



30 March 2020

## Fund Update for Spire Wholesale Alternative Income Fund No.1 (AUD)

(Incorporating the underlying funds, Bridge Debt Strategies I (BDSI) and Bridge Debt Strategies II (BDSII))

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Spire Capital has this week attended the six-monthly Limited Partner Advisory Committee (LPAC) virtual meetings for Bridge Debt Strategies I (BDSI) and Bridge Debt Strategies II (BDSII) in its capacity as a Member of each LPAC, representing the interests of Spire clients invested in each fund, either directly or via the Australian feeder fund Wholesale Alternative Income Fund No.1 (AUD) (SWAIF).

Spire's takeaways from the meetings are as follows:

### The Market

#### K-Series

- There is a lot of volatility in the market – the market for new securitisations has essentially shut down.
- Bridge has seen (and acquired for BDSIII) distressed sales of Freddie Mac K-Series bonds, which until recently were trading at 6% yields, now being sold at 11-12% yields.
- These forced sales are by parties who had too much leverage and have had to sell to meet margin calls, or are by funds with open-ended structures who have had to sell to meet redemption requests.
- Selling has been worse than in the 2008 crisis, with sales occurring over weekends for settlement on Monday. This is unprecedented.
- The repo market has also been severely affected. The agencies of Freddie Mac and Fannie Mae have themselves for the first time entered the market to provide repo financing, in an effort to smooth the markets. Bridge Debt Strategies CIO Jim Chung has never before seen this in his career.
- BDSI & BDSII have both received margin calls, which the funds have been able to meet.
- Freddie Mac has implemented “forbearance” provisions, for multifamily borrowers, enabling borrowers, if they require, to defer principal and interest payments for up to 90 days. These deferred payments must be made up over the following 12 months. These provisions will impact on bond coupon payments to investors, as Freddie Mac and the special servicer bank will intercede to cover payments to investors.

### Impacts on the Funds

- For increased prudence, payment of the Q4 distributions by each fund (for the period 30 Sept to 31 Dec 2019) may be deferred or withheld until the market recovers, in order to establish additional reserves to meet margin calls if required.
- BDSII will call its uncalled capital of approximately 3%, for the same reason.
- Delinquencies – BDS II has two K-Series loans that are delinquent. One is a student housing loan in Ole Miss and one is a small workforce affordable housing loan in Kansas City. BDSI has repossessed an office building in Houston which was in delinquency. The Bridge office team has had success in releasing the property to circa 65% occupancy and the asset is now cash-flow positive with no debt.
- Further information will be available in the Q4 Partner Statements due shortly.

As all Spire Capital staff are currently working remotely, please address any queries to: [info@spirecapital.com.au](mailto:info@spirecapital.com.au)

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