



Private Credit Allocations In a ‘Your Future Your Super’ World



Table of Contents

Executive Summary	3
Key Findings	5
1. Introduction	6
2. Australian Debt	7
3. Attributes of Public and Private Debt Markets	8
4. Analysis of Private Markets	9
4.1 Challenges	9
4.2 Investing in Private Debt	9
5. Benchmark Your Future Your Super	12
6. Structure of Benchmark and Alternative Portfolios	13
7. Performance Impact	15
7.1 Alternative Portfolios	15
8. Input a Fee Adjustment	16
9. Conclusion	17

Executive Summary

APRA, as the superannuation regulator, has introduced performance measurement benchmarking of superannuation funds. It will nominate underperformance of funds. In Australian fixed interest, the benchmark is Bloomberg AusBond Composite 0+ index and this benchmark does not track one third of Australia's bond and debt market as illustrated below. Underperformance relative to the benchmark can have meaningful impacts on superannuation funds. Therefore, it is crucial to examine the risk and reward impact of deviating from benchmark constituents by investing in other debt assets such as private credit.

This Research Paper constructs five hypothetical portfolios and examines the impact of inclusion of a range of private debt instruments within the Fixed Income allocations of superannuation funds under the Your Future Your Super performance tests, with particular focus on returns and tracking error. The Paper finds that by including key components from the one-third of the credit market missing from the benchmark, performance can be improved without compromising tracking error and credit risk.

Epsilon is a newly established investment manager of Australian private market loan portfolios for institutional investors. Epsilon has commissioned this research in partnership with Atchison Consultants to enhance transparency and facilitate debate around the inclusion of private credit investments within superannuation allocations. Epsilon provides private loans to performing middle market companies in Australia to support growth events such as acquisitions and capital investment programs, as well as shareholder transition events such as management buyouts. These companies are private and public middle market companies that have typically sourced this debt capital directly from traditional bank financiers.

The debt market in Australia includes public and private components. Together it represents the largest capital market in Australia. Public markets price investments daily to market through the activity of buyers and sellers. Private markets are priced at cost or on appraised valuations. There is limited transparency about interest rates, loan terms, financial information from borrowers or security of loans. Liquidity is lower than public market equivalents. Investment in private markets offer the prospect of higher returns than portfolios invested solely in public markets by capturing the information, liquidity and complexity premiums.

The structure of Australian debt in public and private markets is provided below.

Australian Bond Market and Debt 2020

Bond market and debt	\$UStrillion	%
Government bonds	0.9	25.0
Public Corporate Bonds	1.4	38.9
Total Bonds	2.3	63.9
Private bonds and loans	1.3	36.1
Total Australian Debt	3.6	

Source: ABS, BIS, Q3 2020

The Bloomberg AusBond Composite 0+ index only captures the government and public corporate bond markets. It only tracks two-thirds of the investible Australian debt universe available to institutional investors. On average, 63.2% of the Bloomberg AusBond Composite 0+ index is in government bonds, although as at June 2021 it was 82.2% in government bonds reflecting the explosion in public debt issuance in the pandemic.

By including key components from the one-third of the credit market missing from the benchmark, performance can be improved without compromising tracking error and credit risk

The structure of the Bloomberg index is based on issuance. An issuance basis provides the highest weighting to issuers with the greatest amount of outstanding debt. It introduces a risk of large weight in issuers with excessive obligations or terms favouring the borrowers.

So, what is the impact in terms of return and tracking error and should institutional investors seek to add private credit into fixed income portfolios? And what impact does inclusion of private credit have on credit risk?

Structures of the YFYS fixed interest benchmark index and three variations of the portfolio, including private loans, have been developed and analysed. Two benchmark unaware portfolios, including significant private debt, have also been analysed. Characteristics of the benchmark index and five alternatives have been identified. They include yield to maturity, interest rate duration, credit duration, credit rating average and range, and sector weightings and constituents.

4. Executive Summary (cont.)

On current yields and historical tracking error all alternative portfolios provide enhanced outcomes of returns greater than tracking error.

Returns and tracking error for the six portfolios have been generated on an historical and prospective basis. On an historical basis over 18 years, the Bloomberg index has provided a marginally lower return reflecting the longer duration which has been rewarded by falling interest rates. Tracking error was less than 0.6% p.a. when measured over a rolling 8 year period (Table A).

On current yields and historical tracking error all alternative portfolios provide enhanced outcomes of returns greater than tracking error (Table B).

Prospectively, inclusion of private loans including Epsilon's mandate in a portfolio will enhance portfolio returns on a risk adjusted basis where risk is measured by tracking error. In a fully diversified portfolio, the marginal tracking error increase would not have a material impact on risk when measured against the YFYS benchmark.

Additionally, as noted with historical returns, whilst the average credit rating of Portfolio A (the index) relative to Portfolio F is several notches weaker, the marginal increase in probability of default is compensated for by the higher weighting towards senior secured loans, which are rarely a feature in public and government bond markets. Therefore, credit expected losses are not anticipated to be higher when comparing the index with the alternative portfolios.

Table A - Historical Returns and Tracking Error June 2003 – June 2021

	Portfolio A Benchmark % p.a.	Portfolio B % p.a.	Portfolio C % p.a.	Portfolio D % p.a.	Portfolio E % p.a.	Portfolio F % p.a.
Performance						
5 Years	3.1	3.1	3.3	3.4	3.8	4.1
10 Years	4.9	4.7	4.7	4.8	5.0	5.1
18 Years	5.3	5.2	5.4	5.5	6.0	6.2
Rolling 1Yr Tracking Error	0.0	0.8	1.3	1.3	2.3	2.6
Rolling 1Yr Value Add	0.0	-0.1	0.1	0.2	0.7	0.9
Rolling 8Yr Tracking Error	0.0	0.1	0.2	0.2	0.5	0.6
Rolling 8Yr Value Add	0.0	-0.2	-0.1	0.0	0.3	0.5

Table B - Portfolio Projected Returns and Tracking Error

	Portfolio A Benchmark % p.a.	Portfolio B % p.a.	Portfolio C % p.a.	Portfolio D % p.a.	Portfolio E % p.a.	Portfolio F % p.a.
Return	1.05	0.93	1.17	1.29	1.93	2.07
Rolling 8Yr Tracking Error	-	0.13	0.25	0.25	0.51	0.57



Key Findings

Addition of exposure to private debt will prospectively generate higher returns of up to 1.0% p.a. with marginal tracking error of up to 0.6% p.a. measured over rolling 8 year periods and no material impact on credit expected losses (refer to Table B on page 4 for projected returns).


Historically the exposure to private debt would have provided a tracking error up to 0.6% p.a. with returns enhanced by 0.5% (see Portfolio F table historical returns above) reflecting declining interest rates which benefited duration in the YFYS benchmark portfolios rather than credit in all the alternatives.

Based on current yields the additional returns will provide enhanced outcomes.

Inclusion of Epsilon private loan mandates in portfolios will prospectively provide enhanced returns on a risk adjusted basis where tracking error and credit expected losses are the measures of risk.

In a diversified portfolio the tracking error of the Australian fixed interest portfolio will not present a material additional risk when measured against the YFYS fixed interest benchmark. Nor will credit risk be increased materially.

After fees, the portfolio returns are enhanced and provide adequate reward for the additional tracking error.



Addition of exposure to private debt will prospectively generate higher returns of up to 1.0% p.a. with marginal tracking error of up to 0.6% p.a. measured over rolling 8 year periods and no material impact on credit expected losses.

1. Introduction

Under Your Future Your Super regulations, APRA has undertaken performance benchmarking for superannuation funds which will identify underperformance by funds.

Performance is being measured by taking the strategic asset allocation of each superannuation fund and calculating a benchmark performance using relevant asset class indices. In Australian fixed interest, the index is the Bloomberg AusBond Composite 0+ Index.

In this paper, the structure of the Australian fixed interest benchmark index and the consequences of inclusion of private bonds and loans and non-investment grade loans and securities in fund portfolios have been addressed. Inclusion of Epsilon private loan mandates in portfolios has been considered.

Performance was calculated over rolling eight years over the period June 2008 to June 2021 using after-fees and after-tax data. Rolling annual performance was also generated as this period is a key reporting period for funds and members of funds.

Four portfolios were assessed in the analysis being Bloomberg Composite (Portfolio A), Bloomberg Composite + Corporate Bonds (Portfolio B), Bloomberg Composite + Corporate Bonds + private loans (Portfolio C) and Bloomberg Composite + Corporate Bonds + Private loans + Epsilon Private loans (Portfolio D). In addition, two benchmark unaware portfolios (Portfolio E and F) reflecting the universe of the debt on issue in Australia and including Epsilon private loan mandates have been considered.

Tracking error of performance of the portfolios versus the benchmark have been generated on a rolling one year and rolling eight-year basis. Returns after fees have been generated.

In this paper, the structure of the Australian fixed interest benchmark index and the consequences of inclusion of private bonds and loans and non-investment grade loans and securities in fund portfolios have been addressed. Inclusion of Epsilon private loan mandates in portfolios has been considered.



2. Australian Debt

Australian debt represents term debt securities or loans with an interest rate that may remain constant for the life of the loan or may vary in a structured manner and will be paid with fixed frequency. Included are fixed interest bonds, mortgages and loans. Principal is generally repayable at maturity of the debt. Loans will be secured by assets of the borrower, or cashflow in the future, or by guarantee or a combination. Credit assessment, being determination of the capability of borrowers to service loans, will be made of all issuers of bonds, whether by ratings agencies or by investors.

A higher credit rating indicates a borrower with a stronger propensity to meet its financial obligations as they fall due, and generally results in a lower interest rate on the loan relative to borrowers with lower credit ratings. Additionally, a higher loan recovery rating indicates a loan with stronger security, and weaker recovery ratings typically result in higher interest rates. Generally, there is a premium interest rate for a longer period of a loan, so that the longer the term of the loan, the higher the interest rate.

Debt performance is derived from interest payments and fees and can also be derived from change in capital valuations where price fluctuations are either caused by market risk factors or impairments of asset prices. Yield or total return is set by demand and supply of debt finance. Movement in yields will cause a valuation change impacting total returns for public debt securities, but private debt securities are not typically held on a market-to-market basis and therefore price fluctuations are less common for private instruments.

Australian debt represents term debt securities or loans with an interest rate that may remain constant for the life of the loan or may vary in a structured manner and will be paid with fixed frequency. Included are fixed interest bonds, mortgages and loans.



3. Attributes of Public and Private Debt Markets

A range of attributes apply for all asset classes including debt.

- ▲ **Market price or valuation mechanisms**
- ▲ **Capital structures including position on the capital stack and potential ramifications**
- ▲ **Return components of income and capital**
- ▲ **Macro-economic sensitivity of returns**
- ▲ **Financial market sensitivity for returns**

When the fundamental differences in pricing, volatility of prices and market drivers are considered, private and public investments both play an important role in a diversified portfolio. Public securities are traded in capital markets generating daily changes in returns. Private securities may be priced at cost or appraised valuations with smoothed changes in returns.

Increasing the level of public investment in portfolios increases the volatility of returns significantly relative to private investments. Public investments provide liquidity which is limited for private investments.

While private and public investments may share the same underlying base, they are different in terms of method of valuations. Private markets are based on appraised valuations, while public markets are priced daily to market through the activity of buyers and sellers.

Private investment returns are less volatile than public investment returns with the appraised valuations having a smoothing effect on pricing and therefore volatility of returns. A liquidity premium will impact on values and pricing.

By combining private and public investments in a diversified portfolio, it is possible to achieve a higher volatility of return/return outcome than is attainable from solely holding either one or the other reflecting an enhanced risk/return when volatility of return is a significant risk factor.

Public investments are relatively liquid reflecting the publicly traded clearing market. In contrast, private investments can be illiquid assets. This is particularly evident during a market downturn when distressed sellers cannot attract buyers. More normal conditions, where a meeting of price is achieved between willing buyers and sellers on a reasonable time frame, provide reduced liquidity constraints.

Significant differences in the pricing and volatility of private and public investments result in quite different short-term returns.

Debt is entitled only to interest and repayment of principal. In the event of business failure, the debt holders have first call on the assets and ownership of the business where such debt has a secured position. In most instances, debt has no upside on value beyond interest, while the downside is loss of capital.

When the fundamental differences in pricing, volatility of prices and market drivers are considered, private and public investments both play an important role in a diversified portfolio.

Increasing the level of public investment in portfolios increases the volatility of returns significantly relative to private investments. Public investments provide liquidity which is limited for private investments.

4. Analysis of Private Markets

Challenges and opportunities in private markets include what constitutes the underlying private asset classes and the factors that minimise risk and enhance return.

4.1 Challenges

Challenges which limit participation in private markets, thereby providing opportunities for organisations with the required expertise and resources to overcome them, include:

- ▶ Lack of information transparency provides a private market advantage
- ▶ Business, asset or securities information and relationships
- ▶ Pricing including transactions
- ▶ Illiquidity limits the number of participants

4.2 Investing in Private Debt

In selecting an investment proposition, consideration must be given to duration and average life, credit rating and generation of regular cash flow.

Pricing for the segments of the debt markets provides the prospect of information advantage. Credit assessment capability requires the skills of analysing financial statements and business prospects. While public credit rating skills are applied in major companies, within private markets these skills are applied by managers with that skill set.

Table 4 - Pricing of debt risk factors

Factors	Major Bank – All Lending Return % p.a.	Major Bank – Business Lending Return % p.a.	Epsilon Lending Opportunity Return % p.a.
Risk free rate	2.0	2.0	2.0
<i>Term premium</i>			
Lending Term Premium	0.5	0.5	0.5
<i>Credit premium</i>			
Major Bank Lending Credit Spread – All Bank	1.50		
Major Bank Lending Credit Spread – Business Loans		2.35	
Lending Credit Spread – Epsilon Lending Opportunity			4.10
Origination Fee Revenue p.a.	0.10	0.25	0.75
<i>Illiquidity premium</i>			
Size premium	0.2	0.2	0.2
Transaction cost premium	0.2	0.2	0.2
Private debt benchmark return profile	4.5	5.5	7.75

A reward for the prospect that the loan interest and principal will not be paid in full reflects payment for incurring credit risk. Reward for commitment of investment for a period of years is the time premium. An illiquidity premium is provided for private loans.

Table 4 shows a summary of hypothetical pricing of each component of debt risk. Factors are aggregated to determine a private debt benchmark. Risk free rate is the prevailing 10-year government bond rate.

Notes:

- Returns for private debt with all term, credit and illiquidity risk factors including Epsilon range from 4.5% to 7.75%.
- Major Bank – All Lending refers to the expected return profile of Australian major banks whole-of-loan book.
- Focusing on the business lending segments of the major banks increases the expected return profile, principally given the exclusion of lower margin residential loans.
- Interest margins reported by the major Australian banks in their annual reports have been used as key inputs into the credit premiums.
- The Epsilon lending opportunity refers to the return profile underpinned by margins available for direct loans currently being sourced by Epsilon.

By combining private and public investments in a diversified portfolio, it is possible to achieve a higher volatility of return/return outcome than is attainable from solely holding either one or the other reflecting an enhanced risk/return when volatility of return is a significant risk factor.



4. Analysis of Private Markets (cont.)

The increase in public sector debt from 2019 to 2022 was from \$471 billion being 24.4% of GDP to \$869 billion or 54.0% of GDP in 2022 (estimated by the IMF).

The size and structure of Australian debt in the public and private markets is set out in Table 1. This information has underpinned two benchmark unaware portfolios which includes Epsilon as manager of a component.

In considering the prospective debt portfolio structure between the sectors of the public market an examination of the past 18 years has been undertaken (Table 2). This reflects the bond market measured by the Bloomberg index over the period. It captures the impact of the GFC and its aftermath and the continuing development of the corporate bond market. The most recent data includes the structural impact of the large increase in public sector debt issuance in the pandemic. The increase in public sector debt from 2019 to 2022 was from \$471 billion being 24.4% of GDP to \$869 billion or 54.0% of GDP in 2022 (estimated by the IMF).

Table 2 shows the change in structure and average weight by sector at various dates over 18 years to June 2021.

The range of debt segments potentially available in the universe for investment is shown below in Table 3.

Table 1 – Australian Bond Market and Debt 2020

Bond market and debt	\$US trillion	%
Government bonds	0.9	25.0
Public Corporate Bonds	1.4	38.9
Total Bonds	2.3	63.9
Private bonds and loans	1.3	36.1
Total Australian Debt	3.6	

Source: ABS, BIS, Q3 2020

Table 2 - Debt Market Structure by Type

	June 2003 %	June 2010 %	June 2018 %	June 2021 %	Average %
Australian and state government	63.2	62.1	70.1	82.2	63.2
Australian corporate and asset backed	36.8	37.9	29.9	17.8	36.8
Total	100.0	100.0	100.0	100.0	100.0

Table 3 – Debt Securities Universe

Australia/Overseas	
Government/Sovereign	Prime Credit
Public Corporate Bonds	Risk-free
Asset backed	Investment & Non-Investment Grade
Private bonds and loans	Investment & Non-Investment Grade
Mezzanine Debt	Investment & Non-Investment Grade
Hybrid Securities	Non-Investment Grade
	Investment Grade with Equity Option




5. Benchmark Your Future Your Super

In the Your Future Your Super initiative APRA has specified the Bloomberg AusBond Composite 0+ Index as the benchmark for Australian fixed interest. Implications for superannuation funds are that performance of investment portfolios will be marked against the benchmark. Portfolios may be passively matched against the index which will mean that the fund should not underperform by any more than the fees charged for the passive portfolio. It does not mean that it is reflecting the best interests of members.

The structure of the Bloomberg index is based on securities on issue. An issuance index provides the highest weighting to issuers with the greatest amount of outstanding debt. This does introduce the risk of large weights in issuers that may be issuing excessive obligations thereby undermining creditworthiness.

It has an historical bias as it measures outstanding stocks of bonds on issue, which is principally a reflection of historical issuance patterns. It may be biased towards issuance on maturity terms which have been attractive for borrowers rather than investors.

In the Bloomberg index are bonds which are traded in security markets. As previously mentioned, it does not reflect the private bond issues or private loan markets which are very significant in terms of the investible Australian debt universe. Size and structure of the debt market are shown in Table 2 on page 5.



In the Bloomberg index are bonds which are traded in security markets. As previously mentioned, it does not reflect the private bond issues or private loan markets which are very significant in terms of the investible Australian debt universe.

6. Structure of Benchmark and Alternative Portfolios

Portfolio characteristics of the benchmark and a spectrum of alternative portfolios are provided in Table 5.

Portfolio A reflects the Bloomberg Composite Bond 0+ Year Index.

Portfolio B introduces the Bloomberg Credit and FRN indices into the portfolio including targeting a look through 35% allocation to credit.

Portfolio C further reduces government exposures to 50% by increasing allocation to Bloomberg Credit and FRN indices, as well as making an initial allocation to private credit, reflecting characteristics of major Bank Business loans.

Portfolio D provides a similar profile to Portfolio C, however, allocates half of the 10% allocation to private credit to Epsilon loans. The Epsilon loans reflect the characteristics expected of the Epsilon loan pipeline.

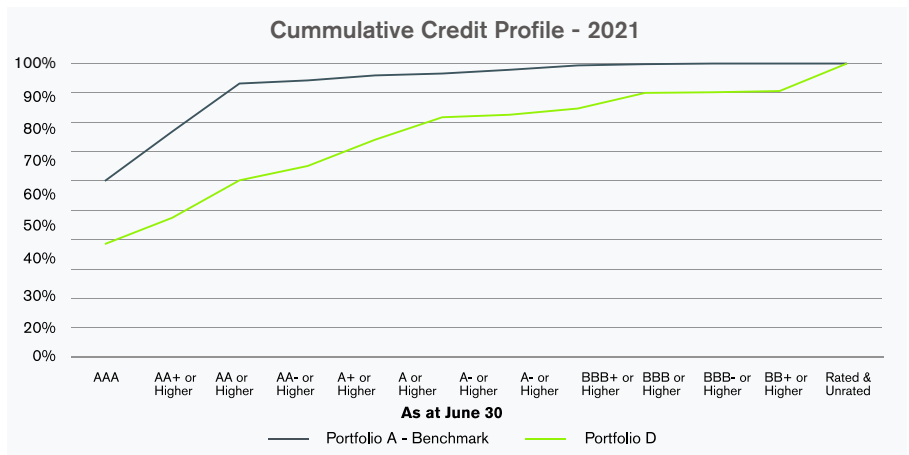
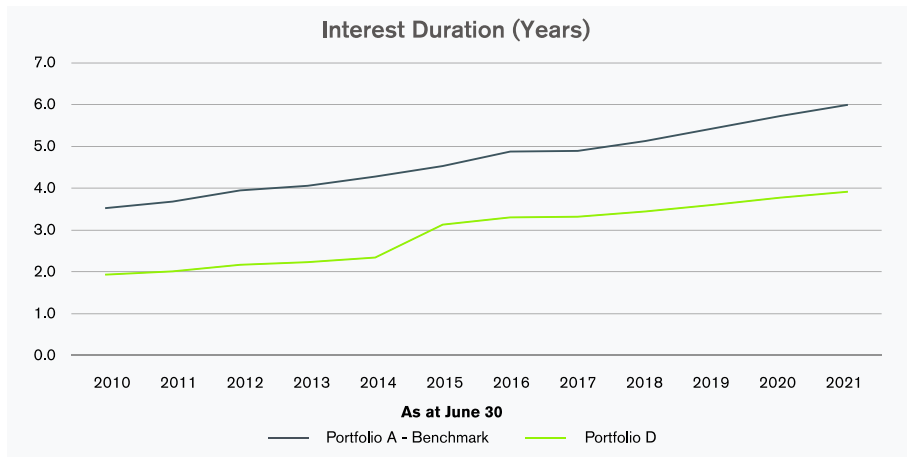
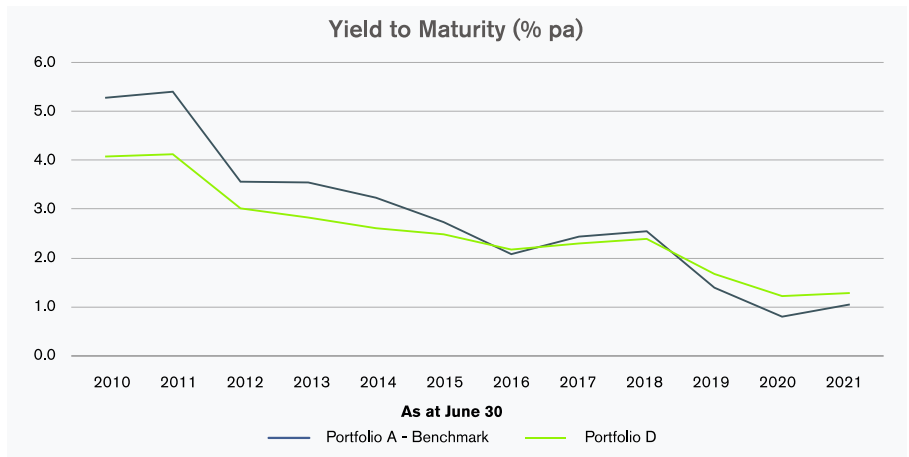
Portfolios E and F reflect progressively greater benchmark unaware allocations, with Government exposures materially reduced with increased allocations to private credit and Epsilon.

Table 5: Summary of Portfolio Characteristics

	Portfolio A Benchmark %	Portfolio B %	Portfolio C %	Portfolio D %	Portfolio E %	Portfolio F %
Characteristics - 30 June 2021						
Yield to Maturity (% p.a.)	1.05	0.93	1.17	1.29	1.93	2.13
Interest Duration (years)	5.99	4.72	3.91	3.91	2.40	1.89
Credit Duration (years)	5.97	5.06	4.64	4.64	3.94	3.65
Av. Credit Quality	AA+	AA+	AA	AA	A	BBB+
Credit Range	AAA-BBB	AAA-BBB	AAA-BB	AAA-BB	AAA-BB	AAA-BB
Senior Secured (%)	0.5	1.4	10.5	10.5	33.0	37.9
Sector Exposures						
Government	93.0	65.1	50.2	50.2	25.1	10.2
Public Corporate Bonds	7.0	34.9	39.8	39.8	39.9	49.8
Private Bank Loans	0.0	0.0	10.0	5.0	30.0	32.5
Private Loans - Epsilon	0.0	0.0	0.0	5.0	5.0	7.5
Index Weights						
Composite Bond Index	100.0	70.0	54.0	54.0	27.0	11.0
Credit Index	0.0	12.5	16.0	16.0	18.0	29.0
FRN Index	0.0	17.5	20.0	20.0	20.0	20.0
Private Bank Loans	0.0	0.0	10.0	5.0	30.0	32.5
Private Loans - Epsilon	0.0	0.0	0.0	5.0	5.0	7.5

6. Structure of Benchmark and Alternative Portfolios (cont.)

Changes in yield to maturity, interest rate duration and credit profile in portfolio A and portfolio D over the past 10 years are shown in the following charts.



7. Performance Impact

In the future, it is very unlikely that interest rates will fall further, in which case credit margins will dominate over duration.

Set out in Table 6 are returns and tracking error of returns from six portfolios over 18 years from June 2003 to June 2021. Tracking error is measured against the Bloomberg AusBond Composite Bond Index over one year and eight years.

7.1 Alternative portfolios

Performance for the portfolios A-F have been generated based on returns for the periods June 2003 to June 2021. The YFYS measure is generated on a rolling eight-year basis. Tracking error on a rolling one-year basis has also been generated as this is the outcome that superannuation funds will present in member reports.

As indicated in Table 6, tracking error over eight years is low at a maximum of 0.6% p.a. Critically, in the period under review, long duration has been advantageous as interest rates have fallen over the period. All portfolios have a far shorter duration than the Bloomberg AusBond Composite and have marginally underperformed as a result.

In the future, it is very unlikely that interest rates will fall further, in which case credit margins will dominate over duration. Based on historical outcomes, a tracking error up to 0.6% p.a. should deliver an enhanced return up to 0.3% p.a.

Based on the structure of the six alternative portfolios, the returns are set out in Table 7.

Returns from credit exposure in portfolios B to F provide enhanced returns above tracking error.

When included in a diversified portfolio the tracking error of returns from all alternative Australian fixed interest portfolios do not represent materially higher risk when measured by tracking error with the YFYS benchmark.

Table 6: Returns and Tracking Error June 2003 – June 2021

	Portfolio A Benchmark % p.a.	Portfolio B % p.a.	Portfolio C % p.a.	Portfolio D % p.a.	Portfolio E % p.a.	Portfolio F % p.a.
Performance						
5 Years	3.1	3.1	3.3	3.4	3.8	4.1
10 Years	4.9	4.7	4.7	4.8	5.0	5.1
18 Years	5.3	5.2	5.4	5.5	6.0	6.2
Rolling 1Yr Tracking Error	0.0	0.8	1.3	1.3	2.3	2.6
Rolling 1Yr Value Add	0.0	-0.1	0.1	0.2	0.7	0.9
Rolling 8Yr Tracking Error	0.0	0.1	0.2	0.2	0.5	0.6
Rolling 8Yr Value Add	0.0	-0.2	-0.1	0.0	0.3	0.5

Table 7 - Portfolio Projected Returns and Tracking Error

	Portfolio A Benchmark % p.a.	Portfolio B % p.a.	Portfolio C % p.a.	Portfolio D % p.a.	Portfolio E % p.a.	Portfolio F % p.a.
Return	1.05	0.93	1.17	1.29	1.93	2.07
Tracking Error	-	0.13	0.25	0.25	0.51	0.57

When included in a diversified portfolio the tracking error of returns from all alternative Australian fixed interest portfolios do not represent materially higher risk when measured by tracking error with the YFYS benchmark.

8. Input a Fee Adjustment

Impact of fees on prospective returns is provided in Table 8. As indicated returns after fees provide adequate reward for the marginal tracking error from inclusion of private loans in portfolios.

Table 8 – Portfolio Returns after Indicative Fees

	Portfolio A Benchmark %	Portfolio B %	Portfolio C %	Portfolio D %	Portfolio E %	Portfolio F %
Gross Return	1.05	0.93	1.17	1.29	1.93	2.07
Fees	0.15	0.17	0.21	0.21	0.30	0.32
Net Return	0.90	0.76	0.96	1.08	1.63	1.75
Tracking Error		0.13	0.25	0.25	0.51	0.57



9. Conclusion

In conclusion, the addition of exposure to private debt will prospectively generate higher returns of up to 1.0% p.a. with marginally higher tracking error of up to 0.6% p.a. measured over rolling 8 year periods and no increase in credit expected losses.

Historically the exposure to private debt would have provided a tracking error up to 0.6% p.a. with returns enhanced by 0.5% p.a. reflecting declining interest rates which benefited from longer duration in the YFYS benchmark portfolios rather than credit in all the alternatives.

Based on current yields the additional returns will provide enhanced outcomes.

Inclusion of Epsilon private loan mandates in portfolios will prospectively provide enhanced returns on a risk-adjusted basis where tracking error and credit expected losses are the measures of risk.

In a diversified portfolio the tracking error of the Australian fixed interest portfolio will not present a material additional risk when measured against the YFYS fixed interest benchmark. Nor will credit risk be increased materially.

After fees the portfolio returns are enhanced and provide adequate reward for the additional tracking error.

Inclusion of Epsilon private loan mandates in portfolios will prospectively provide enhanced returns on a risk-adjusted basis where tracking error and credit expected losses are the measures of risk.

In a diversified portfolio the tracking error of the Australian fixed interest portfolio will not present a material additional risk when measured against the YFYS fixed interest benchmark. Nor will credit risk be increased materially.

Atchison



Atchison Consultants

Level 4, 125 Flinders Lane,
Melbourne Vic 3000
P: +61 (0) 3 9642 3835
enquiries@atchison.com.au
www.atchison.com.au

Epsilon Direct Lending

Level 24, 300 Barangaroo Ave,
Sydney, NSW 2000
joe.millward@epsilondl.com.au
+61 (0) 423 739 710
www.epsilondl.com.au