FHIM Trade Logistics 2021-1

Ferguson Hyams

Issue Date	FHIM Trade Logistics 2021-1
Issuer	AMAL Pty Ltd as trustee of the FHIM Trade Logistics 2021-1
APIR Code	FHY0536AU via Hub24 IDPS
Issue Type	Structured Note
Issue Size	AUD 57,000,000
Coupon Type	Fixed
Coupon	4.50%[1]
Coupon Frequency	Quarterly
Currency	AUD
Eligible Investors	Wholesale Only
Maturity	18-Oct-25
Settlement Date	18-Oct-21 open until filled
Investment Minimum	AUD$50,000
ISIN	AU3CB0283968
Bloomberg	FHIM 2021-1 A Mtge

1 No assurance can be given that the Manager and the Underlying Portfolio will generate the necessary performance to coupon amount equal to the annualised target. Depending on the performance of the Underlying Portfolio, investors may not receive any Coupon Payments.

The Management Team

Luke Ferguson

Luke is the Chief Executive Officer and Responsible Manager for the AFSL. Vast experience in global alternative strategies and automated trading research.

Gideon Hyams

Gideon is the Chief Investment Officer and has 20 years of trading experience with UBS and an outstanding record of investment performance.

Scott Charaneka

Scott is the Corporate Adviser and is one of Australia's foremost lawyers in the Financial Services sector with over 25 years experience.

Introduction to Ferguson Hyams (FHIM)

FHIM has a mission to find fixed income styled trading strategies with a great track-record of risk-adjusted returns while considering protection of funds.

Investments are verified and risk-managed by CIO Gideon Hyams, a former investment bank Managing Director with 20 years of trading and risk-management experience for one of the world's largest trading books.

FHIM have been providing investment solutions under an AFSL since 2016 and are regulated by the Australian Securities and Investments Commission (ASIC) under AFSL 490023.

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What is the Bond Strategy?

The underlying Fund allocates capital into pre-booked self-liquidating physical commodity-backed trade finance transactions. Returns are made by entering a simultaneously executed buying & selling contract (supply and purchase agreements) between a "Seller" (supplier) and a "Buyer" (purchasing) which the Fund will have previously onboarded to its panel of approved counterparts (having passed KYC, AML and transaction embargo checks).

- The trade generates profit by taking a positive margin between the contracted buying and selling price of the Physical Commodity.
- Transactions are executed via standard trade finance instruments for example Letters of Credit and Bank Guarantees, or other industry-accepted trade finance mechanisms.
- The Strategy secures its title and control of the underlying commodity asset in the transaction by various means including the control of the Bill of Lading (title document for commodities being shipped), warehouse receipts/warrants, and other instruments controlling the movement/on-sale or giving title over the underlying commodities in the transactions invested in.
- Bond holders are senior to unit holders in the underlying Fund and will hold cash or own the underlying cargo, one or the other.

The Strategy will invest in but not limited to the following Commodity sectors:

i. agriculture;
ii. metals and mining;
iii. chemicals;
iv. energy; and
v. semi-finished and finished industrial products.

It avoids perishable goods such as fresh fruit & vegetables or fresh seafood.

Why is there an opportunity now?

- The World Trade Organization (WTO) notes that Around 60% of trade finance requests from small businesses are rejected by banks and as high as 74% according to the Asia Development Bank in 2017. The Rejection is reported often on the basis that the transactions are too small (below US$15m) to support the Banks capital allocation and KYC/AML costs.
- The introduction of Basel II and III has seen major global banks move away from their trade financing businesses. The Basel Accords, which were developed as a response to the 2008 financial crisis, have heightened banking regulation, especially as it relates to capital requirements.
- On top of regulatory pressure, banks are also facing competition over pricing in traditional trade financing contracts which has prompted them to abandon deals that may be unprofitable, and the banks have subsequently reigned in exposure.
- This is where the underlying Fund has developed its unique non-credit, non-lending, asset backed approach to cost effectively support the under-banked shippers, suppliers, buyers, and intermediaries in the Bulk Commodity space using its superior risk management methodology which transforms unrated transactions into AA+ equivalent managed transactions.

What is the default risk in this trade?

In Both scenarios A and B below, the Buyer pays a minimum up-front fee (TF) of 20% to the Fund to secure the Cargo. The Fund owns the cargo (which is 100% insured) until it is delivered to port where ownership changes hands.

SCENARIO A

Ship sinks, taken by pirates, doesn't get to the destination port

All trades are covered by an All-Risk Marine insurance from an A (or better) rated insurer. This covers 100% of the Cargo, should the boat sink etc, the Cargo is damaged or partly lost etc.

SCENARIO B

The buyer defaults and doesn't take the Cargo

Minimum of 20% trading fee (TF) is paid upfront and is calculated with reference to the required P&L and the spot price at the destination. This allows the Fund to buy the cargo, knowing that if the Buyer defaults — they can sell the Cargo at the destination port in the spot market and not adversely affect its P&L. Fund owns the cargo at a minimum 20% discount.

Safety of Funds

- Underlying Bond is rated BBB Investment Grade by Kroll and is senior to the underlying fund unit holders.
- Tractions for the Notes are via Austraclear.
- The underlying transactions have protection from an all risk marine insurance policy and by owning the Cargo until it is delivered.

Summary

1. Banks have withdrawn from sub $15mil trades.
2. Cargo is owned by the Fund and has a 100% all risks marine insurance for all trades.
3. The Fund always owns the Cargo at a discount and can resell at the destination port if the end buyer defaults (The buyer's up-front fee is non-recourse).
4. The underlying Bond is BBB Investment Grade rated by Kroll – USA commodities ratings expert.
5. Bond holders are Senior to unit holders in the underlying Fund.
6. 4.5% AUD