

Fund Research

Metrics Direct Income Fund



Overview

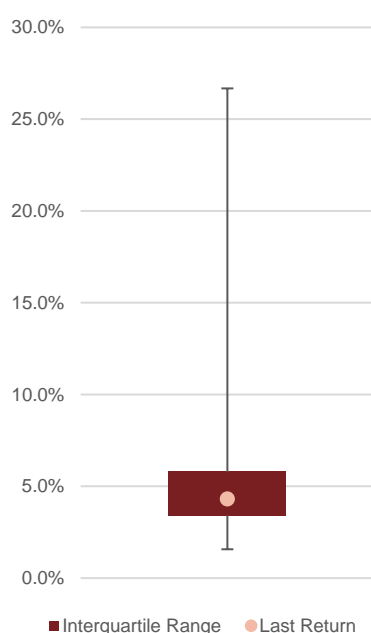
The Metrics Direct Income Fund (the “Fund”, “MDIF”) is an unlisted open-ended unit trust, domiciled in Australia, which provides retail investors exposure to the Australian corporate loan market. The Fund invests in wholesale funds that participate across the credit risk spectrum and are managed by Metrics.

Metrics has a similar fund to MDIF that is listed on the ASX in the “Metrics Master Income Trust” (ASX: MXT) which IPO-ed in October 2017. MDIF is a solution for investors that want redemption certainty (with respect to NAV - as compared to the unit price of MXT). MDIF invests in Metrics funds through its Wholesale Investment Trust (WIT), which, in turn, invests in Metrics wholesale institutional investor funds that participate across the credit risk spectrum and are managed by Metrics Credit Partners Pty Ltd (Metrics). Both MDIF and MXT invest in the WIT, however, MDIF also has the ability to invest in units of MXT. Both MXT and MDIF may gain exposure to the WIT by way of units or convertible notes in the wholesale funds.

This sub asset-class is a substantial pillar of the Australian corporate debt market but has previously been restricted to major banks and institutional investors. For this reason, MXT offers a unique investment opportunity and exposure to a market not generally accessible to retail investors.

The investment objective of the Trust is to provide private stable capital value and attractive income with a target return of the **RBA cash rate plus 3.25% p.a.** (currently 3.60% p.a.) **after fees**, payable monthly.

Figure 2. Monthly Net Returns Box Plot



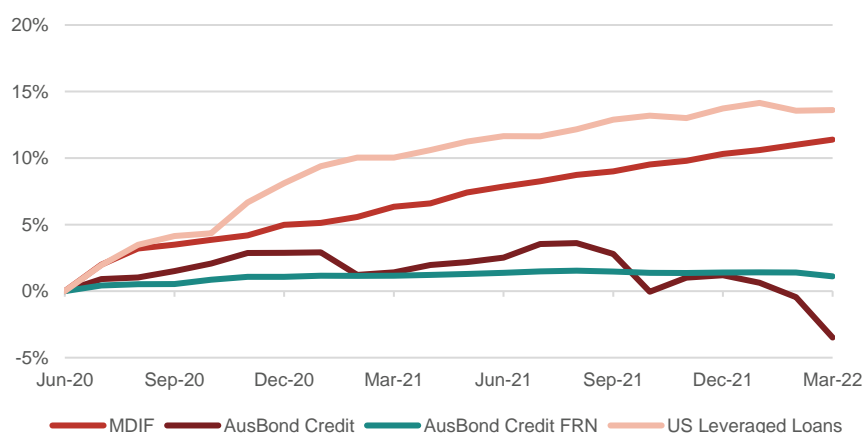
Source: BondAdviser, Metrics. Annualised monthly returns, after fees since inception.

Figure 1. Monthly Net Returns* (%)

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| 2022 | 0.27 | 0.36 | 0.35 | | | | | | | | | | 0.97 |
| 2021 | 0.13 | 0.43 | 0.72 | 0.24 | 0.77 | 0.42 | 0.37 | 0.44 | 0.25 | 0.47 | 0.25 | 0.47 | 4.95 |
| 2020 | | | | | | | 1.99 | 1.19 | 0.28 | 0.35 | 0.32 | 0.77 | 4.90 |

Source: BondAdviser, Metrics. As at 31 March 2022. May not sum due to rounding.
* Return is monthly net total return based on NTA plus dividends.

Figure 3. Relative Cumulative Performance



Source: BondAdviser, Metrics, Bloomberg. As at 31 March 2022.
Calculated from cumulative net monthly returns of the Underlying Fund.
Returns on NAV, not traded unit price, see Figure 12 for unit price variance.

Product Assessment

Highly Recommended

MDIF provides retail investors with unique exposure to the domestic commercial lending market, offering investors exposure to an asset class otherwise inaccessible to investors.

The Fund presents attractive risk-adjusted returns and offers a diversification solution to income portfolios.

MDIF provides retail investors with unique exposure to the domestic commercial lending market. On an underlying basis, the Fund primarily consists of senior secured, floating rate exposure to both investment grade and sub-investment grade companies. MDIF is a non-listed, open-ended Fund that invests in the MCP Wholesale Investment Trust (WIT) along with the capability to invest in Metrics Master Income Trust (ASX: MXT). MXT exclusively invests in the WIT. Though the Fund does not have a lengthy track record, given its sole exposure to MXT, we expect outperformance on the basis that MXT has continually outperformed its target return since inception.

MDIF has performed exceptionally well since inception having consistently outperformed the Fund's target. On a rolling 12-month basis, MDIF has returned 4.74% (net) and has delivered a net annualised return of 6.36% since inception in July 2020.

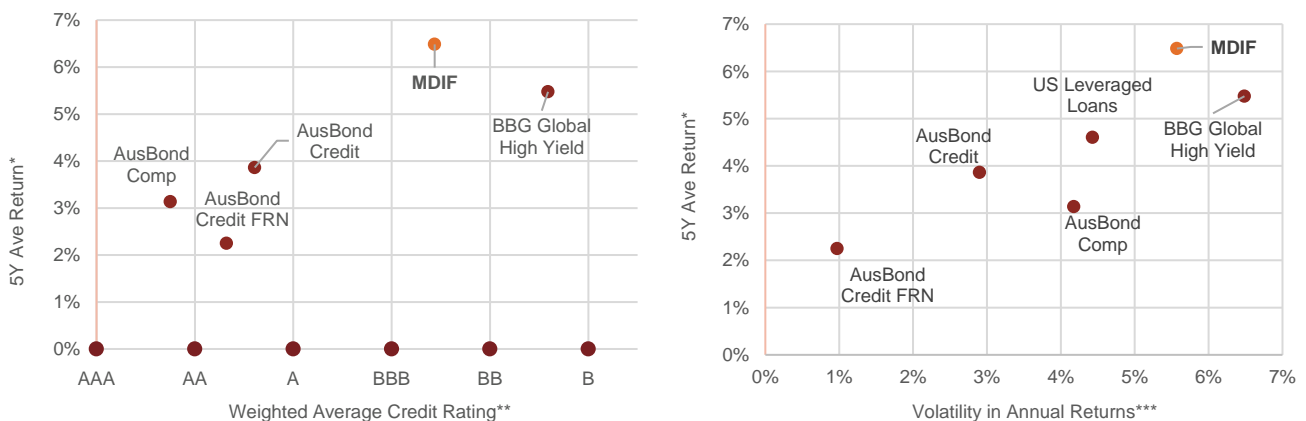
We maintain our confidence in Metrics' competence in structuring credit at origination and to diligently monitor portfolio performance to mitigate risk. This is most evident in Figure 4 where the risk-adjusted returns achieved by the Fund outperform indices of higher volatility.

This product is best suited for investors looking to generate an **attractive and steady return** from a **diversified portfolio of private loans**. Given its wholesale exposure to private credit markets not usually accessible by retail investors, the product provides valuable diversification benefits to portfolios containing traditional asset class holdings.

The number of borrowers exceeds 240, and the maximum exposure of a single borrower is 1.67%. The underlying Fund has continually increased its exposure to senior secured positions, rising to 89.8% (re-weighted to exclude cash). This continues to drive stronger LGD outcomes, as evident by significant improvements in our modelling under a stressed scenario.

The relatively short track record would typically anchor our assessment, however MDIF appropriately receives a rare upward notching, given: (1) the underlying funds have been individually assessed by BondAdviser; (2) these underlying funds have track record in excess of target returns for the prior two years; and (3) no hedging is required from MDIF into the WIT or MXT in terms of FX exposure. MDIF on a standalone basis would have a product assessment of Approved, however, with MXT carrying a Highly Recommended assessment, MDIF qualifies for a chiral assessment. Accordingly, MDIF retains our top-tier **Highly Recommended** product assessment.

Figure 4. Estimated Risk-Adjusted Return Comparison



*All returns for indices calculated using annualised monthly returns for the past five years. Average return for MDIF calculated since inception in July 2020.

** Credit Ratings based on BondAdviser Estimates. *** Calculated based on annualised monthly returns data for past five years for indices and since inception for MDIF. Source: BondAdviser, Metrics, Bloomberg as at 31 March 2022.

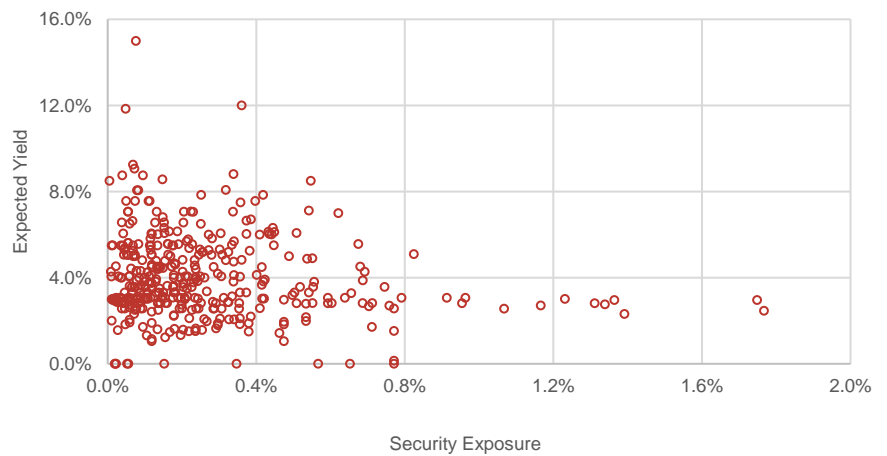
Construction and Investment Process

There have been **no material changes** to MDIF's construction and investment process.

Portfolio Risk Management

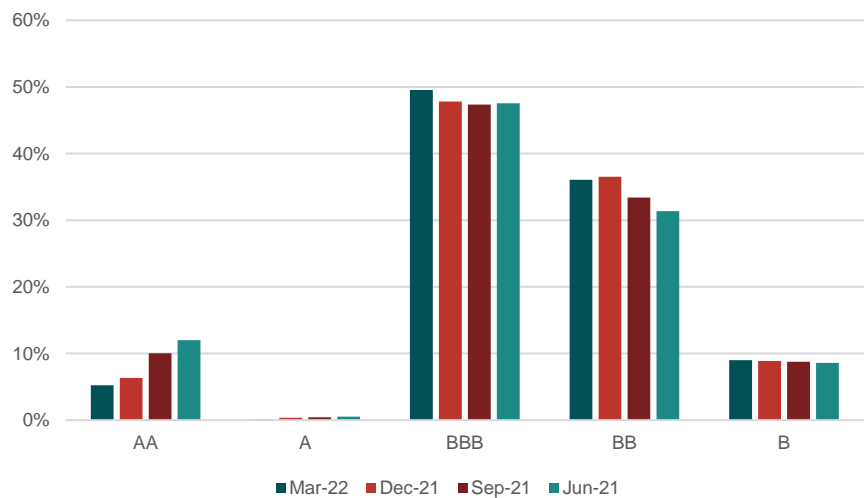
The Fund's allocation across the credit spectrum remained largely unchanged across the past quarter. The Fund's weighted average credit rating remained flat, still inside the lower end of the investment grade band, which was largely characterised by a minor winding down of cash holdings and BB securities into the BBB space. From a seniority perspective, the Fund continues to maintain a high senior secured allocation (87.0%/89.0%/89.8% in Jun 21/Dec 21/Mar 22, respectively). Additionally, the loan tenor exposure remained largely unchanged at the long end, with extra allocation (~3.41%) directed towards loans with less than one year tenor at the expense of 1–2-year loans.

Figure 5. Individual Security Exposure vs Expected Yield*



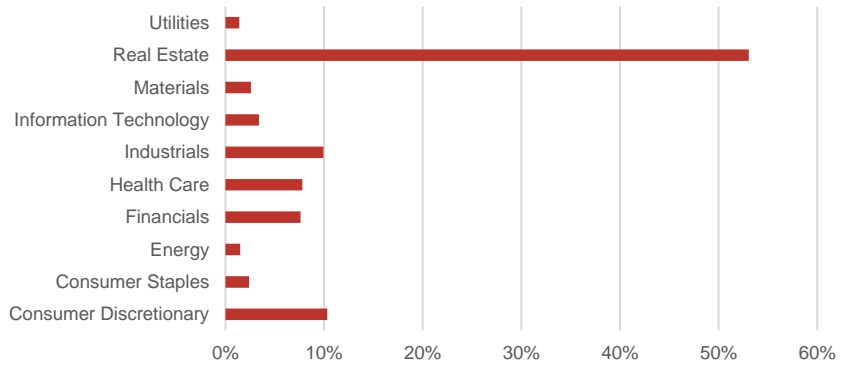
Source: BondAdviser, Metrics. As at 31 March 2022. *Excluding cash. Based on Metrics' underlying portfolio (WIT) not MDIF.

Figure 6. Portfolio Credit Rating Mix*



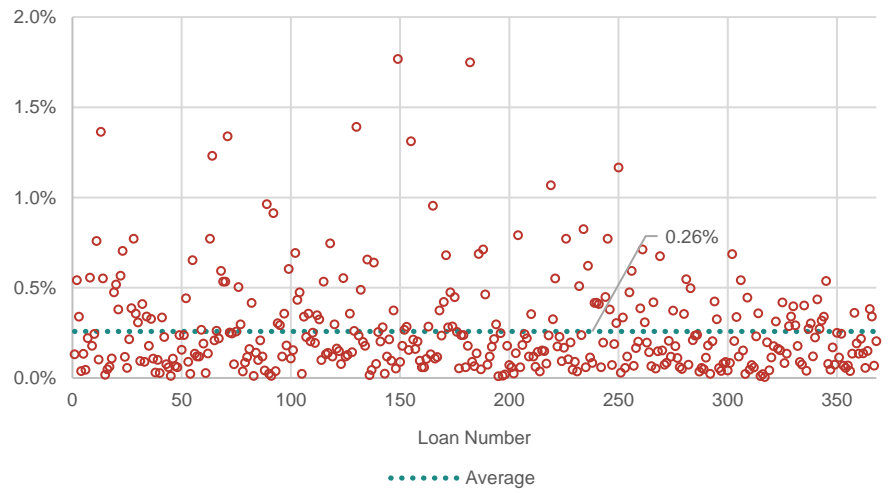
Source: BondAdviser, Metrics. As at 31 March 2022 *Including cash which is rated AA.

Figure 7. Portfolio S&P Sector Mix*



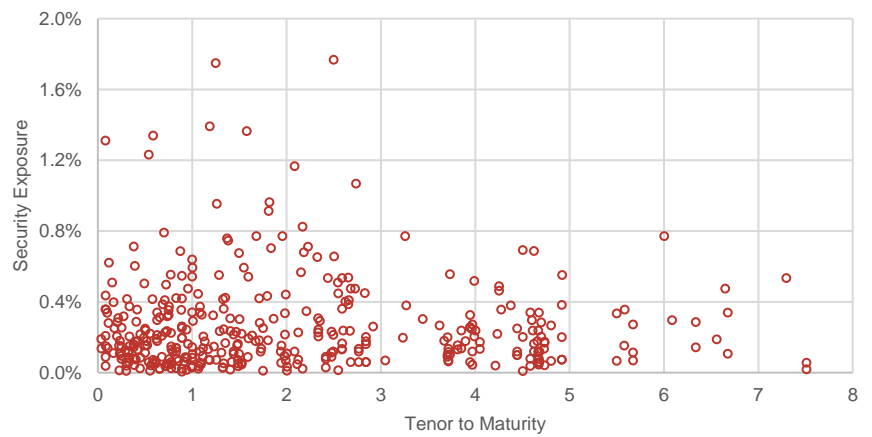
Source: BondAdviser, Metrics. As at 31 March 2022. *Excluding cash.

Figure 8. Portfolio Individual Loan Mix*



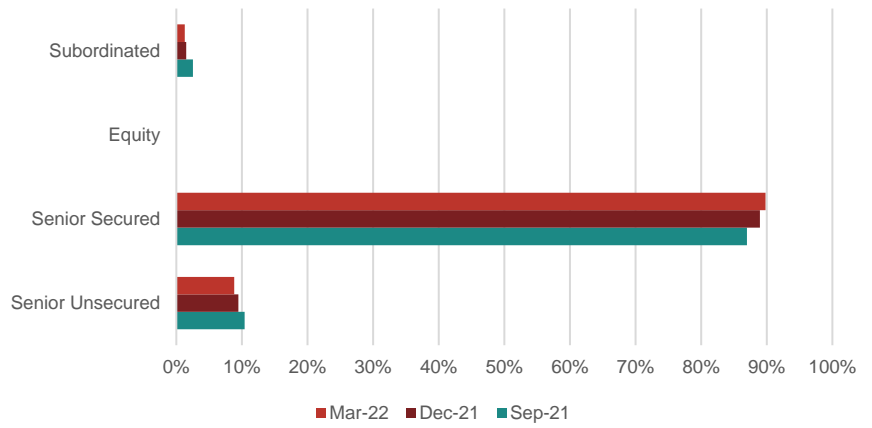
Source: BondAdviser, Metrics. As at 31 March 2022. *Excluding cash. Based on Metrics' underlying portfolio (WIT) not MDIF.

Figure 9. Individual Loan Tenor vs Exposure*



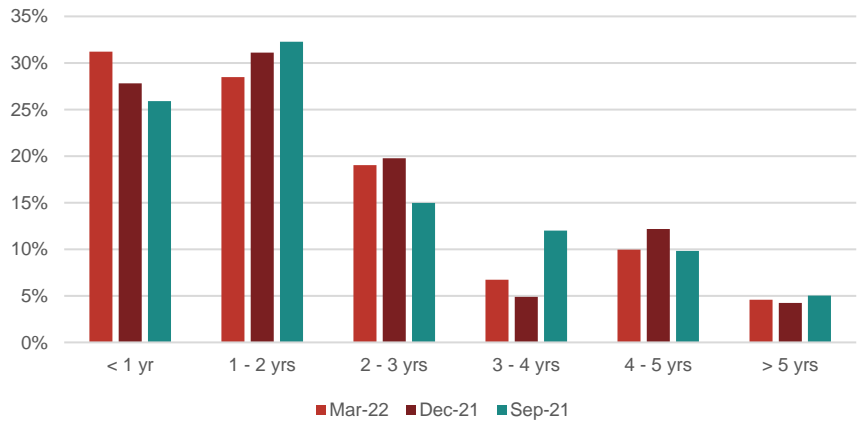
Source: BondAdviser, Metrics. As at 31 March 2022. *Excluding cash. Based on Metrics' underlying portfolio (WIT) not MDIF.

Figure 10. Portfolio Seniority*



Source: BondAdviser, Metrics. As at 31 March 2022 *Excluding cash. Based on Metrics' underlying portfolio (WIT) not MDIF.

Figure 11. Portfolio Loan Tenor*

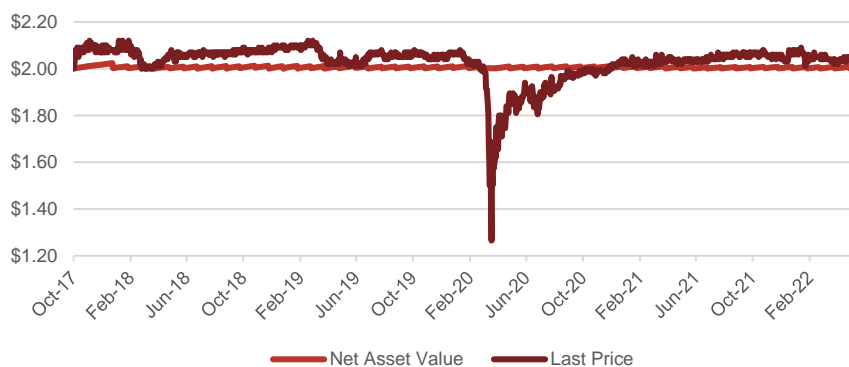


Source: BondAdviser, Metrics. As at 31 March 2022. *Excluding cash.

Fund Governance

On 7 December 2021, an extraordinary meeting of unitholders was held with the proposal to replace **Evolution Trustees Limited** with **Equity Trustees Limited** as the Responsible Entity of Metrics Direct Income Fund, coming into effect from the date ASIC alters its records. The meeting was reconvened several times until the resolution was passed on 3 March 2022.

Figure 12. MXT Net Asset Value Against Unit Price



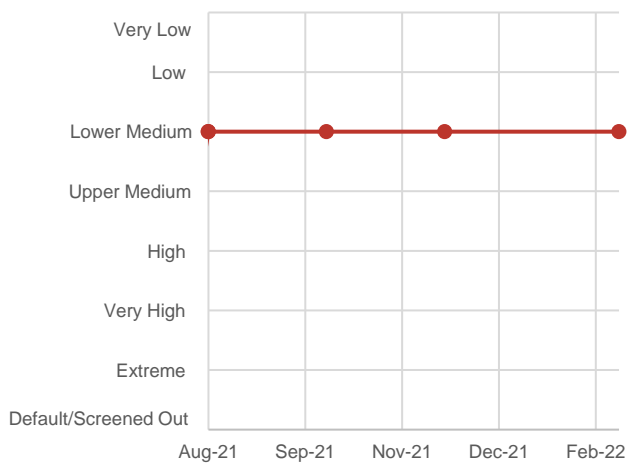
Source: BondAdviser, Metrics, Bloomberg. As at 25 May 2022.

MDIF's strategy allows it to hold units in Metrics' retail fund, MXT. Following the dislocation of MXT's ASX unit price from its NAV during the COVID crisis during 2020, MDIF increased its allocation to MXT. Since June 2021, when MXT began trading at pre-pandemic levels – that is, at a material premium to NAV, MDIF has sold down its MXT holding, delivering a capital gain to the Fund. MDIF's allocation of funds as at 31 March was 95% to the WIT and 5% to MXT.

The structure of the Trust has not changed and is outlined in a prior report (see page 14 of [MDIF Initiation Report - 24 August 2021](#)).

Quantitative Analysis

Figure 13. Risk Score

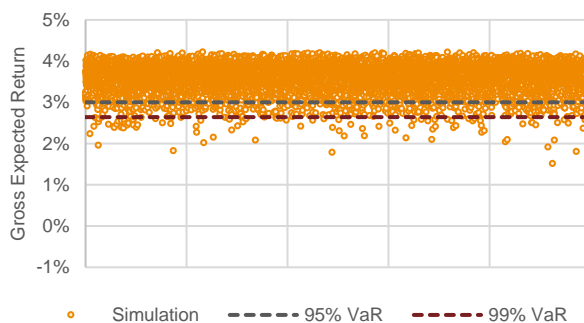
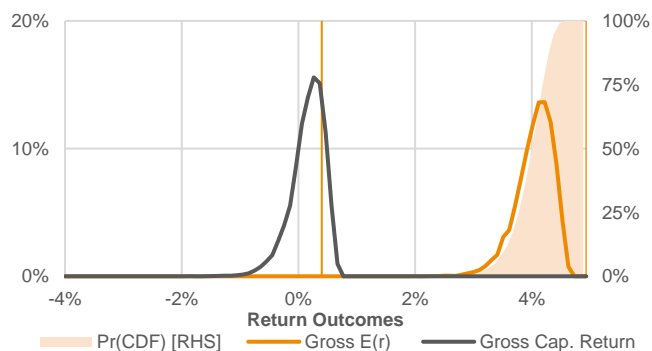


In our modelling, the **portfolio performs well in both the baseline scenario, and under the stressed scenario**. Under the baseline scenario, our modelling shows a low chance of losses on a gross expected return basis. This is materially driven by higher yielding assets with lower LGD (given the portfolio has 89.8% senior secured positions) and significantly diversified counterparty risk (240+ unique borrowers). Relative to other funds, MDIF is expected to provide significant downside protection, as evident by our modelling.

Relative to the December quarter, the portfolio simulation is similar, which is understandable given no drastic changes were made to the portfolio. Against our September report, the portfolio shows significant improvement, especially under the stressed scenario, as the number of unique borrowers and proportion of senior positions has materially risen.

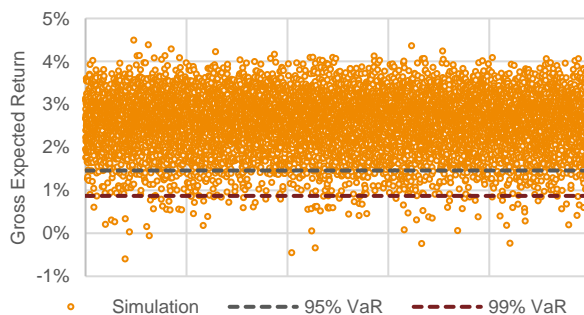
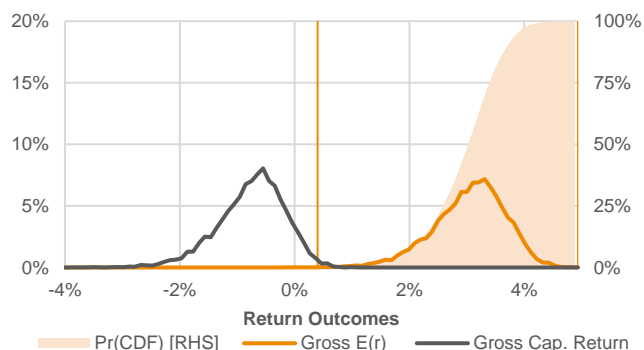
Our risk score remains at “Lower Medium”, which is a notch above the weighted average credit profile, reflecting the Fund’s strong credit profile, diversification and performance under stressed conditions.

Scenario 1. Baseline Asset Assessment



Source: BondAdviser Estimates as of 31 March 2022 portfolio. Excludes impact of management and origination fees. Gross capital returns excludes the value of coupons/income and is only modelling impairment or loss given default, based on historical credit data from Moody’s. Impact of traded price is not simulated. For a more detailed explanation of the methodology, please [contact](#) BondAdviser.

Scenario 2. Stressed Asset Assessment



Source: BondAdviser Estimates as of 31 March 2022 portfolio. Excludes impact of management and origination fees. Gross capital returns excludes the value of coupons/income and is only modelling impairment or loss given default, based on historical credit data from Moody’s. Impact of traded price is not simulated.

Reporting History

[MDIF Update Report – 27 April 2022](#)

[MDIF Update Report - 5 November 2021](#)

[MDIF IPO Report – August 2021](#)

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