

# Rixon Income Fund

SME Private Credit Strategy | Introduction



## What does the Rixon Income Fund do?

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Regulatory changes and political pressure has seen banks withdraw from the SME sector.

The proliferation of private credit funds in the corporate lending space has focused on cheque sizes of >\$15m.

<\$15m cheques are too small for large institutional lenders.

Borrowers seeking relatively smaller debt quantum are compelled to partner with strategic investors that seek dilutionary equity warrants.

The Rixon Income Fund focuses on this underbanked niche. The Fund offers borrowers an institutional and non-dilutionary funding solution in return for priority ranking, asset backing, and a higher interest rate.

This enables the Rixon Income Fund to deliver an exceptional risk-reward proposition for its investors by extracting a *scarcity premium* from borrowers.

## Political & regulatory pressure saw banks withdraw from SME lending

- The 2017 Hayne Royal Commission and APRA regulatory capital thresholds drove banks out of SME lending
- This was the catalyst for the emergence of the Australian private credit sector
- However, new market entrants in the corporate lending space sought to build scale by writing large loans

**“Banks have become more risk-averse, preferring mortgages to business loans.”**

*“New prudential regulations have made business lending more costly.”*

*“Cost cutting has killed relationship banking; local bank managers no longer have the skills or the authority to assess and write small business loans.”*

**SME Lending Transformation**

***Productivity Commission (11 October 2021)***

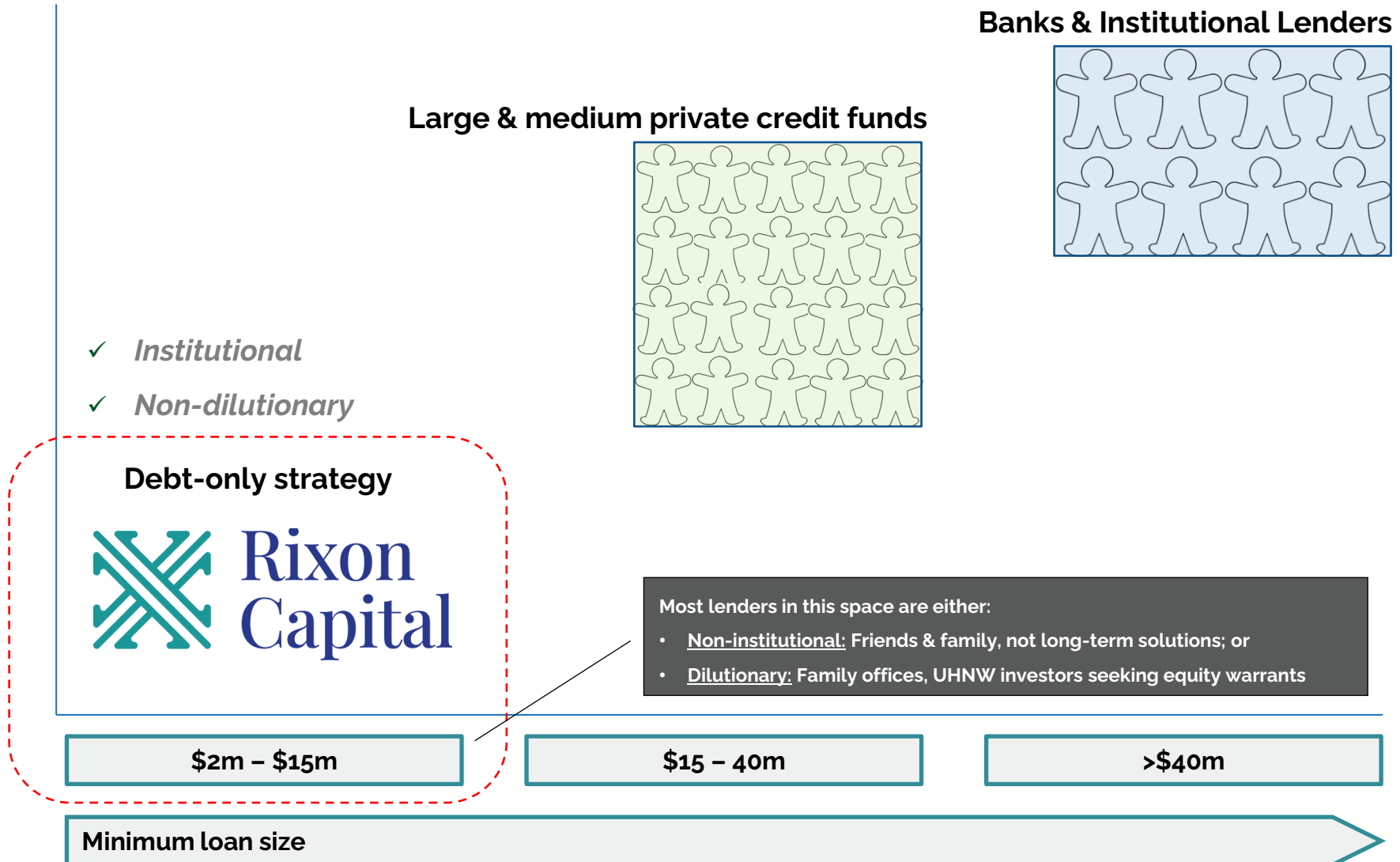
**“There is a gap left by banks, which have been more heavily regulated since the Global Financial Crisis and are focused on lower-risk credits.”**

*A third of all private fund managers believe banks will be less or significantly less important as debt lenders over the next five years, compared to a quarter that expect them to be more important.”*

**The Future of Alternatives 2025**

***Preqin (December 2020)***

Borrowers seeking sub-\$15m loans are underbanked, enabling Rixon to be a price-maker, not a price-taker



Rixon has a clearly defined lending mandate with a focus on capital protection and regular monthly income

**First ranking**

**First in line, right to take control**

**Real asset security**

**Realisable asset in downside**

**Monthly cash interest**

**Keeps borrowers in check, issues quickly identified**

**Pure debt**

**No equity warrants, no distractions**

This defined mandate ensures lending is highly selective, with ~5% of originated loans progressing to funding

Over 300 potential loans reflecting \$2bn in lending opportunities have been reviewed since inception

**Originated**  
**\$2,338m (335)**

**Reviewed**  
**\$763m (85)**







**Due Diligence**  
**\$212m (20)**

17 loans representing \$199m in facility limits executed since inception → a 5% conversion ratio

**Completed**  
**\$199m (17)**

**Funded**  
**\$110m (17)**

A formal, established, and proven credit assessment policy ensures potential loans are appropriately vetted

Initial review	Indicative Term Sheet	Due Diligence	Documentation	Completed & Funded	Ongoing Monitoring
 <ul style="list-style-type: none"> <li>Financial &amp; operating history</li> <li>Business and revenue model</li> <li>Assets available for security, including personal assets</li> <li>Management team credentials</li> <li>Equifax credit score of SME and principals</li> <li>Initial briefing of Investment Committee</li> </ul>	 <ul style="list-style-type: none"> <li>Issued listing key terms, including but not limited to:                             <ul style="list-style-type: none"> <li>Interest rate &amp; fees</li> <li>Loan size</li> <li>Loan term</li> <li>Financial covenants</li> <li>Borrower undertakings</li> <li>Key conditions</li> </ul> </li> </ul>	 <ul style="list-style-type: none"> <li>Review of financials</li> <li>Review / build of financial model</li> <li>Review of contracts &amp; agreements</li> <li>Management meeting(s)</li> <li>Engagement of advisors (as required) for:                             <ul style="list-style-type: none"> <li>Legal diligence</li> <li>Financial review</li> <li>Industry review</li> <li>Valuation</li> </ul> </li> </ul>	 <ul style="list-style-type: none"> <li>Signed off reports (as required) from:                             <ul style="list-style-type: none"> <li>Legal counsel</li> <li>Accountant</li> <li>Industry expert</li> <li>Valuer</li> </ul> </li> <li>Credit Paper prepared by Fund investment team</li> <li>Credit Paper and supporting documents presented to Investment Committee</li> <li>Unanimous Investment Committee approval required</li> <li>Finalised terms agreed with borrower</li> <li>Execution of transaction documents</li> </ul>	 <ul style="list-style-type: none"> <li>Funding released upon confirming:                             <ul style="list-style-type: none"> <li>Completion of satisfactory due diligence</li> <li>All security agreements are in place</li> <li>All documents are property executed</li> </ul> </li> </ul>	 <ul style="list-style-type: none"> <li>Regular reporting by borrower to ensure compliance and satisfactory financial performance</li> </ul>

The Rixon loan portfolio comprises a book of first ranking, asset backed loans delivering market leading yields

Loan Portfolio (January 2025)						
Description	Security Type	LVR <sup>1</sup>	Total Facility	Drawn Debt	Return <sup>2</sup>	Underlying Loans <sup>3</sup>
Receivable Portfolio #2	Receivables, cash, equity	58.4%	\$10.00m	\$3.40m	14.8%	810
Receivable Portfolio #3	Receivables, cash, equity	21.5%	\$3.00m	\$0.75m	15.8%	2,191
Receivable Portfolio #4	Receivables, cash, equity	45.0%	\$20.00m	\$11.50m	14.8%	6,164
Receivable Portfolio #5	Receivables, cash, equity	61.2%	\$20.00m	\$9.00m	13.5%	34
Receivable Portfolio #6	Receivables, cash, equity	83.9%	\$20.00m	\$10.35m	13.8%	1,486
Receivable Portfolio #7	Receivables, cash, equity	74.5%	\$5.00m	\$2.25m	14.6%	150
Receivable Portfolio #8	Receivables, cash, equity	70.6%	\$20.00m	\$11.00m	14.3%	785
Receivable Portfolio #9	Receivables, cash, equity	62.5%	\$15.00m	\$15.00m	16.0%	45,731
Working Capital Facility #2	Receivables, cash, equity	32.9%	\$5.00m	\$3.00m	15.3%	1
Working Capital Facility #3	Receivables, inventory, cash, equity	41.2%	\$2.00m	\$1.50m	15.8%	1
Working Capital Facility #4	Receivables, property, cash, equity	36.3%	\$10.00m	\$10.00m	14.8%	1
Equipment Finance #1	Property, inventory, cash, equity	48.0%	\$5.00m	\$3.00m	16.3%	1
Acquisition Facility #2	Contracted revenue, cash, equity	74.3%	\$20.00m	\$10.00m	15.3%	1
<b>Total / Weighted Average</b>		<b>60.0%</b>	<b>\$155.00m</b>	<b>\$90.75m</b>	<b>14.8%</b>	<b>57,356</b>

1. LVR only factors the value of tangible assets, noting the Fund also has first-ranking security over borrower equity which is ascribed a NIL value for the LVR

2. Reflects the annualised value of any upfront, commitment, undrawn, and drawdown fees incurred during the month

3. Reflects the actual number of loans underlying the receivable funding facilities

This LVR figure:

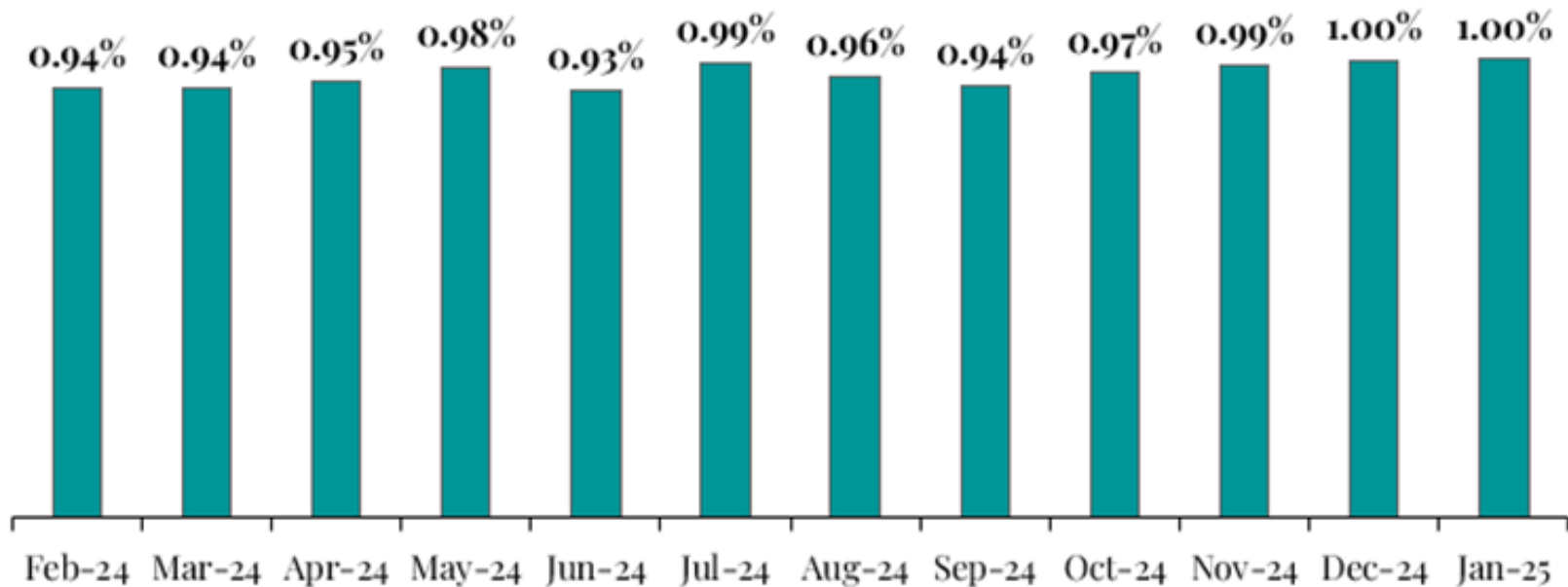
- Only factors the value of the underlying tangible asset collateral
- Ascribes a NIL valuation to the underlying borrower business



The Rixon mandate seeks to offer a market-leading monthly income stream with a focus on capital preservation

✓ <b>Regular income</b>	Monthly cash distributions
✓ <b>Attractive yield</b>	Target pre-tax cash return of <b>10.0 - 12.0% p.a. (net of fees and costs)</b>
✓ <b>Security</b>	Secured over real assets ( <b>no</b> valuation reports, <b>no</b> equity valuations)
✓ <b>Transparency</b>	Monthly Unitholder updates & direct access to Fund principals

**11.6% net cash return**



## How do we safeguard investor capital?

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The Rixon Income Fund has a clearly defined lending mandate focused on capital preservation and a market-leading monthly cash yield.

In the following slides we consider the case study of an actual of an existing loan – Receivable Portfolio #2.

First, we provide an overview of the borrower and its credit profile which highlights the Fund mandate.

Second, we list key loan terms that offer asset protection (ranking & security) and return (pricing).

Finally, we assess how a potential downside scenario would be managed and investor capital safeguarded.

Key Terms	
Facility Type	Wholesale growth facility
Ranking	First ranking secured
Purpose	Growth capital
Term	24 months
Facility Size	\$10.0 million
Drawdown Fee	0.50% on each drawdown
Interest Rate	Higher of: - 13.50% p.a. or - 10.50% + 30-day BBSW
All-in Rate	14.8% p.a.
Interest Payment	Paid in cash, monthly in arrears
Security Cover	58% LVR or 1.7x asset cover
Security	<ul style="list-style-type: none"> <li>Secured over funding SPV</li> <li>GSA over Servicer</li> <li>Personal guarantees</li> </ul>

## Lending proposition

- Personal finance to high-skilled immigrants
- Limited access to credit under work permit

## Credit Highlights | Quantitative

- ✓ Effectively a nil loss rate
- ✓ 42% first-loss equity buffer (58% LVR)
- ✓ >\$75,000 p.a. average underlying borrower income
  - <15% Loan-to-Income Ratio
- ✓ >3-year average contract term vs <1-year loan term
  - Loan term < contract term

## Credit Highlights | Qualitative

- ✓ Underlying borrowers pre-vetted
  - Australian Government & Federal Police
  - Australian industry skills body
  - Australian employer - sponsor
- ✓ Achieving the *Australian Dream* requires good credit

## Credit & Loan Profile

- \$9k average loan vs \$78k average wage
- 9-month average loan tenure
- Effectively a nil write-off rate since inception
- Rixon is first ranking senior secured over:
  - Asset & cashflow rich SPV
  - Co-signatory of SPV bank account

## Credit Highlights | Quantitative

### Triggers

- A breach of any of the following will trigger action

Covenant	Sep-24	Threshold	Headroom
Borrowing Base	58.0%	80.0%	27.5%
DPD90 Arrears Rate	0.0%	2.0%	n/a
Interest Cover Ratio	4.5x	2.0x	125.0%

- Note the meaningful headroom above threshold
- Monthly reporting ensures early identification of underperformance

## Recovery of Investor Capital

### Recovery in an Event of Default – Option 1

Rixon will first engage with the two equityholders to seek an equity cure – a cheque to bridge any shortfall

- ✓ They have invested \$1.0m in cash equity
- ✓ They have provided Personal Guarantees
  - Both well-known bankers & financiers
  - \$8.0m property portfolio in their personal names

### Recovery in an Event of Default – Option 2

If an equity cure is not forthcoming, Rixon will cash sweep the Borrower bank account:

- Borrower entity SPV has no costs
- Borrower cannot unilaterally access SPV cash
- Rixon is co-signatory of the SPV bank account
- Rixon will utilise residual cashflow to repay debt
- Full recovery of Rixon debt within 9-months