ALTERNATIVE FUND ADVISORS

Positioning & Outlook
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AFA Asset Based Lending Fund

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The Impact of Tariffs on the AFA Asset Based Lending Fund

The tariff uncertainty in the first two weeks of April led to significant volatility in the stock and bond markets, and forecasters are now giving an economic slowdown a better than 50/50 chance. Given the rapidly changing market conditions, we want to provide an update on the positioning and outlook of the AFA Asset Based Lending Fund (the "Fund").

Asset Based Lending Performs Relatively Well in Economic Slowdowns

The distinguishing feature of Asset Based Lending is that the loans are attached to and backed by specific assets such as inventory, equipment, receivables, real estate and other real and financial assets. In case of a default, these assets can be sold or liquidated. This structure inherently has the potential to offer more protection in times of distress because repayment of the loan is not primarily dependent on the cash flows and ongoing performance of a company.[1]

Limited Exposure to Tariff-Sensitive Industries

Less than 50% of our portfolio has significant direct exposure to tariff-sensitive industries such as manufacturing and retail. The majority of the Fund is invested in diversified segments with zero or minimal import content such as financial services, stabilized real estate, government contracting, litigation finance and other services including healthcare, media, and software.

No Structural Leverage

The Fund currently has approximately 5% leverage and has historically used leverage only for cash flow management. We believe this conservative posture would be beneficial in a potential economic slowdown.

Senior Secured Debt

At present, approximately 85% of our portfolio is in senior secured positions, meaning our capital sits at the top of the capital stack. If deterioration does occur, there is a buffer of capital beneath us that absorbs initial losses.

[1] There can be no assurance that the amounts realized by liquidating collateral will be sufficient to offset any potential payment defaults.

Significant Exposure to Fixed Rates

At present, over 40% of the portfolio is invested in fixed rate loans. This contrasts with private credit strategies that focus on corporate direct lending, a segment that invests primarily in floating rate loans. The impact of a potential decline in market interest rates will be more muted and gradual for funds with higher exposure to fixed rates.

Broad Diversification

Potential defaults in an economic downturn are often driven by special circumstances of individual companies. At present, the Fund holds 412 individual positions, of which less than 30 represent an allocation greater than 1%. In conjunction with the asset-based nature of these credits, we believe that this diversification limits idiosyncratic risk.

Outlook

Historically, credit tightens during economic slowdowns, and credit spreads widen. This dynamic can create attractive opportunities for private lenders to originate new loans at wider spreads and with stronger credit quality, as underwriting standards typically become more stringent.

Taking all these factors into account, should the slowdown unfold as expected, we anticipate a modest decline in both yield and net return for our Fund. Nevertheless, we believe private credit will continue to offer a meaningful premium over public markets, even in a weaker economic environment. Within the private credit space, we expect asset-based lending to demonstrate particular resilience.

Notes

- All allocation percentages mentioned above, including the exposure to tariff-sensitive industries, to senior secured debt and to fixed rate loans are as of 4/18/2025. Allocation percentages will vary over time and may not be representative of allocations.
- The Fund's leverage of 4% is as of 4/18/2025. It will change over time and may not be representative of future leverage. The use of leverage increases both risk of loss and profit potential.
- The views expressed are as of the date of the date of publication and may change based on changes in market conditions. Any expectation of future returns is inherently only a matter of opinion, may not come to pass, is not a guarantee, and cannot be relied on for investment decisions.

Disclosures

Investors should carefully consider the Fund's investment objectives, risks, charges, and expenses before investing. This information is included in the Fund Prospectus and can be accessed by calling 800-452-6804 or by email at info@alternativefundadvisors.com. Read the prospectus carefully before you invest.

An investment in the Fund involves a high degree of risk. An investment in the Fund should be viewed only as part of an overall investment program and you should invest only if you can sustain a complete loss of your principal. Please read the prospectus carefully. An investment in the Fund is subject to, among others, the following risks:

- The Fund is not intended as a complete investment program, but rather the Fund is designed to help investors diversify into private credit investments.
- The Fund is a "non-diversified" management investment company registered under the Investment Company Act of 1940.
- An investment in the Fund involves risk. The Fund is new with no significant operating history by which to evaluate its potential performance. There can be no assurance that the Fund's strategy will be successful.
- Shares of the Fund are not listed on any securities exchange and it is not anticipated that a secondary market for shares will develop.
- Shares are appropriate only for those investors who can tolerate a high degree of risk and do not require a liquid investment.
- There is no assurance that you will be able to tender your shares when or in the amount that you desire. Although the Fund will offer quarterly liquidity through a quarterly repurchase process, an investor may not be able to sell or otherwise liquidate all their shares tendered during a quarterly repurchase offer.
- The Fund's investment in private credit companies is speculative and involves a high degree of risk, including the risk associated with leverage.

The Fund has an interval fund structure pursuant to which the Fund, subject to applicable law, conducts quarterly repurchase offers for no less than 5% of the Fund's Shares outstanding at NAV. While the quarterly repurchase offer is expected to be 5%, the amount of each quarterly repurchase offer may be 5% to 25% subject to approval of the Board of Trustees (the "Board" and each of the trustees on the Board, a "Trustee"). It is also possible that a repurchase offer may be oversubscribed, with the result that shareholders may only be able to have a portion of their Shares repurchased. There is no assurance that you will be able to tender your Shares when or in the amount that you desire.

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