

The fund manager has allocated \$5 mn in the fund

Key information

Total volume	\$ 50 mn
Starting fund volume	\$10 mn: the fund manager has allocated \$5 mn in the fund + \$5 mn investor's commitment
Investment horizon	36 months
Coupon	13-15% in USD terms, net of fees
Coupon payment frequency	Quarterly
Co-investors	95%: Morgan Stanley, Bank of America, insurance companies

Investment conditions

Min investment amount	\$150 000
Subscription fee	up to 5%
Management fee	1.5%
Success fee	50% (the success fee is only charged on returns above 8% p.a.)
Hurdle Rate	8 %
Legal structure	RAIF
Available in Euroclear	Yes

Risk

- All real estate is subject to independent assessment before issuing loans
- During the 2008 crisis, the real estate market declined by 18%, and the default rate was 18-22%
- Assuming a 30-35% down payment, a 30% real estate price drop would not lead to a loss for investors, even with a large share of defaults (see calculation on the back)
- According to a consumer survey by FRS, real estate prices are expected to grow by 1.3% in 2020. Meanwhile, Zillow expects a 2-4% price drop

Market

- US mortgage market volume: \$1.4 trillion annually
- Total volume of non-QM loans: \$35 billion annually
- Share of payments late by 30 days has fallen threefold in 5 years
- Volume of unmet demand of non-QM loans: \$200-300 billion

Investment focus

- Non-qualified mortgage loan segment (non-QM)
- Fund targets borrowers with high credit ratings who can confirm their income
- Downside protection of 30-35% of the down payment
- Diversified portfolio of 800+ loans totaling \$250 million with an average loan size of \$300k
- Average mortgage rate of 5.75% annually
- Late payment share: 1% (historical data)

Fund management

Mortgage loan portfolio management: Imperial Fund

- Imperial Fund was established in 2014
- The company manages a fund, established in 2014, with \$160 mn in assets, IRR 9.4%.

Mortgage examination: banking group - Home Federal Bank of Hollywood

- Established in 1998
- Bank's group capital: \$75 million
- Headquartered in Hollywood, Florida
- ADM (banking group member) – is a licensed Fannie Mae mortgage lender/servicer established in 2005
- 130 employees
- More than \$1 billion of mortgage loans issued over the last 7 years

Administrator: Mainstream Fund Administrator

- Established in 2006. More than 274 employees across 8 offices
- Trusted by 348 fund managers and superannuation fund trustees

Fund manager: ITI Funds

- Global fund platform established in 2014
- AUM: \$144 million across 15 products
- 66 private and institutional investors

Expected fund rate-of-return calculation (example)

Buying a loan with a \$100 face value. Leverage from a securitization \$90. ITI Funds investors' contribution \$10

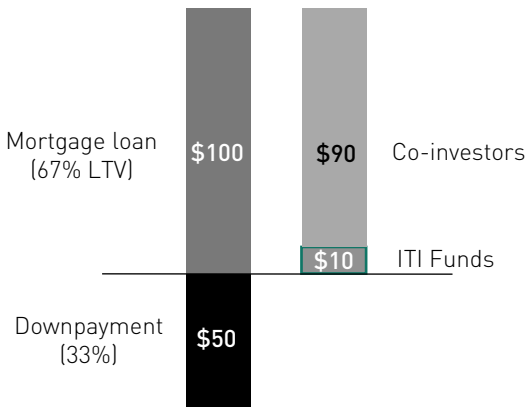
Interest income \$5.75 - costs \$4.35 = fund's return \$1.4 or

$\$100 \times 5.75\% = \5.75

$\$90 \times 3.5\% + 1.2 = \4.35

Mortgage loan portfolio: \$100	Payment for financial leverage, fund's operating expenses and securitization costs	Total return on invested capital: $(\$5.75 - \$4.35) / \$10 = 14\%$
Average mortgage rate in the portfolio: 5.75%	Average financial leverage rate: 3.5%	

Deal structure (example)



Co-investors: Morgan Stanley, Bank of America, insurance companies:

- Receive a fixed yield of 3.5% annually
- Investments are secured by the mortgage loan portfolio
- First to receive payments

ITI Funds Investors:

- Receive all the profit from the mortgage loan portfolio
- High downpayments by borrowers protect fund assets
- Second to receive payments

Net IRR for investors in negative scenarios (defaults and drops in property value) in a securitization strategy

Defaults, %	Drops in property value, %				
	10%	20%	30%	40%	50%
10%	22.9%	22.9%	22.9%	-42.0%	-42.0%
20%	22.1%	22.9%	22.9%	-58.6%	-58.6%
30%	21.3%	21.3%	21.3%	-80.7%	-80.7%
40%	19.4%	19.4%	19.4%	-92.5%	-92.5%
50%	18.2%	18.2%	18.2%	-96.8%	-96.8%