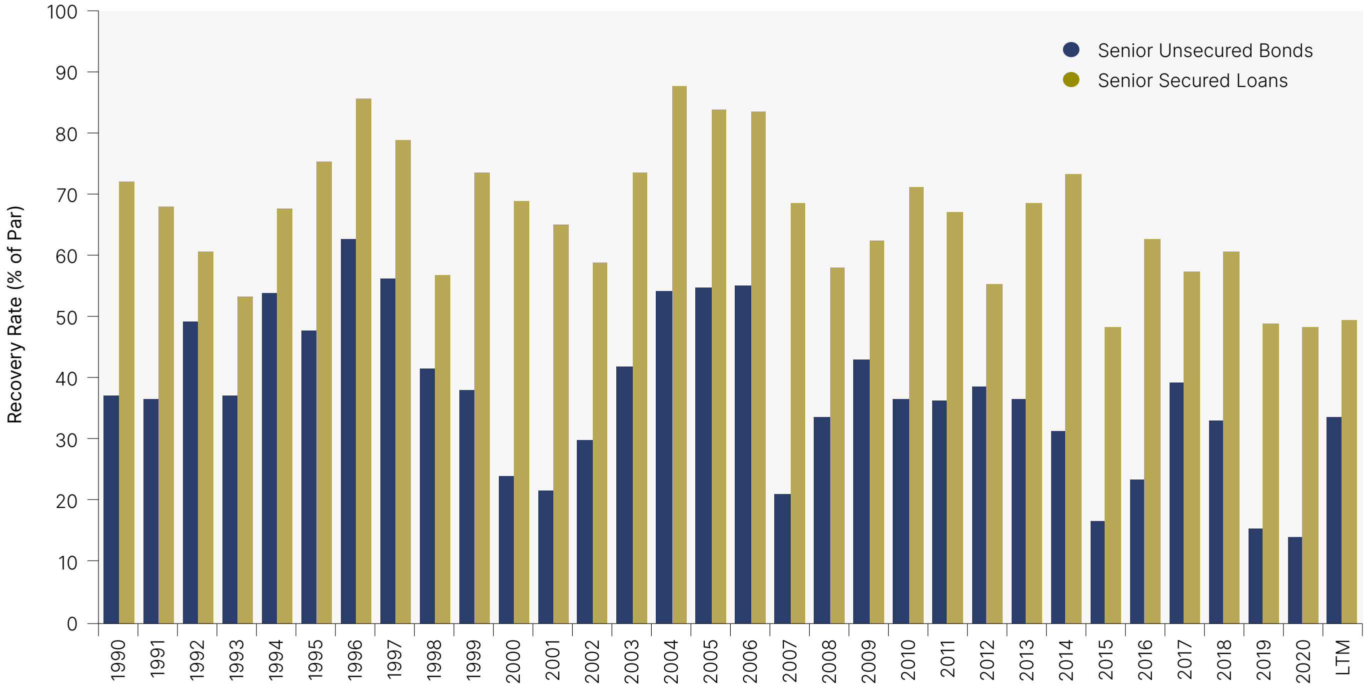


^ Global credit yields are hedged into AUD assuming a duration matched interest rate differential
* Syndicated Loans are floating rate, but libor floors currently add IR duration with high convexity

Source: Barclays Capital, Bentham, Bloomberg, JP Morgan (EMBI+) and UBS

Downside Protection

Given syndicated loans are senior secured, they typically fare better than other corporate debt instruments in the event of default. Therefore, in a bull market, Syndicated loans can perform well as underlying corporate fundamentals improve. In a bear market, the first-lien on assets provides a natural floor to loan prices. The table below outlines historical recovery rates for syndicated loans relative to other sub-investment grade credit instruments.



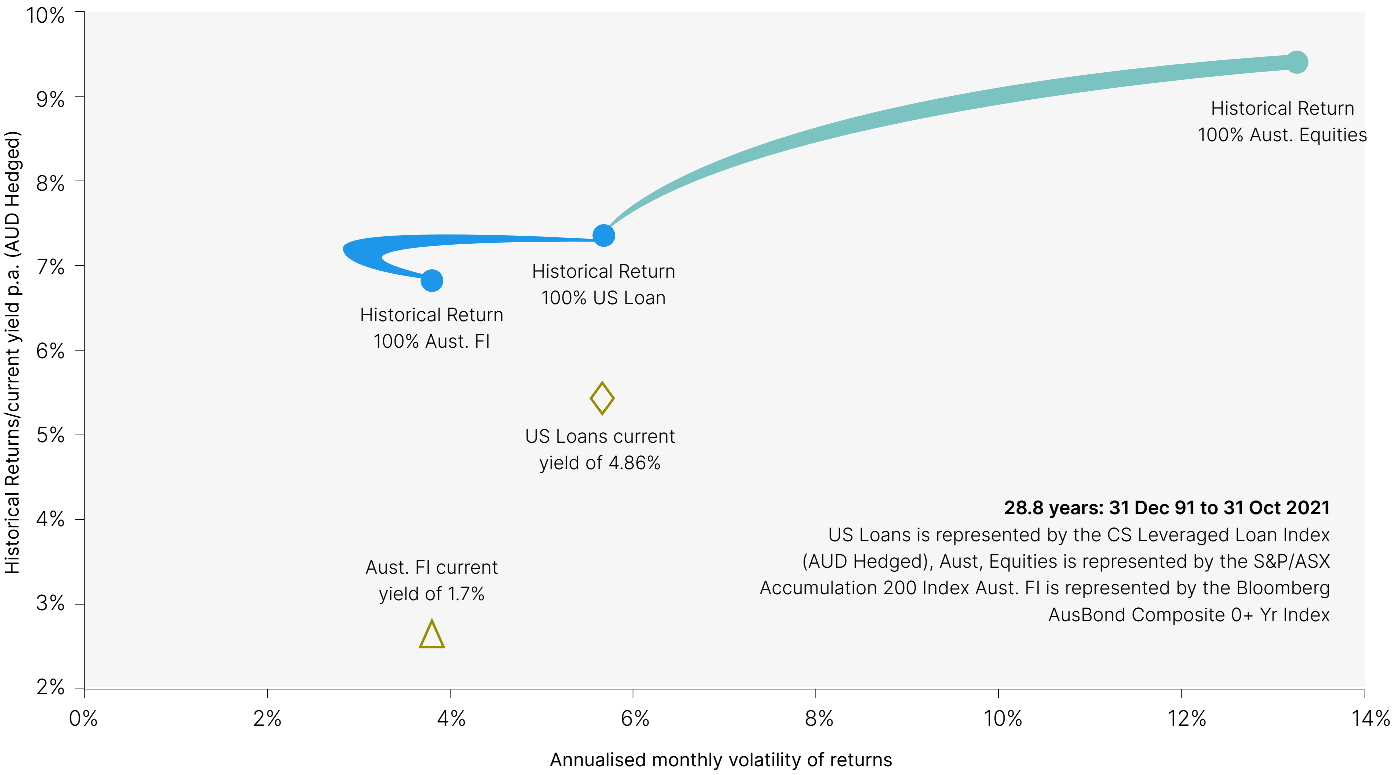
Source: JP Morgan As at Sep 2021

Diversification

Syndicated loans can reduce overall risk when added to portfolios of Government bonds and equities. Investors can lower overall volatility, and improve returns per unit of risk by allocating a percentage of their portfolios to Syndicated loans.

The table below shows trade-off scenarios between adding Syndicated loans to a portfolio of equities and government bonds. Clearly, adding Syndicated loans to a portfolio of equities can significantly reduce volatility, with only a small decrease in overall returns. Adding Syndicated Loans to a portfolio of Government bonds can improve overall returns with only a moderate increase in volatility.

Importantly, forward looking asset class return profiles are likely to differ from the past. Government bond yields are low when compared with history despite a higher inflation risk. Share market valuations seem reasonable when compared with history but growth drivers such as cheap leverage and high commodity prices may be absent going forward; credit market yields are currently much higher than historical levels.



Source: Bentham, Bloomberg

In addition, correlations between Syndicated loans and most other asset classes over the period from 1992 through October 2021 have been relatively low or negative. In practice, this means that Syndicated loans have the potential to provide additional diversification to an investor's portfolio and to reduce overall portfolio volatility.

Appendix

Glossary

Cash Sweep – A Cash sweep, or Debt sweep, is the mandatory use of excess free cash flows to pay down outstanding debt rather than distribute it to shareholders. Firms always have the option to pay down debt with excess cash, but they do not always choose to do so. This can lead to firms burning their cash reserves and putting them into worse situations in the future. A cash sweep forces the firm to pay at least a portion of all excess cash flows a year to pay down its debt at a quicker rate to minimize credit risk and liability.

Covenant – A clause in a contract that requires one party to do, or refrain from doing, certain things. Often, a restriction on a borrower imposed by a lender (also called restrictive covenant).

Covenant-Lite – A Syndicated loan with no maintenance tests/covenants to protect the lender.

Credit Rating - A published ranking, based on detailed financial analysis by a credit bureau, of one's financial history, specifically as it relates to one's ability to meet debt obligations. The highest rating is usually AAA, and the lowest is D. Lenders use this information to decide whether to approve a loan.

Derivative – A financial instrument whose characteristics and value depend upon the characteristics and value of an underlier, typically a commodity, bond, equity or currency. Examples of derivatives include futures and options. Advanced investors sometimes purchase or sell derivatives to manage the risk associated with the underlying security, to protect against fluctuations in value, or to profit from periods of inactivity or decline. These techniques can be quite complicated and quite risky.

Incurrence Test – Protects the lender by disallowing additional debt from being incurred unless specific covenants are met.

Maintenance Test – Protects the lender by insuring that covenants must be met on multiple test dates and not only when new debt is issued.

Second Lien – Syndicated loan with subordinated claim on assets in the event of a default. This claim comes before unsecured debt holders.

Market Flex – A provision in bank loan financing fee letters that permits the agent banks to change the amount, pricing, structure, yield, tenor, conditions and other terms of the financing if necessary to successfully syndicate the loans. This flexibility is referred to as the "flex language" or "market flex provision."

LIBOR floors – As the name implies, LIBOR floors put a floor under the base rate for loans. If a loan has a 3% LIBOR floor and LIBOR falls below this level, the base rate for any resets default to 3%.

Credit derivative – A contract between two parties that allows for the use of a derivative instrument to transfer credit risk from one party to another. The party transferring risk away has to pay a fee to the party that will take the risk.

Staple financing – Staple financing is a financing agreement "stapled on" to an acquisition, typically by the M&A advisor. So, if a private equity firm is working with an investment bank to acquire a property, that bank, or a group of banks, may provide a staple financing to ensure that the firm has the ability to complete the deal.

Market-clearing level – As this phrase implies, the price or spread at which a deal clears the primary market.

Disintermediation – Disintermediation refers to the process where banks are replaced (or disintermediated) by institutional investors. This is the process that the loan market has been undergoing for the past 20 years. Another example is the mortgage market where the primary capital providers have evolved from banks and savings and loan institutions to conduits structured by Fannie Mae, Freddie Mac, and the other mortgage securitization shops. Of course, the list of disintermediated markets is long and growing.

Loss given default – This is simply a measure of how much creditors lose when an issuer defaults. The loss will vary depending on creditor class and the enterprise value of the business when it defaults. All things being equal, secured creditors will lose less than unsecured creditors. Likewise, senior creditors will lose less than subordinated creditors.

Recovery – Recovery is the opposite of loss given default—it is the amount a creditor recovers, rather than loses, in a given default.

Rich/cheap – This is terminology imported from the bond market to the loan market. If you refer to a loan as rich, it means it is trading at a spread that is low compared with other similarly rated loans in the same sector.

Distressed loans – In the loan market, loans traded at less than 80 cents on the dollar are usually considered distressed. In the bond market, the common definition is a spread of 1,000 bps or more. For loans, however, calculating spreads is an elusive art (see above) and therefore a more pedestrian price measure is used.

Default rate – Calculated by either number of loans or principal amount. The formula is similar. For default rate by number of loans: the number of loans that default over a given 12-month period divided by the number of loans outstanding at the beginning of that period. For default rate by principal amount: the amount of loans that default over a 12-month period divided by the total amount outstanding at the beginning of the period.

Standard & Poor's defines a default for the purposes of calculating default rates as a loan that is either (1) rated 'D' by Standard & Poor's, (2) to an issuer that has filed for bankruptcy, or (3) in payment default on interest or principal.

BENTHAM
ASSET MANAGEMENT

Fidante Partners

Fidante Partners Services Limited is the responsible entity of the Fund and issues units in it. Fidante Partners has appointed Bentham Asset Management Pty Limited as the Fund's investment manager. A related entity of Fidante Partners holds a partial equity stake in Bentham.

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Bentham Industry Awards

2019 Winner Best Income Fund
2016 Winner Best Income Fund
2015 Winner Best Income Fund

2018 Finalist Fixed Interest
2017 Finalist Fixed Interest
2014 Winner Fixed Interest category
2010 Winner Fixed Interest category

2018 Finalist Global and Diversified Fixed Interest
2015 Finalist Global and Diversified Fixed Interest
2014 Finalist Global and Diversified Fixed Interest
2013 Finalist Global and Diversified Fixed Interest

2019 Winner High Yield Bonds
2018 Winner High Yield Bonds

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