

PRESS RELEASE

Sydney, 14th March 2024 – Foresight Analytics & Ratings Assigns **VERY STRONG** Investment Rating to Finexia Childcare Income Fund

Foresight Analytics & Ratings has recently completed a rating assessment of the **Finexia Childcare Income Fund** ('the Fund').

The fund has been assigned a **VERY STRONG** rating reflecting Foresight Analytics & Ratings' very strong level of confidence that the Fund can deliver a risk-adjusted return in line with its investment objectives at this stage of the growth of online lending in Australia.

The Foresight Product Complexity Indicator for this fund is **COMPLEX**, which indicates that the investment has a degree of illiquidity, as per all private debt investments.

The **Finexia Childcare Income Fund** is a specialist lender to established Australian Childcare operators. Its lending activities are designed to address the gap in the bank market for providing funding for childcare and early learning centre operators to acquire, open and trade-up centres across Australia. The **Childcare Income Fund** was established in 2021 and launched in October 2022 by the ASX-listed financial services company **Finexia Financial Group Limited** ('Finexia'). The Fund is managed by the wholly-owned subsidiary, **Creative Capital Group Pty Ltd**, a specialist private credit manager acquired by Finexia in 2020, and which is responsible for the management, loan origination, credit assessment and underwriting activities for the Fund.

The Fund's lends are secured principally by the leasehold titles of the childcare operators instead of the freehold titles of childcare property owners. Where an operator owns the freehold, a mortgage over the freehold interest is taken. The LVR on any given loan is almost invariably set at 65% and an amount that is inclusive of interest paid in advance for the full term of the loan. Once a borrower achieves a cashflow positive position, the loan is serviced on an interest-only basis, with principal paid back at the maturity date (and through refinancing by a 3rd-party lender).

Due to the Manager's investment process and careful curation of eligible borrowers, Foresight views these loans as highly attractive with particularly low repayment risk given the high operating yields well-placed and managed childcare centres have consistently generated (EBIT yields of circa 25% to 30%).

Additionally, in paying out the target return to investors and which is fixed at a specified rate above the RBA Cash Rate, the Manager effectively implements a quasi-first-loss equity note structure akin to that which exists in securitised notes. Should there be a shortfall in the borrower's repayments, the Manager is at risk, rather than investors.

Foresight views the Finexia Childcare Income Fund favourably in two key respects:

(1) investment manager's investment processes that contribute to this quality, specifically exceptionally low arrears, default, and loss-given-default characteristics. In short, the current 10.64% annualised monthly return (as at 31 December 2023) presents a compelling risk-return proposition for investors.

(2) the Finexia Childcare Income Fund provides a niche form of non-bank lending in a segment that is characterised by strong tailwinds and attractive structural characteristics for a non-bank lender. It is also a segment where the targeted borrowers have business models that have little exposure to the economic cycle. As such, this segment is materially different to the larger Australian private debt landscape. In short, we believe the fund may serve as a strong source of portfolio diversification within a broader private debt portfolio.

Furthermore, pure-play niche private debt investment vehicles are currently very limited in Australia. We view the Finexia Childcare Income Fund as a welcome addition to the Australian private debt landscape in a segment (non-bank specialty finance) we believe has a bright future."

About Foresight Analytics and Ratings' Investment Due Diligence Rating (IDD Rating)

The objective of Foresight Analytics and Ratings' Investment Due Diligence Rating (IDD Rating) is to identify the best funds and opportunities for future investment. We assess the fund's historical risk-adjusted performance - compared to its peers - to form a holistic view of the manager's ability to deliver future returns. The IDD rating indicates the quality of the investment option within the context of a diversified portfolio and full investment cycle.

Foresight's analysts use a 5-point scale to determine how the fund will perform against a range of risk factors.

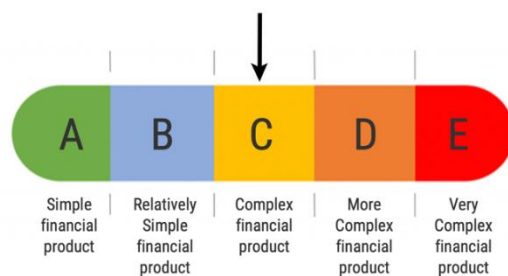
- SUPERIOR indicates the highest level of confidence that the fund can deliver a risk-adjusted return in line with its investment objectives and that it is highly suitable for inclusion on APLs.
- VERY STRONG indicates a very strong conviction that the fund can deliver a risk-adjusted return in line with its investment objectives and that it is suitable for inclusion on most APLs.
- STRONG indicates a strong likelihood that the fund can deliver a risk-adjusted return in line with its investment objectives and that it is suitable for inclusion on most APLs.
- COMPETENT indicates the fund may deliver a risk-adjusted return in line with its relevant benchmark and that it may be suitable for APLs.
- WEAK indicates the fund is unlikely to deliver a risk-adjusted return in line with its investment objective and that it is not suitable for most APLs.

A 'Hold' designation is applied to a fund's rating if a material change impacts the fund manager, and we need to review the rating.

A 'Sell' designation indicates the Foresight Investment Ratings Committee considers risk factors to be elevated enough that maintaining an investment in the fund as part of their diversified portfolio is questionable.

Foresight Complexity Indicator

A Foresight Complexity Indicator (FCI) highlights the complexity of an investment product based on a range of indicators. These typically include its terms and conditions, performance-based fees, liquidity structure, financial leverage, use of derivatives, rare and niche asset class/opportunity set, currency exposure and the level of transparency offered for investors. Foresight believes these factors can disproportionately affect risk-adjusted return outcomes for investors even if a manager is very skilled. Investors can use FCI as a guide to portfolio position sizing within a diversified portfolio context.



The full research report is available for subscribers on the Foresight 360 Digital platform. The platform can be accessed via [Register | Sign In - Foresight Analytics \(foresight-analytics.com\)](#)

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About Foresight Analytics and Ratings

Foresight Analytics, an independent Sydney based firm, provides investment diligence, data analytics, assurance and advisory solutions to leading investment management companies, superannuation funds and wealth groups across the Asia Pacific. Foresight's innovative, evidence-based approach blends both human and forensic insights to provide a range of analytical, predictive and market intelligence solutions to investors. Foresight Analytics was founded in 2015 by Jay Kumar, a former executive of Morningstar, Optimix Investment Management, ANZ Wealth & Private Bank and the Reserve Bank of Fiji.

Foresight's fiduciary solutions includes Research Ratings (Investment, Operational, ESG & Risk), Data Analytics and Advisory. Foresight's fund strategy solutions include Capability and Process Assurance, bespoke Data Analytics and Strategic Foresight Analysis.

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