

Partners Fund Report

November 2021

Fund Details

Strategy

Senior secured loans against hard assets in the Commercial Real Estate, Agriculture, and Infrastructure Sectors.

General Loan Duration

12-30 months

Typical Loan Structure

Senior secured debt

Typical Loan Size

\$5M - \$250M

Fund Size

\$791M (Excluding distribution of 4%)

Merricks Capital Co-investment

Co-invest on all loans

Minimum Investment

AUD \$500,000
 USD \$250,000

Auditor

EY

Administrator

Citco Fund Services

Contact

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CHIEF EXECUTIVE OFFICER

“Merricks Capital’s private credit investment strategies adapt with market conditions with the agility to move between asset classes and across cycles. Our proprietary investment platform creates innovative portfolio construction and investment structures. Combined with our specialist trading capabilities we provide investors with access to unique and diverse opportunities across Australia & New Zealand.”

A Hard Asset Investment Specialist

Our mission, in partnership with our investors, is to continue to deliver consistent returns by providing innovative capital solutions across agriculture, commercial real estate and infrastructure.

Fund Performance

Net Fund Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Net Annual Return
2017	0.5%	0.5%	0.7%	0.8%	1.5%	0.9%	0.8%	0.9%	0.9%	0.8%	1.1%	2.2%	12.4%
2018	0.6%	0.5%	0.7%	0.8%	1.0%	0.9%	1.1%	1.2%	0.9%	1.0%	1.1%	1.0%	11.4%
2019	1.0%	1.5%	0.9%	0.8%	0.9%	0.8%	0.9%	0.8%	0.5%	0.4%	0.9%	2.6%	12.6%
2020	0.8%	1.0%	2.2%	-0.6%	0.2%	0.3%	0.5%	0.8%	0.7%	0.6%	0.7%	0.6%	8.1%
2021	0.8%	0.6%	0.6%	0.7%	0.7%	0.8%	0.6%	0.7%	0.6%	0.7%	0.6%		

Total Net Fund Returns (%)

1 Month	0.6%	* Past performance is not a reliable indicator of future performance.
6 Month	4.0%	** Total net fund returns are based on general class units and are calculated after the deduction of all fees and expenses.
1 Year	8.2%	*** Individual investor circumstances may vary and as such your fund returns may differ from the net fund returns quoted.
Since inception (Annualised)	10.5%	

Market Review

Australia’s residential pricing has reached record highs, with continued growth across almost all markets. The national median house price had risen 18.4% over the year to June with the national median unit price up 8.6% according to CBRE.

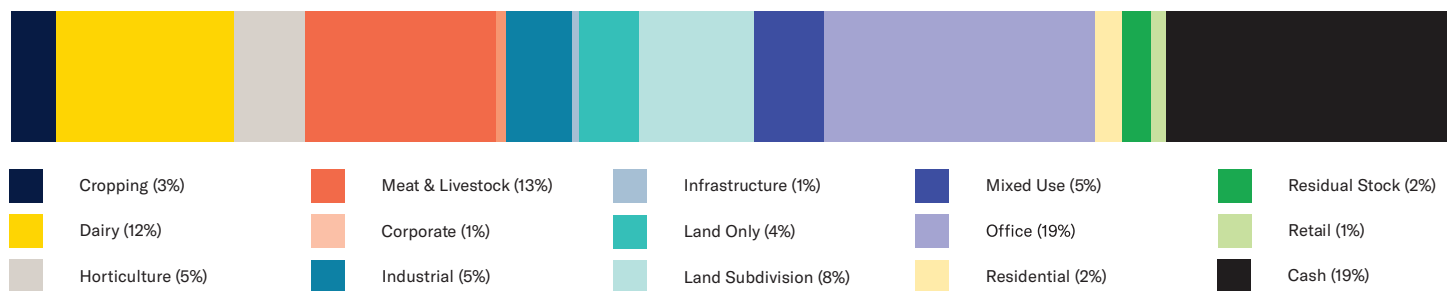
We continue to focus on office opportunities in Sydney and Auckland. National office demand remained strong over the quarter with five of the six CBD office markets recording positive net absorption despite the extended lockdowns in NSW, Vic, and the ACT over Q3-21 according to JLL (JLL Office Market Overview Q3 2021). The national CBD vacancy rate remained broadly unchanged over the quarter (14.1%) as uncommitted space in new office completions as well as backfill vacancy offset positive net absorption. Office and industrial sales lead the New Zealand market, the top three largest sales above NZ\$100 million were office assets, with activity in vacant land/development sites showing a lift in sales volumes.

In Australia, November 2021 was the wettest month in 122 years with rainfall 124% above the monthly average according to the Bureau of Meteorology. Widespread rain across pastoral production regions was enjoyed by livestock producers. Cattle prices increased in response to the climatic conditions driven by La Niña with the Eastern Young Cattle Indicator reaching a new record high of 1,102 cents per kilogram carcass weight above the five-year average of 659 cents per kilogram. We are cognisant that these macro tailwinds could ease over a two-to-three-year horizon, so we have entered beef and cropping opportunities at a lower LVR to the rest of the portfolio. As at the date of this report, the average portfolio LVR for a beef or cropping loan is 54%, compared to the overall portfolio average of 57%.

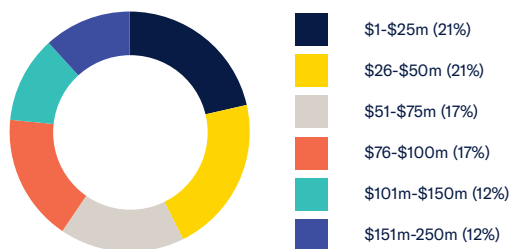
In New Zealand, Fonterra lifted its milk payment for this season to the highest in 20 years. The company is now expecting to pay its farm suppliers between \$8.40 and \$9.00 NZD per kilogram of milk solids. According to NZStat, increases in the value of raw milk and dairy products have been a key factor driving the producer price to increase more in the year to September 2021 than in any other year for the past decade. With limited competition in the New Zealand market for alternate debt funding, the fund’s investment allocation to NZ dairy is expected to increase in 2022. Dairy also remains one of the fund’s best performing investment classes returning a +12% investor IRR (net of fees and costs) in 2021.

In Australian horticulture, the ABARES September quarter market analysis identified that retail prices for fruit and vegetables increased beyond the levels typically seen at that time of year. Key factors which influence retail prices are lower-than-usual supply and/or increased costs of labour, fertilizer and other inputs being passed through to consumers. Given horticultural farm output levels have remained stable, the increase in retail prices demonstrates the inflationary pressures across all supply chains. We are actively seeking capital investments in fruit and vegetable opportunities, due to favourable investment metrics such as land and water comprising a high percentage of our security assets.

Investment Sub Strategy



Loan Size



Portfolio Characteristics

Duration (average)	24 Months
LVR (weighted average)	58%
Number of Loans	45

Portfolio Commentary

In November, the Partners Fund returned 0.6% and 10.5% on an annualised basis since its inception.

Capital deployment has improved with the financial close of an \$82m loan facility during the month, 75% of which was funded by the Partners Fund. This loan is to a diversified agribusiness in the Riverina region of NSW with operations across irrigated and dryland cropping, livestock grazing and a large cattle feedlot. The 24-month loan will allow the borrower to significantly increase capacity in the feedlot and expand their existing branded beef business.

Steps were taken this month to restructure two existing agricultural loans to capture investment opportunities that have arisen since funding these businesses.

In the commercial real estate sector, one loan of \$47m was repaid in full and no new commercial real estate loans were added to the portfolio.

There are currently eleven loans in due diligence, with seven of these expected to settle in December resulting in the deployment of a further \$265m of capital. The investment outlook for 2022 remains positive for the Merricks Capital Partners Fund with \$800m+ of term sheets issued across all sectors.

We continue to maintain a balanced portfolio approach by targeting new investments into a spread of key geographic regions and industry sectors.

Top Five Loans

Location	LVR (00%)	Term (months)	Description
Sydney, NSW	58%	35	Mixed use scheme incorporating a residential tower with a 5-star hotel, residential high-end units and retail. The tower will comprise 122 rooms up to level 10 then 131 units starting at level 11 up to level 36.
Melbourne, VIC	68%	24	Commercial office building comprising 24,000sqm over 24 levels, along with a small retail offering and 134 car spaces.
Sydney, NSW	70%	21	First mortgage construction loan for the redevelopment of 32-36 York St. Sydney CBD, a boutique A grade mixed use office building comprising 7,772 sqm of office space and 594 sqm of retail space.
Auckland, NZ	66%	34	A first mortgage construction loan for the development of a 225-room hotel and 30 high end residential apartments in Auckland, New Zealand.
Auckland, NZ	59%	36	Refurbishment of an existing 10 level A grade commercial office building comprising 10,330 sqm

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Years experience
Established in 2007

MANAGED OVER
\$7 Billion
in global investment
opportunities

TRADED IN EXCESS OF
\$250 Billion
of securities and commodities



Agriculture



Commercial
Real Estate



Infrastructure