ZANK INCOME FUND

INVESTMENT MANAGERS REPORT TO INVESTORS

ANNUAL REPORT 2022/2023 // PREPARED BY ZANK&CO

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Zank & Company Pty Ltd (Zank) would like to thank you for your investment in the Zank Income Fund (Fund). The Product Disclosure Statement for Zank Income Fund was issued on 30 January 2020 and has subsequently been supplemented by the first supplementary product disclosure statement dated 30 October 2020, the second supplementary product disclosure statement dated 31 May 2021, the third supplementary product disclosure statement dated 24 May 2022, and the fourth supplementary product disclosure statement dated 28 February 2023 (collectively, the PDS).

The Fund is a registered managed investment scheme which provides investors with access to the attractive returns available from the Fund's investments, and which has been in operation since 31 May 2016. The Fund aims to generate the Target Return by investing in business and investment loans predominantly secured by registered first mortgages. In some instances, the Fund may make loans secured by a second registered mortgage where the Investment Manager considers that the return is appropriate to the risk profile of the loan.

As Investment Manager of the Fund, Zank manages the Fund's investment portfolio. A review of each borrower's serviceability and ability to repay debt is conducted on an ongoing basis.

THE FUND
Zank Income Fund
ARSN 637 888 307

THE CUSTODIAN
Perpetual Corporate Trust Limited
ACN 000 341 533

THE RESPONSIBLE ENTITY
Vasco Responsible Entity Services Limited
ACN 160 969 120

THE INVESTMENT MANAGER
Zank & Company Pty Ltd
ACN 167 559 364

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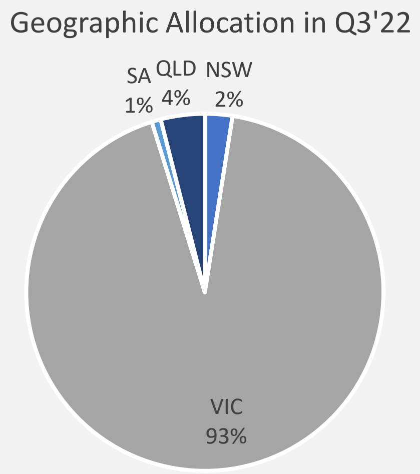
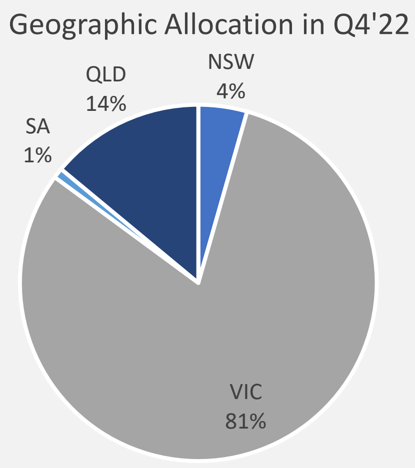
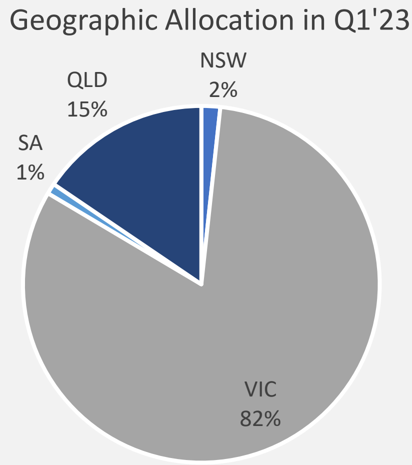
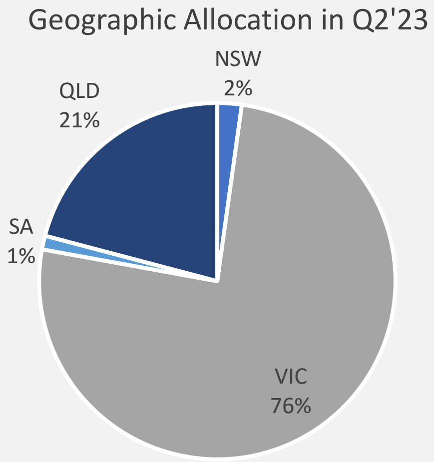
PERFORMANCE SUMMARY

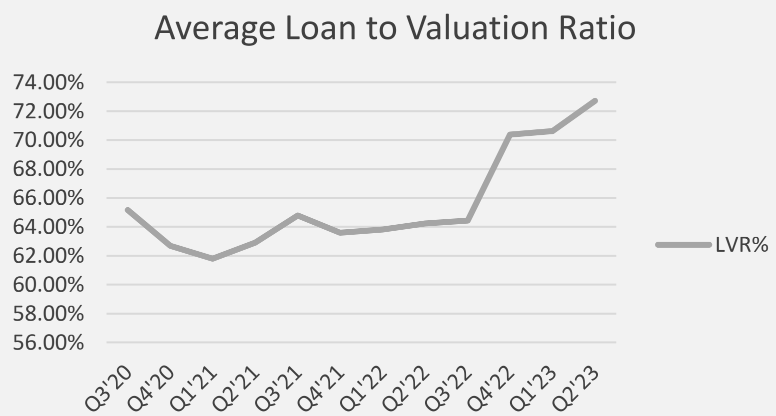


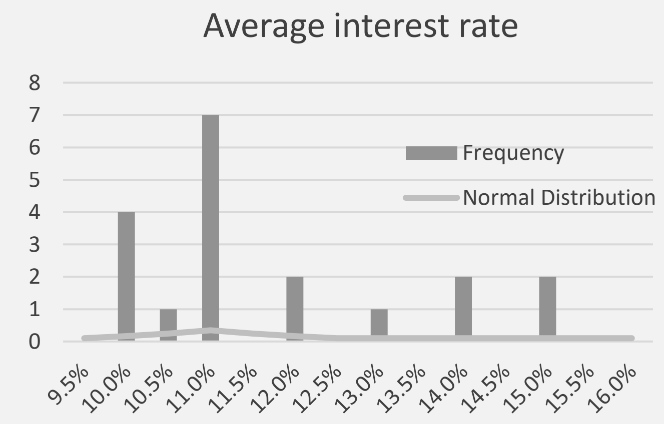






Based on the collected geographical allocation data, although there was a consistent decrease in the proportion of loans in Victoria throughout the four quarters (from 93% to 76%), the majority of our portfolio is still located in Victoria. Notably, the percentage of loans in Queensland showed a gradual increase, growing from 4% to 21% over the same period. The proportion of loans allocated to New South Wales remained relatively stable, ranging between 2% and 4%. South Australia maintained a consistent allocation of 1% throughout the year. Overall, these findings indicate that our portfolio's geographical allocation has become more diversified, encompassing Victoria, Queensland, New South Wales, and South Australia. Additionally, the business expansion in Queensland has played a significant role in this diversification, demonstrating a continuous growth trajectory beyond a concentration solely in Victoria.





Based on our data of the interest rates charged on the loans the Fund has invested into, as at 30 June 2023, the average interest rate was approximately 11.68%.

The following table summarises the overall performance for the 2022/2023 financial year:

Overall performance for the 2022/2023 financial year	
Number of loans as at 30 June 2022	22
Total value of loans to borrowers as at 30 June 2022	$71,266,589.00
Number of loans as at 30 June 2023	21
Total value of loans to borrowers as at 30 June 2023	$44,264,894.00
Number of repaid loans	11
Number of new loan projects	10

PERFORMANCE SUMMARY

Performing Loans

As of June 30, 2023, the Fund has approximately $30 million of performing loans under management across 15 different borrowers, as indicated in the table below. It is important to note that this synthesis exclusively represents performing loans and does not encompass non-performing loans.

Authorized investments		
Land - vacant	35.78%	$17,277,009.13
Commercial	2.87%	$1,385,000.00
Residential	5.04%	$2,435,000.00
Construction & Development	17.96%	$8,671,099.27
Total		$29,768,108.40

Mortgage Investment Portfolio Metrics		
0 - 6 months	0.00%	$0.00
7 - 12 months	18.34%	$8,855,359.00
13 - 24 months	35.09%	$16,944,845.13
25 + months	8.22%	$3,967,904.27

Mortgage Investments by State		
ACT	0.00%	$0.00
NSW	2.21%	$1,065,000.00
VIC	38.54%	$18,612,904.27
QLD	20.89%	$10,090,204.13
SA	0.00%	$0.00
WA	0.00%	$0.00
TAS	0.00%	$0.00
NT	0.00%	$0.00

LVR Profile		
< 50%	6.54%	$3,158,924.04
50% - 59.99%	22.70%	$10,960,000.00
60% - 69.99%	32.41%	$15,649,184.36
= 70%	0.00%	$0.00
> 70%	0.00%	$0.00

Mortgage Investments Interest rate profile		
< 8.00%	0.00%	$0.00
8.00% - 9.99%	11.94%	$5,768,195.00
10.00% - 11.99%	27.72%	$13,386,924.04
12.00% - 13.99%	15.14%	$7,310,000.00
14.00% - 15.99%	6.84%	$3,302,989.36
> OR = 16.00%	0.00%	$0.00

Security Location		
Metro	53.16%	$25,670,119.04
Regional	5.50%	$2,657,989.36
Rural	2.98%	$1,440,000.00

NOTES: All figures shown as percentages are based on dollar values and are reported on loan balances in the Fund. These may differ from figures provided in the statutory accounts which are based on the investment balances in the Fund. The Investment Accounts may invest in the same mortgage. Loan numbers refer to the number of loans only and do not reflect the number of individual securities.

1. Loan to Value Ratio (LVR) represents the value of the security property at the start of the loan compared to the approved loan amount, reflecting the LVR used in the Fund's lending criteria.

- Mortgage Funds may also be effected by other risks, while there are many factors that may impact on the performance of any investment, section 7 of the Product Disclosure Statement summarises some of the major risks that investors should be aware of when investing in the Fund. Before investing, prospective investors should consider whether the Fund is a suitable investment, having regard to their personal investment objectives, financial position, particular needs, and circumstance. For more information, please refer to Product Disclosure Statement.
- Whilst the net return is 7.5%, the target return is not guaranteed, it may vary along with the overall property market.
- The performance of this investment, the repayment of capital or of any particular rate of return, is not guaranteed by the Responsible Entity, the Investment Manager, their directors or their associates. Loan investments, by their nature, carry a level of risk and no guarantee is or can be given that an investment in the Fund will not decrease in value and that Investors will not suffer losses. We strongly recommend that Investors obtain independent financial advice before investing in the Fund.

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Default Management

There have been impacts on the Zank Income Fund "Fund" due to an increase in loan defaults within the Fund's loan portfolio for the financial year 2023. The Investment Manager of the Fund, Zank & Company Pty Ltd, has been working to actively manage and limit the impacts caused by these loan defaults on the Fund and unitholders.

To effectively manage defaults, the Responsible Entity has appointed a receiver where appropriate to assist in the Default Management of the portfolio and to recover monies to the Fund.

As at 30 June 2023, the impacts to unitholders of the Fund are:

- Fund Redemptions remain on hold, and the Fund is not processing redemptions.
- Unitholders will be contacted in the new Financial Year when the Fund may open for redemptions.
- Fund Unit Price – The Fund's unit price has not been determined for June 2023. The Fund should suspend striking a Unit Price until all loan and underlying security values are known.

  The Fund is expecting proceeds from the Receiver Sale of a final property. The proceeds of which will be used to payout the loan default. Once this transaction is settled the Fund will communicate the status to unitholders.
- Fund Distribution – Due to some loans in default, the Fund's interest income has been reduced significantly and impacted the Fund's income distribution for FY 2023.
- Fund Loan Impairments – The total loan impairment amount as at 30 June 2023 is $2,884,454.23.

Further details and the progress of each default case are available on the subsequent page of this report.

Both the Investment Manager and the Responsible Entity will continue to communicate regularly about the Fund's status and progress with its default management throughout 2023. Our collective efforts aim to ensure the resilient operation of the Fund and safeguard the best interests of our valued unitholders.

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Default Management

The following information pertains to Default Loan Summary as at 30 June 2023.

Elizabeth SA 5112

- First Ranking Mortgage
- Ongoing issue related to a caveat and a land dispute with the Council that the borrower is currently addressing.
- The Borrower pays monthly interest instalment.

Capel Sound VIC 3940

- First Ranking Mortgage
- Appointment of Pitcher Partners as Receivers and Managers over the Borrower.
- Appointment of Cor Cordis as the Liquidator.
- All known leases relevant to the property at Capel Sound have been disclaimed.
- Initiation of the Sale of the subject property with JLL.

Prahran VIC 3181

- Appointment of Pitcher Partners as Receivers and Managers over the Borrower.
- Subject property has been sold, and the settlement was completed on 28 July 2023.
- No further impact on the 30 June 2023 account.

Box Hill VIC 3128

- Appointment of Pitcher Partners as Receivers over the Borrower.
- Subject property has been sold, and the settlement was completed on 23 June 2023.
- Initiation of a claim against the Guarantor for recovery of the shortfall.

Airport West VIC 3042

- First Ranking Mortgage over 6 residential lots, and Second Ranking Mortgage over 9 residential lots
- Appointment of Pitcher Partners as Agents for the Mortgagee in Possession of the Property that we hold a first registered mortgage.

Thomastown VIC 3074

- First Ranking Mortgage
- Appointment of Pitcher Partners as Agents for the Mortgagee in Possession of the Property.
- Construction works completed.
- Four (4) townhouses presold.
- Subdivision plan lodged for registration and obtaining the Certificate of Occupancy
- The settlements for four townhouses occurred on 12 September 2023.
- No further impact on the 30 June 2023 account.

Eltham VIC 3095

- First Ranking Mortgage
- Construction of Eight (8) townhouses completed.
- Four (5) out of eight (8) townhouses settled, partially repaying the loan.
- One (1) townhouse has been sold, with settlement to be scheduled for November 2023, potentially repaying the loan in full.
- The remaining two (2) townhouses are currently still on the market for sale.
- Throughout the period, the Borrower pays interest monthly on time.

MANAGER REVIEW

Dear Investors,

We hope this letter finds you well. It has been an eventful year in both global and domestic markets, and we would like to provide you with an annual update on our fund's performance and address certain challenges we have faced over the past year.

Record levels of domestic and global stimulus during the COVID-19 pandemic years helped to mitigate largely unparalleled downside risks. Post-COVID-19, inflation surged in Australia due to overseas factors such as the war in Ukraine, and domestic factors such as COVID-related backlogs in the construction sector. To constrain inflation, the Reserve Bank shifted to a phase of monetary policy tightening from May 2022.

The Reserve Bank has lifted its 12th consecutive increase in interest rates over the past year, elevating the cash rate to 4.1%, its highest in over a decade. The decision was driven by the persistent risk of inflation, which currently stands at 7%. Although the peak has been crossed, inflation remains well above the target range of 2-3%. In light of this, monetary policy tightening is viewed as a critical tool to guide inflation back into the desired range within a sensible time frame. Future policy adjustments will hinge on the progression of the economy and inflation trends, with further tightening potentially needed to expedite the return of inflation to the target range.

The impact of rising interest rates and higher inflation on debt funds is twofold. Firstly, it affects the borrowing costs for commercial property owners. When interest rates rise, it becomes more expensive for property owners to secure financing, either for initial purchases or for refinancing existing loans. This is because the cost of servicing debt also increases. This scenario can put financial pressure on property owners, especially those with high levels of debt or those who were banking on low rates to maintain their profit margins. For debt funds that hold these loans, an increased risk can come in the form of higher default rates. If borrowers find it challenging to meet their loan obligations, they may default on their loans. This default risk then passes on to the holders of these debts, who may suffer losses as a result. Secondly, higher inflation erodes the purchasing power of future cash flows, impacting the value of fixed-income investments. This erosion of purchasing power can have implications for the value of our portfolio and subsequently affect the returns on fixed-income investments.

Over the course of the past year, we have encountered specific default cases within our fund. We recognize that these instances have raised concerns among our investors, and we want to assure you that we take default management seriously. In the previous page, we listed the default cases and outlined the progress made in handling these defaults. Our primary objective is to protect and preserve the value of your investments while proactively managing any default risks.

In response to these challenges, we take a proactive approach to managing our fund portfolio. Firstly, we closely monitor our borrowers' financial position and the loan-to-value ratios of our investments. By maintaining strict underwriting standards, we aim to mitigate the risk of default and preserve the value of our loan portfolio. Additionally, for future cases, we consider reducing the loan-to-value ratios and setting lower thresholds for loan amounts to potentially decrease the risk exposure associated with these loans.

Furthermore, we diversify our portfolio across various commercial property sectors, geographic locations, and borrower profiles. This diversification helps to mitigate concentration risks and provides us with exposure to different segments of the market, which may respond differently to interest rate and inflation changes.

In conclusion, we remain committed to the prudent management of your investments and actively navigate the challenges posed by rising interest rates and inflation. We will be more conservative on lending parameters to keep the best interest of our investors.

We appreciate your continued trust and support in our fund. Should you have any further questions or concerns, please do not hesitate to contact us. We look forward to providing ongoing updates on our progress and the overall market landscape.

Yours Sincerely,

Zank & Company Pty Ltd

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CONTACT US

MELBOURNE OFFICE

LEVEL 2, 115 COLLINS ST, MELBOURNE VIC 3000

EMAIL: INVEST@ZANK.COM.AU

PHONE: 1300 501 817

SYDNEY OFFICE

3503 LEVEL 35, 31 MARKET STREET, SYDNEY NSW 2000

PHONE: 1300 501 817