

Roadnight Capital Diversified Income Fund

Fund Summary

Fund Name	Roadnight Capital Diversified Income Fund
Fund Manager	Roadnight Capital Pty Ltd
Asset Class	Private Debt
Sub-Asset Class	Corporate & Asset Backed (AU)
Strategy Description	The Fund will expose investors to loans focusing on direct lending, asset backed lending and alternative credit to diversified corporates and agricultural enterprises. Primarily investing in senior secured loans, the Fund may also be exposed to subordinated, unsecured loans or equity. These investment companies are typically valued at between \$10 to \$100mil, typically small to middle-market, where they are looking to provide a capital solution as an alternative to major bank debt and private equity.
Net Return Objective*	BBSW 30 days + 5.5% to 8.5%
Distribution Frequency	Quarterly
Fund Structure	Australian Unit Trust
Terms of the Investment	• Evergreen, open-ended with monthly applications • 18 months initial lock up • Quarterly redemptions; provided that there is a 60 days' notice subject to meeting the minimum investment terms
Fees (exclusive of GST)	• Management Fee – 2% p.a. of Gross Asset Value (all assets relating to Class B units) • Trustee Fees & Operational Expenses – Including origination expenses, legal fees and transaction costs are payable from Fund assets
Drawdown Profile	Fully drawn on day one into an existing portfolio
Minimum Investment	\$100,000
Key Dates	Refer to: https://www.partnersprivate.com.au/investments/unlisted/roadnight-capital-diversified-income-fund/
Offer Documents	Information Memorandum

*Net Return Objectives are not guaranteed, and total returns may be above or below target range.

This summary has been provided for illustrative purposes only. All terms and conditions contained herein are subject to and will be superseded by the final documentation. Please refer to the Fund's Information Memorandum for further details. This summary is not an offer or solicitation to purchase interests in the Fund. Such interests are only offered pursuant to the terms of the Information Memorandum, which should be reviewed carefully prior to investing. Past performance and/or forward-looking statements are not a reliable indicator of future performance.

Roadnight Capital Diversified Income Fund



The Opportunity

Roadnight have found that the smaller to mid-size enterprise corporate loans segment of capital markets are the most fragmented and offer a risk premium of 3% - 6% over what is available in liquid or large institutional markets. Focusing on facilities in the 1 - 3 year duration, companies are willing to pay equity-like returns for heavily secured credit risk.

Key Advantages

The Manager estimates that the shortfall in corporate debt funding is greater than \$50bn. This has been driven by:

- APRA solvency requirements have increased the amount of capital required for corporate loans, reducing the amount of funding available from banks.
- Centralisation of commercial bank credit processes has resulted in focuses on larger average loans.
- An underdeveloped institutional funding environment outside of banks and capital markets, not well aligned to funding smaller borrowers.
- Offshore markets have limited borrowers to those seeking over \$100m in debt funding.

Hence there is both a return premium and an underdeveloped and underserved corporate lending market with few direct competitors, currently.

The Fund Manager

Established in 2014, Roadnight Capital is an Australian based alternative asset management and capital solutions firm, aiming to provide exceptional risk adjusted investment opportunities for investors and innovative capital solutions for businesses. The team has an average of 25 years experience each across funds management, corporate and institutional banking, corporate and infrastructure finance, restructuring and portfolio risk management.

Evolution of Roadnight Capital's Investment Strategy

Roadnight started in 2014 when Founder and Managing Director Richard Davies left Jagen (the Bori Liberman family office) to syndicate investments to high-net-worth family groups. This resulted in 1 - 3 syndicated transactions a year, which were \$10 - 30m in size.

In early 2020, Roadnight started seeing private debt opportunities that provided strong risk adjusted returns of \$0.5m - \$2.0m. Roadnight set up a 'friends and family fund' to invest in these opportunities, which has grown into the Roadnight Capital Diversified Income Fund.



Roadnight Capital Diversified Income Fund



The Strategy

Roadnight's strategy is to identify and invest in middle-market companies that are typically valued at between \$10 to \$100m, where they are looking to provide a capital solution as an alternative to major bank debt and private equity. The focus is on direct lending, asset backed lending, and alternative credit to diversified corporates, agricultural enterprises, non-bank financial companies, and asset backed & structured markets.

Manager's Competitive Edge

- Targeting the opportunity for bilateral corporate loans for deals less than \$50m.
- Having built a strong referral network of advisors, accountants, brokers, contacts, borrowers, and investors.
- Deep domain experience across the broader team and strong experience of the key principals of the firm, primarily founder Richard Davies, in sourcing and assessing loan deals to this segment via prior direct deals for family office investors.
- Finding a timely capital solution for these companies with the right risk/return trade-off for investors.
- Strong investment monitoring and downside risk management by investing in loans with conservative capital structure and strong covenants.

Investment Process

- Identifying and sourcing opportunities – initial screening process.
- Research and Indicative Term Sheet – detailed industry and business analysis, coupled with financial modelling and deal structuring.
- Credit Assessment & Approval – qualitative and quantitative analysis to understand the credit risks. Stress testing of the business to understand the potential impact on returns.
- Due Diligence / Documentation / Funding – deep review of key risk areas identified during the credit assessment process, documentation of debt and security, and perfection/registration of relevant security interests.
- Ongoing Monitoring – regular business performance reporting of early warning triggers.

The Fund benefits from a first loss provision that has been built up since inception to 3% of the fund which the manager intends to maintain.

Partners Private View

Our view is that Roadnight has built a robust investment team, a solid track record in the small to medium corporate lending space and chosen a niche that has few competitors and where they are excellent operators.

Within the debt investing space to Australian non-bank finance companies, agricultural enterprises and diversified corporates, relationships and networks are essential. Roadnight has a demonstrable ability in sourcing investments that have strong risk mitigation characteristics whilst providing high levels of risk-adjusted return.

Our team is comfortable with the Roadnight's credit underwriting capabilities and investment monitoring, having had an overview of every loan in the portfolio. Moreover, we had also observed the full process in action for one loan end to end, from origination through to initial term sheet approval, detailed due diligence and final signoff within the loan management system. The detail around the risk premium of credit spread above public market equivalents, borrowers loan covenant monitoring and the granularity of scoring the quality of collateral was in depth and comprehensive. We have not seen this level of efficiency in investment monitoring with many managers within the Australian non-bank lending space.

We expect their niche to continue to perform for some time as most private credit funds are focused on property only lending, sponsor backed corporates or larger corporates.

Investors who are comfortable with a private debt allocation and its associated return, risk and liquidity profile may be interested in this opportunity. The strategy may also be complementary to other private debt strategies such as real estate only or vanilla corporate lending.