Next Edge Private Debt Fund

Monthly Commentary as of August 31, 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	Annualized Since Inception	Inception Date	NAV	Monthly Distribution
Class A1[1,2]	0.58%	3.49%	6.03%	7.27%	7.26%	June 2015	$9.23	$0.0628
Class F1[1,2]	0.67%	4.25%	7.20%	8.55%	8.61%	June 2015	$9.93	$0.0670
Class G[1,2]	0.60%	3.70%	6.35%	7.69%	7.66%	June 2015	$9.40	$0.0638
Class H[1,2]	0.71%	4.63%	7.78%	9.14%	9.11%	June 2015	$10.10	$0.0679
Class J[1,2]	0.68%	3.73%	7.39%	8.73%	8.80%	October 2015	$9.69	$0.0653
Class K[1,2]	0.62%	3.85%	6.59%	N/A	7.23%	March 2019	$9.81	$0.0665
Class L[1,2]	0.71%	4.63%	7.38%	N/A	8.17%	March 2019	$9.98	$0.0671
Class A[1,2]	0.57%	3.48%	6.01%	7.18%	7.17%	April 2017	$9.51	$0.0647
Class F[1,2]	0.62%	3.87%	6.61%	7.94%	7.95%	April 2017	$9.65	$0.0654

FUND COMMENTARY

The Next Edge Private Debt Fund (the "**Fund**") returns ranged between 0.57% (Class A Units) and 0.67% (Class F1 Units) in August. The Fund's underlying portfolio (the "**Portfolio**") is broadly diversified with exposure to 162 factoring, asset-based, specialty finance, or similar type loans with 151 unique clients - with transactions in 32 states and 6 provinces. Presently, the geographic weighting of the Portfolio is approximately 49% to the US and 51% Canadian. Of these positions, 114 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, Texas, British Columbia, Quebec, and Pennsylvania. The Portfolio's gross yield prior to Fund fees is ~11.9%.

We know we mention this often; however, we will say it once more, current deal flow opportunities are abundant and all signs from our origination group point to this increasing over the next six months. We have a significant amount of transactions currently in various stages of underwriting and expect a large amount of these to be funded within the next four to six weeks. We continue to diversify our capital sources, including bringing on syndicate partners for some upcoming transactions that are larger in size.

Fund sales are gradually picking up each month, although far from pre-COVID-19 levels. So what is the hesitation? The opportunity set is arguably more attractive than pre-COVID-19 levels, and returns have held up as good as or even better than client expectations considering the circumstances over the past 6+ months. One common comment or concern that comes up fairly regularly is with regards to existing loan files and if the Portfolio has seen the worst yet. While a valid point, we would respond by saying that any exposure to hard-hit sectors/businesses has been dramatically reduced, and in some cases, reserves have been taken. At present, we feel very comfortable with the valuations of our loans and the general health of our portfolio companies. We confidently know what we have and are comfortable with going forward. Also, it is worth reiterating that if there is an issue with a loan file to the point where we believe the collateral may be impaired and our ability to get our capital back is in question, we would take further reserves for that loan immdeialtely. Thus, we would not wait until the final result is determined to write down that loan. Meaning the posted NAV is a reflection of the value of each loan within the Portfolio at that given point in time.

A common question that investors ask private lending funds is, what is their loan-to-value (”LTV”) ratio. The LTV ratio can be a good due diligence starting point, but we find it of little value, and in some cases, potentially even misleading if taken at face value. To get a more accurate picture, one must dig deeper and gain a better understanding of what represents the value part of the equation. The differences in the ascribed values can be immense.

How do we measure value as lenders? Even though we have a claim on the entire business in most loan file instances, we are lending against what we determine to be the “assets” of the company. For us, on an asset-based loan, for example, we would label assets as receivables, inventory, real estate, and equipment. Therefore, even in a case where a business could have a value as an operating entity, enterprise value, or even a traded market value in excess of the asset values that we would lend against, we would not consider these as part of the value of our LTV calculations. This excess or “boot” collateral value may provide us with extra comfort when viewing a file though.

With regards to receivables, we would determine the “value” that we set an advance rate towards to be defined as eligible receivables. Receivables that are aged beyond a certain point, historical dilution of those receivables relating to the difference between the gross amount of invoices versus the cash actually collected, and large concentration of a few end debtors are just a few of the things that would be factored into this. So the value that we lend against could be quite different from the company’s actual A/R balance.

For inventory, we lend at a percentage of an appraised net orderly liquidation value. This number is not just a value ascribed to the inventory, but it incorporates all costs to get rid of the inventory in a reasonable time frame, which could include wages, transportation, rent, insurance, etc. This number is typically very different than the cost of the inventory or the value at which it may be marketed at by the company (if the inventory is a finished product). The inventory values can vary considerably, depending on what it is. For example, what may show on the company’s balance sheet for $4MM, we may only ascribe an orderly liquidation value of $1-2MM. Furthermore, depending on what the inventory is, it plays another key determinant to moving forward on a deal since there are types of inventory that we would not be comfortable lending against, to begin with. The quality of inventory systems that the company utilizes is also very important to be able to track and monitor its value. Also, dealing with an appraiser that knows that business inside and out is very critical. Ultimately our credit team’s collective experience, their relationships built with various appraisers, and our go-to people over decades are invaluable to the process.

For equipment, the value that we use to set our advance rate against is determined by an appraised forced liquidation value. Once again, this valuation process incorporates not just the value but all costs incorporated in getting rid of it as well. In addition, similar to inventory, it may be that the equipment is costly to move, meaning regional prices may have a significant impact on the value. Other factors to consider throughout the valuation process include: the state of the industry that the equipment is operating in, the type of equipment, the equipment’s condition, whether the equipment is free-standing or has to be disassembled, and whether the equipment’s parts have value or it is only valuable as a whole. These are a few of the many questions that need to be taken into consideration. As with inventory and real estate, dealing with appraisers that understand that business is key.

In conclusion, while LTV ratios are not inconsequential to the diligence process, discerning how each fund appraises their assets’ values is imperative to fully understanding the equation.

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

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%	-	-	-	-	3.49%*
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%	-	-	-	-	4.25%*
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 August 31, 2020 are 1 yr 6.03%, 3 yr 7.27%, 5 yr 7.26%, 10 yr N/A, and CARR 7.26%; for Class F1 Units are 1 yr 7.20%, 3 yr 8.55%, 5 yr 8.61%, 10 yr N/A, and CARR 8.61%; for Class G Units are 1 yr 6.35%, 3 yr 7.69%, 5 yr 7.69%, 10 yr N/A, and CARR 7.66%; for Class H Units are 1 yr 7.78%, 3 yr 9.14%, 5 yr 9.13%, 10 yr N/A, and CARR 9.11%; for Class J Units are 1 yr 7.39%, 3 yr 8.73%, 5 yr N/A, 10 yr N/A, and CARR 8.80%; for Class K Units are 1 yr 6.59%, 3 yr N/A, 5 yr N/A, 10 yr N/A, and CARR 7.23%; for Class L Units are 1 yr 7.38%, 3 yr N/A, 5 yr N/A, 10 yr N/A, and CARR 8.17%; for Class A Units are 1 yr 6.01%, 3 yr 7.18%, 5 yr N/A, 10 yr N/A, and CARR 7.17%; for Class F Units are 1 yr 6.61%, 3 yr 7.94%, 5 yr N/A, 10 yr N/A, and CARR 7.95%.
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.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws and may not be offered or sold in the United States or to U.S. persons except pursuant to an exemption from the registration requirements of those laws. The information provided herein is for information purposes only and does not constitute a solicitation, public offering, advice or recommendations to buy or sell interests in the Fund, the Portfolio, Units or any other Next Edge Product. Please refer to the Fund's Offering Memorandum for more information on the Fund as any information in this Report is qualified in its entirety by the disclosure therein.

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