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Finexia Trust's improved structure signals a BUY for A and B class notes

By Matthew Macreadie

Despite the recent and largely anticipated announcement regarding the conclusion of the Genius administration and the formation of Shared Beginnings, the overall performance of the Finexia Trust has remained remarkably resilient, underscoring its fundamental strength for fixed income investors. Importantly, the Genius process has enabled the company to conduct a thorough credit risk assessment across the aggregate loan book, reinforcing confidence in both asset quality and the robust bottom-up underwriting process. At this stage, the loan book stands in pristine order, providing credit investors with increased conviction in the stability of the Trust's structured finance platform. The operators in the Finexia Trust are industry leaders in the Childcare sector, typically managing more than 10 centres each, and demonstrating high cashflow generation with an average ~5x EV/EBITDA multiple.

When analysing the Finexia Trust, all key pool parameters are fully compliant, and all receivables remain eligible as at June 2025. Notably, the arrears ratio (60 days) is at 0% (well below the 2% covenant), reflecting excellent loan performance. Credit enhancement is robust, with Class A subordination at \$28.964 million (required: \$28.886 million or 40% credit enhancement) and Class B subordination at \$14.714 million (required: \$14.443 million or 20% credit enhancement). Formative childcare operator loans, obligor group concentration, geographic diversification, and single suburb concentration limits are all within the stipulated risk parameters—important risk management considerations for fixed income market participants.

For noteholders, the Trust maintains a conservative loan-to-value ratio (LVR) framework. The maximum LVR on an individual loan is capped at 70%, translating to a maximum effective LVR of 42% for Class A (or 33% based on current LVRs), and 56% for Class B (or 44% based on current LVRs). This provides substantial capital protection, allowing for a 58-67% drop in the value of underlying childcare business assets before Class A noteholders, and a 44-56% drop before Class B noteholders, would face any principal loss. Such structural protections are highly valued by those seeking defensive fixed income investment opportunities.

Market-wide, supply and demand dynamics in the broader Australian ABS/RMBS market have resulted in significant spread tightening in both primary and secondary markets. Recent indicative data for junior BB-rated tranches show yields in the range of 200-300bps. The June-August issuance window has been characterised by strong investor demand and oversubscription, with some mezzanine tranches covered up to ten times. For instance, the Resimac Asset Finance (RAF ABS Series 2025-1) E Tranche (Baa2/BB; Moody's/S&P) was priced at

1Mbbsw+2.75%. Against this backdrop, the Finexia A and B class notes, offering coupons of 1Mbbsw+650bps and 1Mbbsw+950bps respectively, stand out for their attractive risk-adjusted returns.

The Finexia A and B class notes benefit from the Trust's tightened structure, rigorous operational and compliance reviews, enhanced reporting, and updated credit policy—key features for institutional and sophisticated investors seeking reliable fixed income securities. Furthermore, these notes offer the advantage of an effective call at the scheduled maturity date (18/10/2026), with coupon step-ups of 100bps and 150bps for Class A and B, respectively, if not called, providing strong issuer incentive for timely redemption.

The Genius exposure of \$9.7 million (or \$7.7 million net of Mayfield security) is secured against \$14 million in assets, specifically 7 operational childcare businesses. These loans are secured against business operations and associated assets—not property—helping to diversify collateral risk. From a credit perspective, this exposure is expected to revert to performing status over a 12–18-month period, supporting the Trust's ongoing stability.

***If you are interested and would like further details on the
Finexia Trust A and B class notes,
please reach out to one of our Relationship Managers
or call us on 1300 784 132.***

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