Next Edge Private Debt Fund

Monthly Commentary as of September 30, 2020

An open-ended investment product that offers investors access to investments in predominantly secured, short-term loans through experienced credit advisors, with independent oversight.

FUND PERFORMANCE

	1 Month	YTD*	1 Year	3 Year Annualized	5 Year Annualized	Annualized Since Incep.	Inception Date	NAV	Monthly Distribution
Class A1[1,2]	0.56%	4.07%	6.02%	7.26%	7.30%	7.25%	June 2015	$9.22	$0.0628
Class F1[1,2]	0.65%	4.92%	7.19%	8.52%	8.64%	8.60%	June 2015	$9.92	$0.0670
Class G[1,2]	0.58%	4.30%	6.34%	7.66%	7.73%	7.66%	June 2015	$9.39	$0.0638
Class H[1,2]	0.70%	5.36%	7.77%	9.12%	9.17%	9.10%	June 2015	$10.10	$0.0679
Class J[1,2]	0.66%	5.06%	7.38%	8.71%	8.79%	8.79%	October 2015	$9.69	$0.0653
Class K[1,2]	0.60%	4.48%	6.58%	N/A	N/A	7.25%	March 2019	$9.80	$0.0665
Class L[1,2]	0.70%	5.35%	7.37%	N/A	N/A	8.20%	March 2019	$9.99	$0.0671
Class A[1,2]	0.56%	4.05%	6.00%	7.18%	N/A	7.17%	April 2017	$9.50	$0.0647
Class F[1,2]	0.60%	4.50%	6.60%	7.92%	N/A	7.94%	April 2017	$9.65	$0.0654

FUND COMMENTARY

The Next Edge Private Debt Fund (the “**Fund**”) returns ranged between 0.56% (Class A Units) and 0.65% (Class F1 Units) in September. The Fund’s underlying portfolio (the “**Portfolio**”) is broadly diversified with exposure to 154 factoring, asset-based, specialty finance, or similar type loans with 148 unique clients - with transactions in 32 states and 6 provinces. Presently, the geographic weighting of the Portfolio is approximately 48% to the US and 52% Canadian. Of these positions, 110 are factoring positions or facilities (of which ~ 90% are credit insured), 33 are asset-based loans, and 11 are asset-based specialty finance loans. Top regional exposures are in Ontario, New York, South Carolina, Illinois, British Columbia, Texas, Quebec, and North Dakota. The Portfolio’s gross yield prior to Fund fees is ~11.9%.

As of this commentary release, the Fund closed on a significant and sizeable loan transaction ($22MM) that we are pleased to report. This was part of a significant acquisition financing opportunity that our team had been working on for the past few months. The loan is very well collateralized by the company that is being acquired in addition to collateral from the acquiring firm as well. This file included a participant from a major institution who took part in the financing of both the mezzanine and equity components. Looking forward, we expect an institutional investor to take us out of this position within the next year. This transaction follows on the footsteps of another very well collateralized loan where an initial $5MM tranche of a $15MM loan commitment was funded. In addition to those mentioned above, the Fund completed several other financing transactions over the month and has many others in various stages of diligence.

In this month’s comments we would like to answer a valid comment we receive many times from investors:

“Businesses are faltering; small and mid-sized companies have been hit hardest, which is where your fund is focused on; walk down the street and nothing is going on; how is it that you are not getting hit/taking more losses than we have shown thus far?”

We have highlighted some points below to explain our take on this question:

- Government subsidies on both sides of the border have helped several of our portfolio companies navigate through this pandemic (and, in many cases, either improved our security or reduced our position sizes).
- Company/loan performance is very sector-specific whereby some sectors got hit very hard (these are the sectors that we, in general, had little exposure towards, reduced exposure to or exited completely and won't lend to for the foreseeable future) and others very little or not at all (in fact, some even benefitted).
- Performance is also attributable to the type of financing we provided the company. For instance, we had a number of factoring positions in the US energy sector to service providers, which had their revenues dramatically decline. However, because the Fund exposure was towards end debtor receivables, once we collected on the receivables, we were out of the position, or at least the position size was dramatically reduced, since there was less activity/receivables to finance going forward.
  - » Furthermore, the Fund's exposure to companies in hard-hit sectors, which although allowed to continue to operate yet had significant revenue declines, were almost entirely financed via factoring. This was beneficial for our Fund as per the above point. If not for factoring, it was unlikely that the Fund would have had such exposure in the first place to those areas.
- Having the loans and factoring positions underwritten and monitored properly with an experienced team to start with made a significant difference to loan portfolio performance throughout the COVID-19 pandemic.
- Early steps taken by the credit team to elevate knowledge (such as supply chain risk questionnaires prior to North American shut down) and heightened monitoring of our clients was key to mitigating risk.
- The switch to daily credit team portfolio review meetings allowed for more timely information flow and prompt decision making on the portfolio companies. This was instrumental and added significant value in preventing losses.
- We would counter the above claim that small and medium-sized businesses, in general, have been hit hardest because we have seen firsthand many small and medium-sized businesses successfully pivot as a result of the new environment. Many of these businesses responded faster than larger companies by either cutting costs and staff – whereby reducing/eliminating their burn rates faster than larger companies.
  - » Although we had a few companies voluntarily close (albeit only for a short period of time), all our portfolio companies could continue to operate, even with the revenue decline mentioned above in the energy sector (a small portion of the Portfolio at the present, as a result of the aforementioned point on Factoring).
- As collateral lenders, there are assets backing our financings, which provides security to the values of our loans/factored positions.
- Added security features, such as credit insurance on factoring positions, aided the Portfolio's resilience. While factoring positions are underwritten as if this insurance does not exist, credit insurance claims were made on some factoring positions, which mitigated some losses.
- The mindset towards underwriting loan transactions takes into consideration the impact on a portfolio company and its collateral through an economic downturn or a recession, thus providing a cushion at the outset. In all fairness, files are not underwritten, assuming a global shutdown.
- Although we take immense pride in the Portfolio's performance throughout COVID-19 and the past 5+ years, we do not expect to be perfect all of the time. That being said, as collateral lenders, we do believe that large losses in the Portfolio are really not the norm, nor expected if executed properly.

While the above are the most salient points we wanted to highlight, if you would like to continue the conversation, all of the members of our sales team are available to you.

We have received a number of loan opportunities referred to us over the months from this reader group - and it is very much appreciated. Based on the feedback from our network of referral sources, we expect to see more and more companies having difficulty meeting their needs through traditional channels. As mentioned before, we cannot promise that we will do the deal, but we do promise a respectful, entrepreneur-to-entrepreneur discussion to understand the company's needs to see if we can help. And if it is not a fit for us, we may be able to refer them to someone else that it is.

We welcome and appreciate any referrals, both from the investor side or to businesses that may require capital.

Thank you for your continued support and confidence in the Fund and our team. Please reach out to us with any questions, concerns, or if we can be of help in any way.

HISTORICAL PERFORMANCE[1] Class A1

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD[2]
2020	0.51%	0.65%	0.22%	0.35%	0.28%	0.26%	0.60%	0.58%	0.56%	-	-	-	4.07%*
2019	0.69%	0.59%	0.77%	0.66%	0.63%	0.59%	0.58%	0.62%	0.57%	0.68%	0.64%	0.54%	7.82%
2018	0.68%	0.55%	0.66%	0.62%	0.64%	0.79%	0.67%	0.63%	0.63%	0.59%	0.64%	0.65%	8.06%
2017	0.66%	0.60%	0.57%	0.63%	0.61%	0.53%	0.57%	0.57%	0.60%	0.69%	0.54%	0.53%	7.33%
2016	0.55%	0.59%	0.70%	0.31%	0.35%	0.56%	0.53%	0.69%	0.63%	0.67%	0.80%	0.60%	7.21%
2015	-	-	-	-	-	0.61%	0.75%	0.37%	0.38%	0.65%	0.69%	0.60%	4.13%*

HISTORICAL PERFORMANCE[1] Class F1

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD[2]
2020	0.61%	0.74%	0.32%	0.44%	0.37%	0.35%	0.69%	0.67%	0.65%	-	-	-	4.92%*
2019	0.79%	0.68%	0.86%	0.76%	0.72%	0.69%	0.67%	0.71%	0.66%	0.78%	0.73%	0.63%	9.02%
2018	0.80%	0.66%	0.78%	0.74%	0.76%	0.91%	0.77%	0.73%	0.72%	0.69%	0.73%	0.75%	9.41%
2017	0.77%	0.71%	0.68%	0.75%	0.74%	0.65%	0.68%	0.69%	0.72%	0.81%	0.66%	0.65%	8.83%
2016	0.66%	0.70%	0.81%	0.44%	0.44%	0.68%	0.64%	0.79%	0.74%	0.78%	0.91%	0.71%	8.62%
2015	-	-	-	-	-	0.61%	0.98%	0.49%	0.50%	0.77%	0.81%	0.72%	4.97%*

IMPORTANT NOTES

1. The Next Edge Private Debt Fund (the 'Fund') returns are net of all fees and expenses associated with Class A1 Units, Class F1 Units, Class G Units, and Class H Units charged from June 1, 2015 (trading start date). The Next Edge Private Debt Fund (the 'Fund') returns are net of all fees and expenses associated with Class J Units charged from October 1, 2015 (trading start date). The Next Edge Private Debt Fund (the 'Fund') returns are net of all fees and expenses associated with Class A Units, and Class F Units charged from April 1, 2017 (trading start date). The Next Edge Private Debt Fund (the 'Fund') returns are net of all fees and expenses associated with Class K Units and Class L Units charged from March 1, 2019 (trading start date). Returns for 2020 are unaudited. Therefore, performance statistics containing 2020 figures shown in this material are subject to final confirmation. The historical annualized rates of return for the Next Edge Private Debt Fund Class A1 Units as of September 30, 2020 are 1 yr 6.02%, 3 yr 7.26%, 5 yr 7.30%, 10 yr N/A, and CARR 7.25%; for Class F1 Units are 1 yr 7.19%, 3 yr 8.52%, 5 yr 8.64%, 10 yr N/A, and CARR 8.60%; for Class G Units are 1 yr 6.34%, 3 yr 7.66%, 5 yr 7.73%, 10 yr N/A, and CARR 7.66%; for Class H Units are 1 yr 7.77%, 3 yr 9.12%, 5 yr 9.17%, 10 yr N/A, and CARR 9.10%; for Class J Units are 1 yr 7.38%, 3 yr 8.71%, 5 yr 8.79%, 10 yr N/A, and CARR 8.79%; for Class K Units are 1 yr 6.58%, 3 yr N/A, 5 yr N/A, 10 yr N/A, and CARR 7.25%; for Class L Units are 1 yr 7.37%, 3 yr N/A, 5 yr N/A, 10 yr N/A, and CARR 8.20%; for Class A Units are 1 yr 6.00%, 3 yr 7.18%, 5 yr N/A, 10 yr N/A, and CARR 7.17%; for Class F Units are 1 yr 6.60%, 3 yr 7.92%, 5 yr N/A, 10 yr N/A, and CARR 7.94%.
2. Distribution - adjusted return
*Part Year

Capitalized terms not defined in this document are defined as set forth in the Offering Memorandum of the Fund (the 'OM'). There is no guarantee of trading performance and past or projected performance is not indicative of future results.

Next Edge Capital Corp. is the manager and trustee of the Fund (the 'Manager'). The investment objective of the Fund is to achieve consistent risk-adjusted returns with minimal volatility and low correlation to most traditional asset classes. The Fund intends to achieve its investment objective by investing all, or substantially all, of its net assets in the Next Edge Private Debt LP (the 'Partnership') through the Next Edge Commercial Trust (the 'Sub Trust'). To achieve its investment objective the Partnership will primarily allocate capital to a number of specialist loan originators and managers of credit pools ('Credit Advisors'), to take advantage of opportunities in the private debt markets. Strategies that may be used include trade finance, consumer finance, invoice factoring, supply chain financing, syndicated loans, regulatory capital, mezzanine debt, structured credit and asset-based lending. The Partnership will invest in both senior and subordinated debt subject to the advice and recommendations of their Credit Advisors with the intent of building a portfolio, either directly or indirectly, of private income generating securities. Note to Investment Professionals: The information in the Monthly Report is being provided to current investors in the Fund and is being provided to their registered dealers for informational purposes only.

This is not a sales literature and cannot be used as such. The Fund is not a trust company and does not carry on business as a trust company and, accordingly, the Fund is not registered under the trust company legislation of any jurisdiction. Units of the Fund are not 'deposits' within the meaning of the Canada Deposit Insurance Corporation Act (Canada) are not insured under provisions of that Act or any other legislation.

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