Fund Research

Metrics Real Estate Income Fund

www.bondadviser.com.au

BondAdviser

Contents

Overview

The Metrics Real Estate Income Fund (the “Trust”; “MREIF”; or the “Fund”) is a retail unlisted open ended unit trust providing investors with access to the Australian commercial real estate loan market.

The Fund provides retail investors with direct exposure to a diversified portfolio of senior secured first registered mortgage loan assets covering borrowers with real estate assets across residential, office, retail and industrial and other alternative segments. Historically, the commercial real estate debt market has been only accessible by major banks and institutional investors. The Fund offers diversification benefits to investors with portfolios primarily invested in bonds and equities, given low risk and return correlation with these markets.

In terms of fund structure, MREIF invests in the Sub-Trust (Metrics CRE Multi-Strategy (Debt) Trust) which in turn invests in the Master Trust (MCP Real Estate Debt Fund, or ‘REDF’, or ‘The Master Trust’). The Master Trust has access to a syndicated bank facility which is intended to be used for working capital purposes. The Fund and the Sub-Trust may also incur debt to fund redemption requests if necessary, however, it is not anticipated the Fund will incur debt in the future.

The Trust targets a return of RBA +4.00% p.a. net of fees. A 0.40% p.a. management fee excluding GST is charged on net asset value (NAV), alongside a 15% performance fee capped at 0.35% p.a.

Key Characteristics			
Net Asset Value[1]	$1,000,000	**BondAdviser Risk Score**	**High**
Unit Entry Price[1]	$1.00	**Product Assessment**	**Recommended**
Minimum application size	$1,000	**Outlook / Asset Classification**	**Stable** / Level 2
Fixed / Floating	Both[2]	**Structure**	Unlisted Open Ended Unit Trust
Distribution Frequency	Monthly	**Sub-Asset Class**	Real Estate Private Credit
Target Return	RBA +4.00% (net)	**Responsible Entity**	Equity Trustees Ltd
Benchmark	n/a	**Manager**	Metrics Credit Partners Pty Ltd
Management Fee[3]	0.40%	**Auditor**	KPMG
Performance Fee[4]	15% Above Hurdle	**Valuation Services**	International Accounting Firm

[1]As at 31 March 2025. [2]Predominantly Floating. [3]Base management fee 0.4% on NAV. [4]Outperformance fee of 15% on returns above the target hurdle net return, up to a maximum combined base and outperformance fee equivalent to 0.75% p.a. of NAV.

Product Assessment

Recommended

We view Metrics to employ best in class procedures and policies surrounding risk management, valuation, and governance in the domestic private credit landscape.

The Metrics Real Estate Income Fund (MREIF), through subsequent investment in underlying funds, provides retail investors with exposure to the Australian commercial real estate (CRE) debt market, a market which has historically only been accessible by authorised deposit-taking institutions (ADIs) and institutional investors. Metrics has paved the way since APRA-led reforms restricted ADI appetite for CRE lending, with its underlying CRE lending strategies reaching $13bn of AUM as at 28 February 2025.

The underlying fund REDF is a major component of the Manager's AUM, providing investors with a steady income stream and benefits of low correlation with public asset classes across a diversified portfolio. Investors should understand that returns are meaningfully correlated to the RBA cash rate. With the RBA cutting rates in February and expected to cut a further 75bps over 2025, this will result in lower absolute returns across all floating-rate funds, however in-line with the Fund's floating rate target.

Scale, managerial expertise and workout experience are key to navigating the broad private credit spectrum. There has recently been stress experienced across the economy after the fastest rate hiking cycle in decades, and in our view the best private credit managers prove their value at this point of the cycle. Stress has generally been confined to certain sectors and idiosyncratic situations (i.e. significantly overleveraged and poorly managed credits). Specifically across the real estate market, insolvencies have been mostly concentrated to small builders which operate on thin margins and have costs pushed on them, rather than developers, which has helped shield the most experienced and largest non-bank lenders from capital losses. While there can be instances where developers also fall into hardship, robust equity buffers, risk management practices, and key structural protections built into loan documentations can ensure asset coverage and recovery remains at par.

In this context, effective due diligence and structuring has been a hallmark of Metrics' private credit strategies, including the underlying fund of REDF. This has resulted in zero capital losses within REDF and zero exercises of gating/lock-up mechanisms across the broader platform over Metrics' 12+ year track record. Defaults have been realised, but infrequently over Metrics' track record. This demonstrates the Manager's workout expertise and embedded structural protections underlying each investment. Risk concentrations are further limited as a function of diversification with REDF having over 120 exposures and a maximum individual loan exposure of 2.2%.

MREIF provides retail investors with access to the Australian commercial real estate debt market, offering returns that are less correlated with other asset classes and providing diversification benefits to an investor's broad portfolio.

The underlying fund of REDF has consistently outperformed its net return target on a rolling 1-year basis with no impairments since the inception of the Fund in 2017. Over the past 12 months, REDF returned 11.04% net versus a target return of 9.77% as at 31 March 2025. We expect this strong track record to continue supported by Metrics' strong risk management framework and origination capabilities.

We have covered Metrics as a Manager for eight years and maintain strong confidence in Metrics' ability to uphold effective systems and procedures in its assessment of credits. Metrics has long demonstrated best in-class policies and procedures, and the Master Fund has consistently performed above and beyond its hurdle return of 3mBBSW plus 5% p.a. since inception. In line with criteria consistent with the *BondAdviser Alternative Investment Fund Research Methodology*, we assign MREIF a **Recommended** Product Assessment with a Stable outlook. We also assign the Fund a risk score of **High / BB** which reflects the credit quality of the underlying assets and construction of the current portfolio.

Investment Strategy & Performance

The investment strategy of MREIF takes advantage of the shortfall in credit provided by lenders following APRA's implementation of stricter capital requirements for ADIs. This funding gap has allowed non-bank lenders to step in, creating an attractive opportunity for investors to gain access to a market which has historically only been accessible by banks and institutional investors.

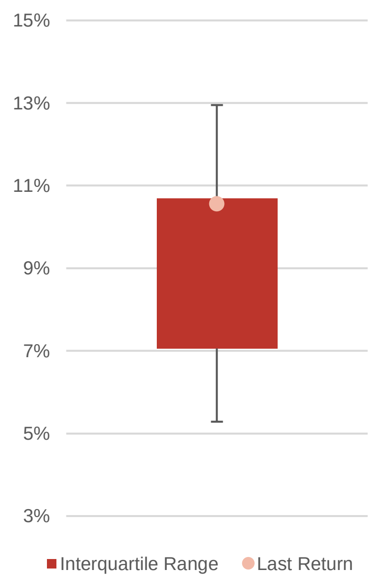
The investment objective of the Fund is to provide investors a monthly income stream and preserve investor capital, through investment in a diversified portfolio of commercial real estate loans, with a target return of RBA +4.00% after fees. This is achieved via exposure to the Master Trust through investment in the Sub-Trust. In terms of fees, a 0.40% ex GST management fee is charged on the NAV of the fund, and a 15% performance fee above the hurdle return, up to a maximum 0.35% p.a. fee on NAV, capping the total fee to 0.75% ex GST. In our view, capping the total fee amount provides the best alignment of interest given the disincentive to take on excessive levels of risk. We note the performance fee is not subject to a high-watermark. The Fund may also choose to invest in the **Metrics Real Estate Multi-Strategy Fund** (ASX: MRE) up to 5% of NAV, which would provide a minor indirect exposure to real estate equity investments.

Figure 3. REDF Monthly Net Returns* (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2025	0.86	0.79	0.84										2.48
2024	0.94	0.93	0.91	0.89	0.88	0.90	0.90	0.97	0.84	0.87	0.81	0.97	10.81
2023	0.85	0.75	0.82	0.72	0.86	0.93	0.97	0.97	0.92	1.02	0.90	1.02	10.73
2022	0.56	0.46	0.55	0.52	0.63	0.63	0.64	0.76	0.73	0.79	0.76	0.85	7.88
2021	0.50	0.53	0.73	0.49	0.52	0.52	0.47	0.48	0.54	0.52	0.55	0.66	6.51
2020	0.62	0.58	0.62	0.55	0.52	0.57	0.67	0.61	0.51	0.58	0.53	0.57	6.93
2019	0.70	0.61	0.80	0.85	0.93	0.77	0.66	0.68	0.61	0.64	0.60	0.70	8.55
2018	0.50	0.43	0.68	0.73	0.80	0.69	0.64	0.67	0.61	0.78	0.66	0.71	7.90
2017										0.76	0.54	0.56	1.86

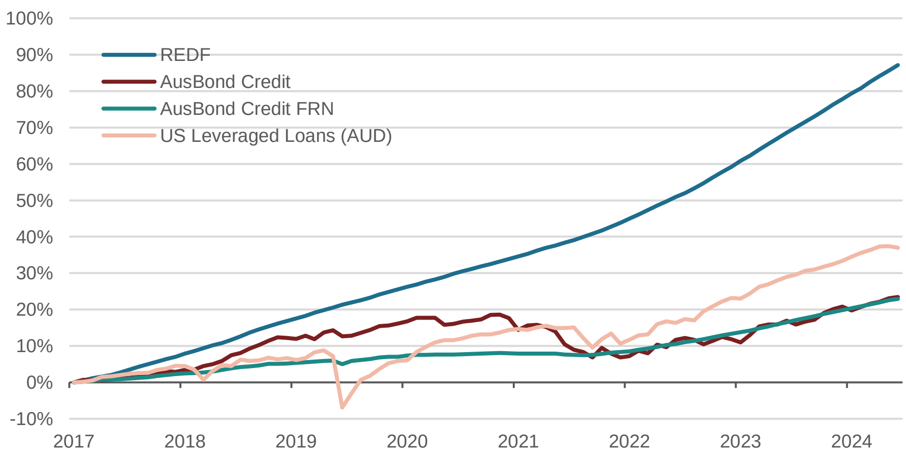
Source: BondAdviser, Metrics. As at 31 March 2025. ***Performance reflects the underlying fund (REDF).***
** Return is monthly net total return based on NTA plus dividends.*

Figure 2. REDF* Net Returns Box Plot



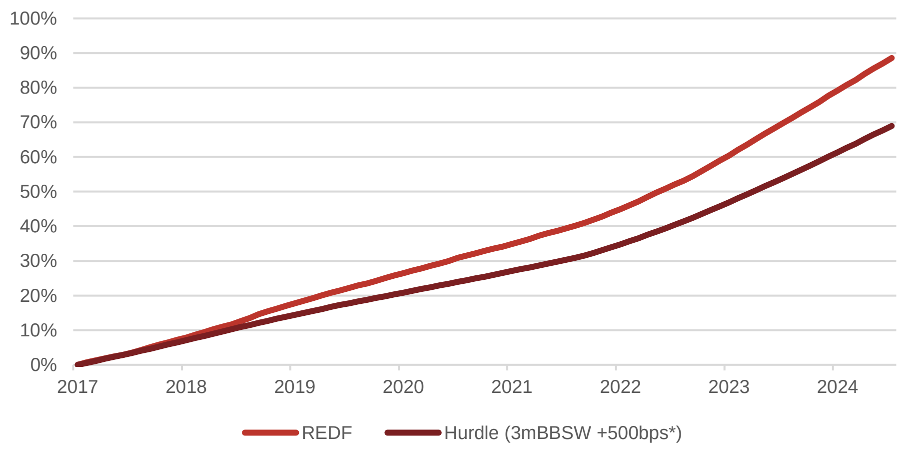
Source: BondAdviser, Metrics. Annualised monthly returns, after fees since inception. As at 31 March 2025. ****Performance reflects the underlying fund (REDF).***

Figure 4. Relative Cumulative Performance*



Source: BondAdviser, Metrics, Bloomberg. As at 31 March 2025. Calculated from cumulative net monthly returns of the Underlying Fund. Returns on NAV, not traded unit price, see Figure 18 for unit price variance. ****Performance reflects the underlying fund (REDF).***

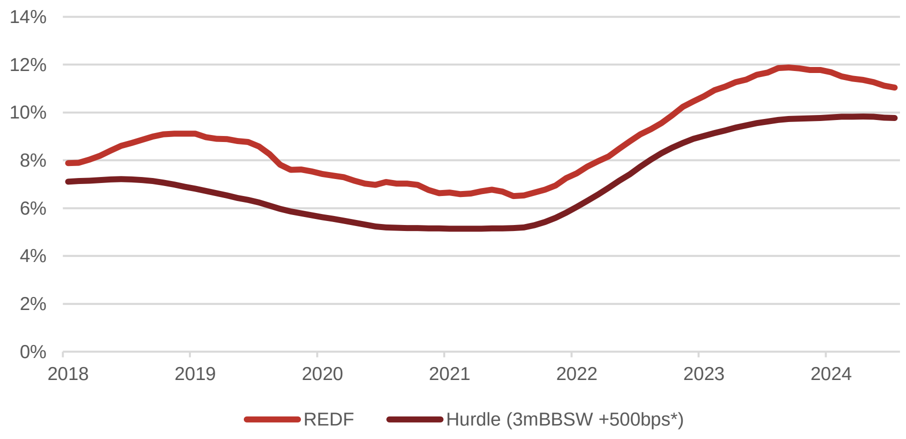
Figure 5. REDF & Target Cumulative Return Since Inception**



*Source: BondAdviser, Metrics, Bloomberg. As at 31 March 2025. *3mBBSW based on average daily value over each month. Compounded returns for REDF and hurdle return.* ***** Performance reflects the underlying fund (REDF).***

The underlying fund (REDF) has demonstrated a strong track record since inception in 2017, consistently outperforming the hurdle return on a rolling 1-year basis. We note that the return profile differs to funds holding publicly listed assets which are frequently traded, potentially causing return drawdowns and mark-to-market volatility over time. In comparison, loans held within underlying funds are intended to be held to maturity, are subject to independent monthly valuation and ongoing impairment testing by an international accounting firm. This allows for smoother returns, which can arguably be an attractive trait for investors with a longer term investment horizon.

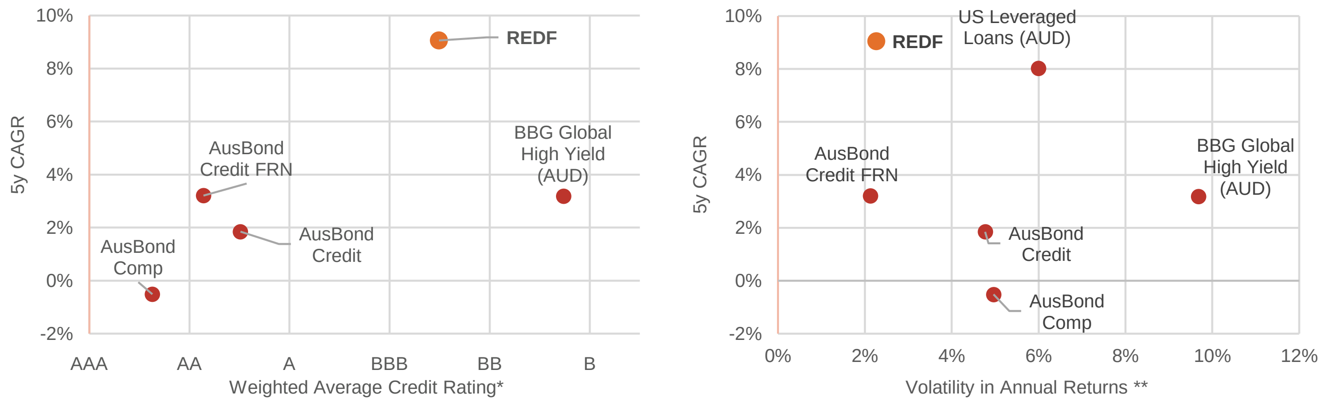
Figure 6. REDF & Target Return – Rolling 1 Year Return**



*Source: BondAdviser, Metrics, Bloomberg. As at 31 March 2025. *3mBBSW based on average daily value over each month. Compounded returns for REDF and hurdle return.* ***** Performance reflects the underlying fund (REDF).***

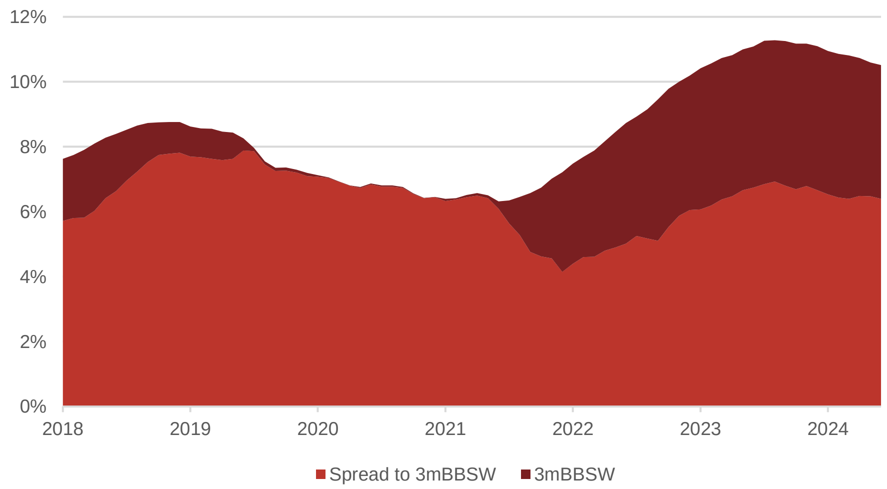
The stability of the REDF has been driven by Metrics' strong risk management framework which has delivered consistent debt servicing and capital repayment of the underlying loan portfolio, and the hold-to-maturity valuation policy of the underlying assets. This has produced strong returns on a risk adjusted basis when compared to public markets, with stable returns delivered monthly. For a lower level of risk (based on Metrics' application and adaptation of S&P methodology, which is independently reviewed) than the global high yield bond market, returns have been considerably stronger over the past five years. This has primarily been driven by marked to market losses on fixed-rate high yield bonds which are repriced based on market yields and credit spreads in contrast to the hold-to-maturity valuation policy of the underlying assets in the portfolio.

Figure 7. Estimated Risk-Adjusted Return Comparison***



** Credit Ratings based on BondAdviser estimates. ** Calculated based on annualised monthly returns data for past five years. Source: BondAdviser, Metrics, Bloomberg. As at 31 March 2025.* ******Performance reflects the underlying fund (REDF).***

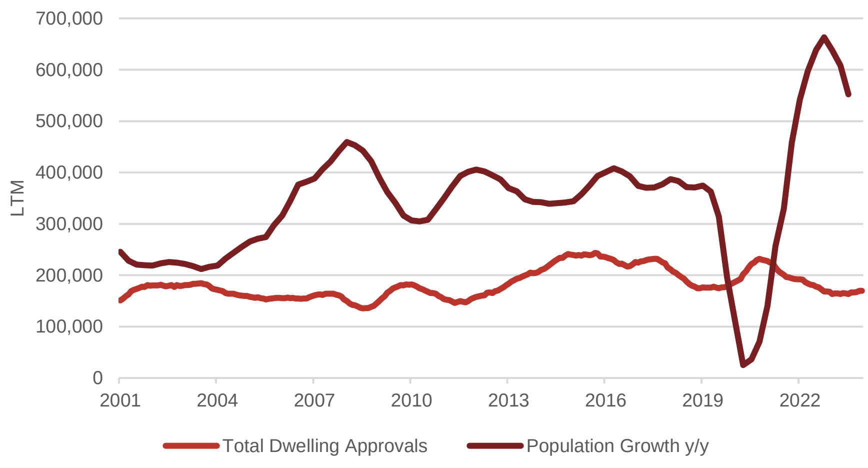
Figure 8. REDF* Return Split



Source: BondAdviser, Metrics. As at 31 March 2025. ****Performance reflects the underlying fund (REDF).***

In terms of investment exposure along the development life cycle, the underlying fund primarily has exposure to residential real estate, lending to developers to build residential dwellings and for land sub-divisions, hotels, and industrial pre-development and construction loans. This opens the Fund up to greater risk at these stages of the life cycle, but we believe that (1) these risks are appropriately compensated on a risk-adjusted basis, and (2) strong structural protections and robust credit assessment are in place to mitigate downside risks. Such structural protections include appropriate contingencies for costs, time, finance/holding costs, together with security over real assets (with a relatively conservative 66% weighted average LVR based on commitment value). There is further security on a case-by-case basis such as general security agreements, personal and corporate guarantees, bank guarantees where a third-party builder is engaged, among others.

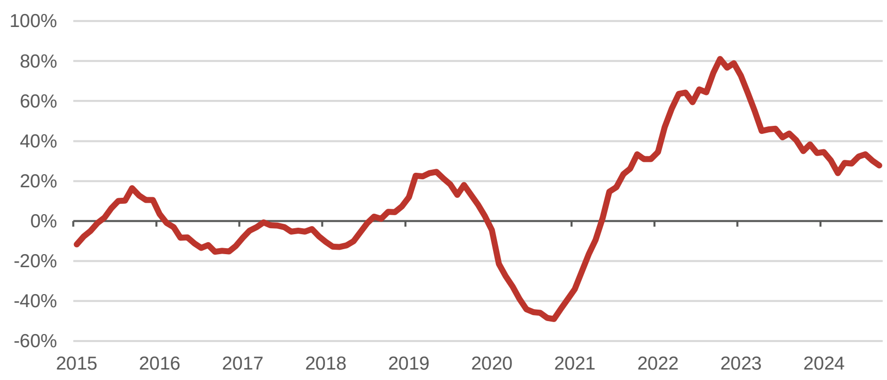
Figure 9. Residential Supply/Demand



Source: BondAdviser, ABS. As at 30 November 2024.

Domestically, there has been a significant supply/demand imbalance across the housing market as population growth has soared from record high immigration levels not seen since the 1950s. This has been beneficial from a lending perspective given rising underlying real estate valuations supports greater capital protection all else equal. Positively, REDF has minimal exposure to the office real estate sector, which has faced the greatest headwinds with asset valuations falling on higher long-term rates and poor demand post-pandemic.

Figure 10. Insolvency-Related Appointments – Construction (y/y)

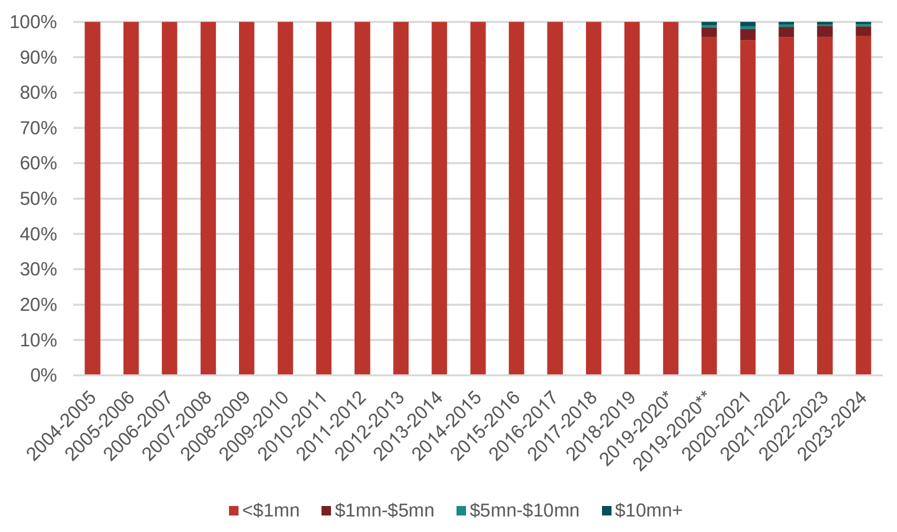


Source: BondAdviser, ASIC. As 28 February 2025.

In the construction industry, insolvency-related appointments have risen significantly over recent years, but the rate of appointments has decelerated and stabilised over the past year. In the event a third party builder become insolvent, lenders generally accept the higher costs and may need to recapitalise the project if necessary, but developers generally benefit from bank guarantees from builders to align the performance obligations of the builders with the interests of the lender. We note REDF borrowers typically have a construction arm and lock in material prices, which is positive from a credit perspective. Further comfort is provided by security over real assets and personal and corporate guarantees all providing risk mitigation in the event of default.

Further, whilst insolvencies have risen across corporate Australia, defaults have generally been confined to small companies, with 96% of all insolvencies over the recent financial year being companies with <$1mn in asset size. Generally, Metrics lends to developers with an integrated construction arm and an asset base materially higher than $1mn. As such, Metrics distinguishes themselves from non-bank peers with exposure to small scale residential developments.

Figure 11. Insolvency Breakdown by Asset Size (All Industries) – Time Series



Source: BondAdviser, ASIC. As 30 June 2024.

In terms of loan structuring, the majority of loans originated are on a bilateral basis. However, Metrics may underwrite syndicated loans or participate in small club loans with banks, reflective of Metrics' scale and market position in the non-bank market.

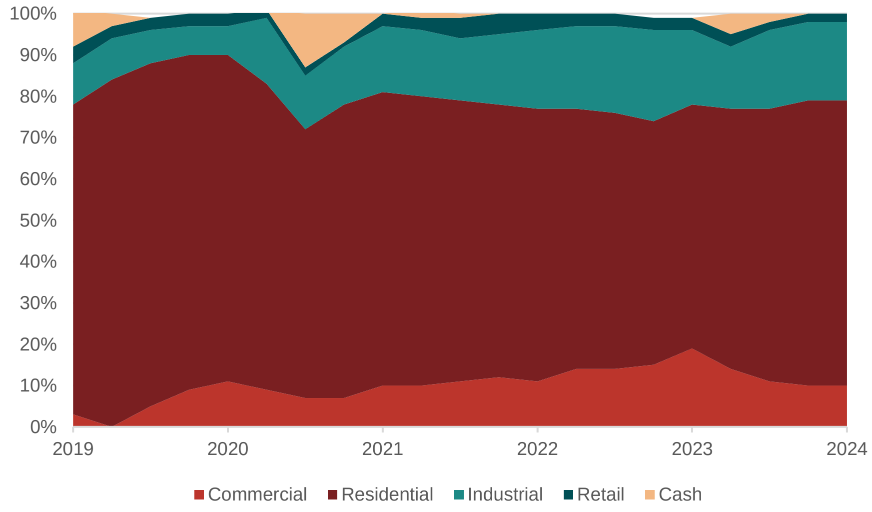
Figure 12. REDF* Loan Exposure – Development Stage

Capital ($m)	Pre-Development	Construction	Operating	Investment	Residual	Total
Residential	1,461	1,211		12	74	2,759
Industrial	393	261		104		758
Office				53		53
Hotel	27	133	36			196
Retail	57		29			86
Other				25		25
Total	1,938	1,606	65	194	74	3,877

*Source: BondAdviser, Metrics. As at 28 February 2025. *Reflects the underlying fund REDF.*

We note, the Master Trust, which the Fund will be primarily invested in, does not have any strict restrictions on portfolio allocations with exposure generally weighted to pre-development and construction loans. Currently, exposure is mostly weighted to the residential and industrial real estate markets, but will fluctuate depending on market conditions and availability of opportunities. That said, we expect that pre-development and construction loans across the residential sector will continue to be the bulk of investment throughout the life of the fund. In terms of real estate sector allocation, the underlying fund primarily invests in the residential sector, with some exposure to industrial developments, and minor exposures to office, hotel and retail markets. While the unconstrained nature of the portfolio should be monitored, we argue this is more than balanced by the Manager's expertise and track record.

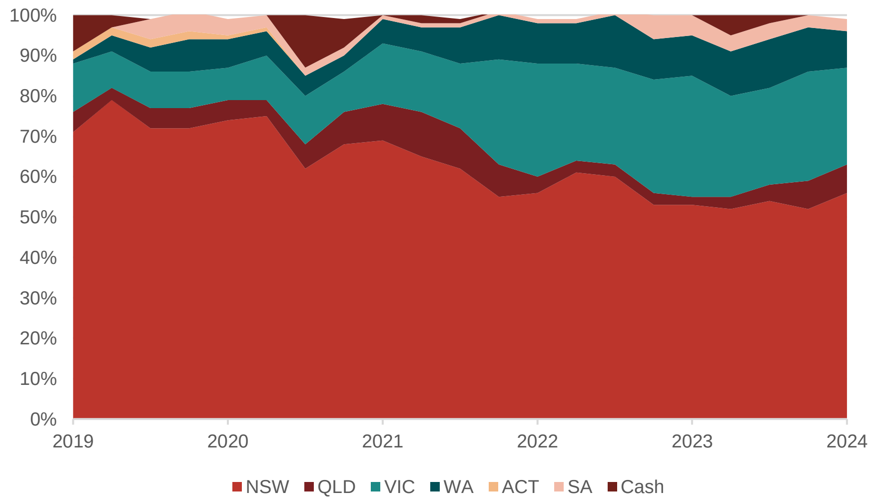
Figure 13. REDF* Real Estate Sector Allocation



*Source: BondAdviser, Metrics. As at 31 December 2024. *Reflects the underlying fund (REDF).*

Geographically, the Fund is most exposed to NSW, followed by Victoria, and holds minor exposure to other states across the country. Investment across states provides an additional layer of diversification given some states may face idiosyncratic issues such as the fiscal balance sheet in Victoria, or the recent flooding across Brisbane. The Master Trust does not have specific limits on geographical allocations but intends to be diversified across major capital cities.

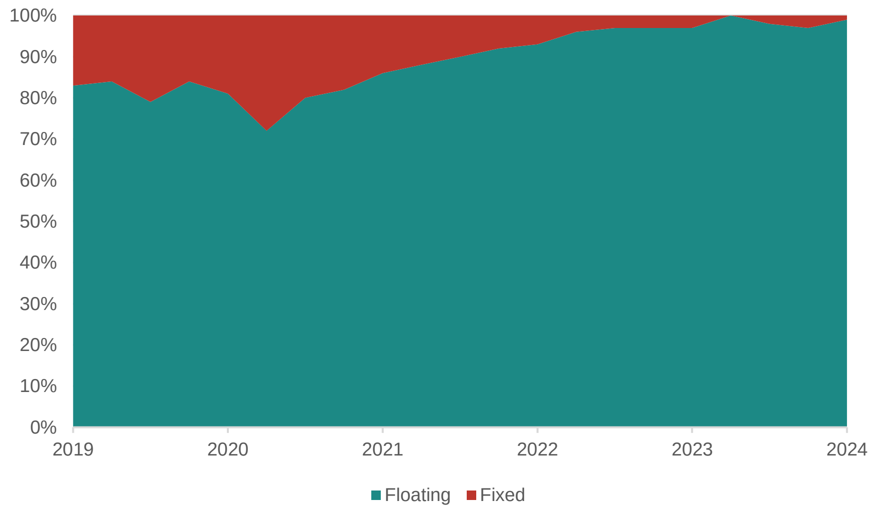
Figure 14. REDF* Geographical Allocation



*Source: BondAdviser, Metrics. As at 31 December 2024. *Reflects the underlying fund REDF.*

In terms of interest rate risk, exposure is almost entirely floating rate based on commitment value of underlying loans. Whilst there are no explicit constraints on interest rate risk, the Fund primarily invests in floating rate loans (currently market convention for real estate loans). We expect that the Fund will continue to have low interest rate risk in-line with meeting the floating rate hurdle return. Investors should note that returns will decrease when market interest rates – which are tied primarily to changes in the RBA cash rate – fall, and conversely, will benefit when interest rates rise.

Figure 15. Interest Rate Risk*



*Source: BondAdviser, Metrics. As at 31 December 2024. *Reflects the underlying fund (REDF).*

Positive Risk Factors

Expertise and Scale. Metrics is the largest non-bank commercial real estate lender in the country, with strong origination capabilities, well established risk management practices and scale. These competitive advantages allow for access to more attractive deals on a risk adjusted basis.

Best in Class Governance. The Fund benefits from an independent responsible entity and custodian and appoints external auditors. Asset valuations and any impairments are reviewed by an international accounting firm each month. Additionally, Metrics uses an adjusted S&P rating methodology to assign credit ratings to underlying assets.

Extensive Workout Experience. The level of workout experience is a key factor separating managers across the broad private credit sphere and is becoming more evident at this point in the cycle. Metrics' management has strong workout experience gained over tenure across the cycle at prior Australian big four banks. Such experience in managing workouts helps ensure greater recovery in the event of adverse credit outcomes.

Real Asset Collateral. Each loan is secured against the underlying real estate and is structured with a suite of covenants, enhancing capital preservation in the event of default. Additional security may vary across loans, including corporate and personal guarantees, security over pre-sale deposits, general security agreements, among others.

Established Track Record. Incepted in 2017, the Master Trust (REDF) has an established track record of meeting and exceeding the hurdle return.

Counterparty Diversification. The underlying fund benefits from strong counterparty diversification with over 120 borrowers and a weighted average exposure of 0.7% on a commitment value basis (highest individual exposure is 2.2%). This is especially important in credit investing given the negative skew of returns inherent within the asset class.

Negative Risk Factors

Industry Concentration. The underlying fund invests exclusively in commercial real estate loans, in line with its investment strategy. Whilst there is diversification by sector (residential, industrial, retail, office and alternative segments) and geography, this concentration exposes the Fund to greater risk during downturns across the real estate market. This risk is offset by strong risk management practices, including extensive credit risk assessments, high level of security over individual assets and other guarantees, and covenants.

Liquidity Risk. As an unlisted fund, MREIF investors cannot sell their holdings immediately on a traded market like listed peers. If seeking to withdraw investment, investors must request redemption, with redemption aimed to be fulfilled monthly. That said, this is common for all unlisted open ended private credit funds as a function of the illiquidity of the underlying assets and is not isolated to investors of MREIF. The short credit duration of the underlying fund naturally results in frequent roll-off of loans and a syndicated debt facility is available - both help to manage liquidity requirements.

Manager Risk. A significant deterioration in the quality of the Manager (Metrics) could adversely impact the Fund. This could include (but is not limited to), poor fund performance, material breaches in governance, risk management failures and/or loss of key personnel. This is mitigated by Metrics' strong track record spanning over 12 years and significant depth of resources available across the business.

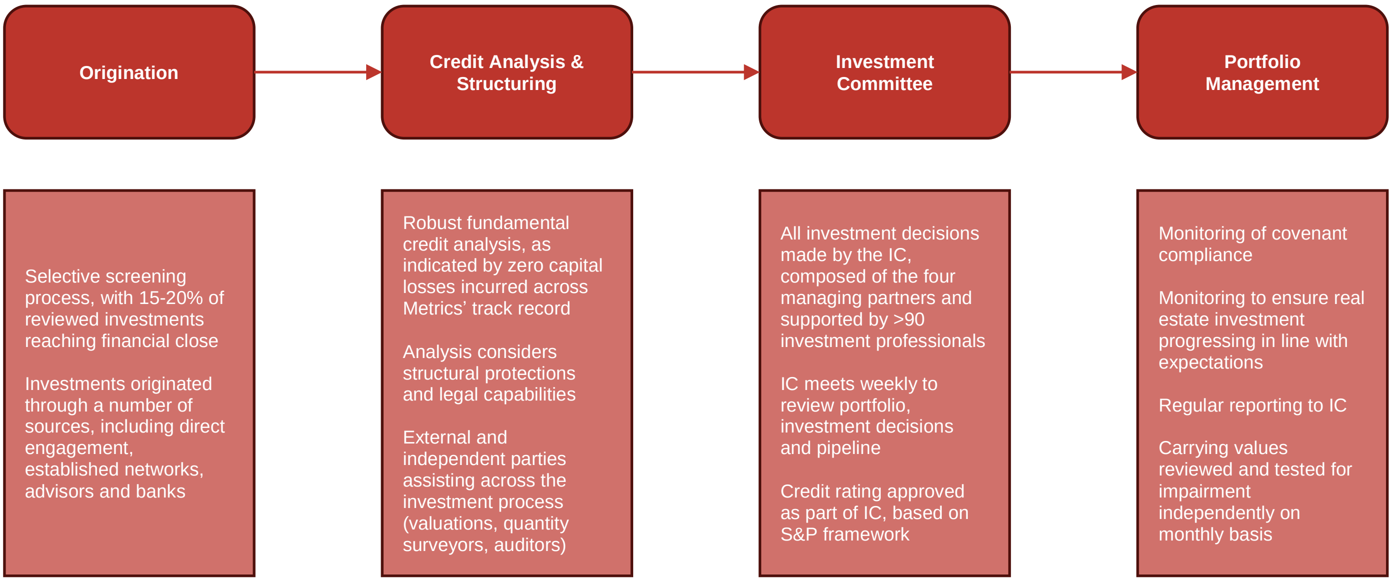
Leverage. The underlying fund (REDF) can be levered up to 50% of gross asset value (GAV), providing indirect leverage to the Fund (we also note that the Fund may use leverage but is not expected to throughout its life, and so may the Sub-Trust). The Manager has stated that it intends to maintain gross gearing in the 10-20% GAV range to maintain an A- rating with S&P for REDF and intends to use the $1.1 billion syndicated facility for working capital purposes only, rather than leveraging returns. Whist we are not concerned about the use of leverage to fund working capital requirements, investors should be aware that the creditors of this facility rank senior to Fund investors.

Construction and Investment Process

Portfolio construction of the Fund is conducted within the investment mandate, which is designed to provide diversified exposure to Australian commercial real estate loans through active portfolio risk management. Each loan is required to be approved by the Investment Committee, which consists of the four managing partners: Andrew Lockhart, Graham McNamara, Justin Hynes and Andrew Tremain. The managing partners are supported by a team spanning over 170 employees (as at 31 March 2025), with each deal team consisting of 3-5 members per team: 1 investment director, 1 associate director and 1-3 associates or analysts.

Metrics' scale and extensive relationships with clients and advisors built over time provides a continual stream of new transactions to the Fund. Through its size and network, the Fund is able to participate in attractive risk adjusted opportunities otherwise not accessible to smaller non-bank lenders, using its scale to negotiate better terms on loans.

Figure 16. Investment Process



Source: BondAdviser, Metrics.

The investment process can broadly be broken down into two stages: (1) initial screening for indicative investment appetite, and (2) full due diligence after the initial screening for full approval of the investment opportunity. Origination begins with monitoring active opportunities on a weekly basis, followed by a brief qualitative and quantitative analysis with an indicative term sheet for the Investment Committee to determine whether to proceed to full due diligence.

Followed by the final investment submission, the deal is continually monitored after settlement and performance is assessed regularly. Metrics extensively monitors all investments to ensure they are performing in line with base expectations at origination. This includes reviewing costs along the project timeline to ensure the project is being executed within expectations, as well as stress testing across the portfolio, and keeping track of a list of underperforming borrowers relative to their base cases. Throughout the investment process, Metrics engages a number of independent third parties to seek expert opinion, including quantity surveyors to assess project budgets and timelines, property valuers for market valuations, and legal counsel for legal, property, and security and tax advice.

From a portfolio construction perspective, geographic and sector concentration are considered but are ultimately unconstrained and at the discretion of the Manager. Investment across each sector and state is likely to be influenced by risk-adjusted return and availability, however there is generally a higher weighting expected to be towards residential development across the life of the Fund. The underlying fund may also engage in leverage of up to 50% of GAV, but intends to maintain leverage of between 10-20%, using a syndicated facility mainly for working capital purposes, rather than for the purpose of leveraging returns.

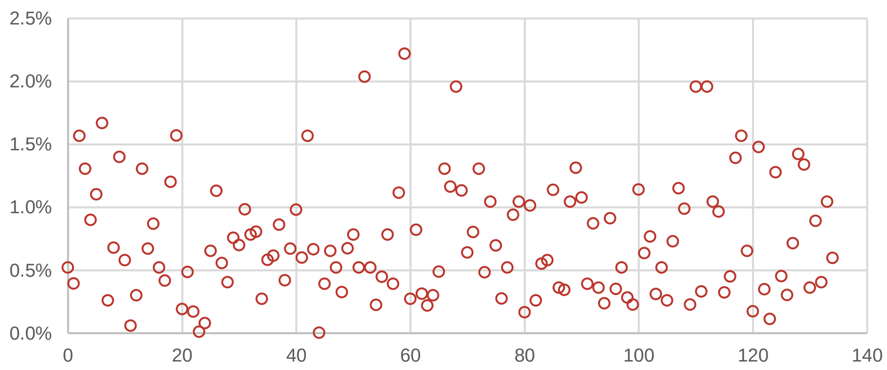
Portfolio Risk Management

Our assessment of effective risk management for MREIF considers both credit risk and liquidity risk. We view effective risk management to be key considering the asymmetric nature of credit investing. Our *Quantitative Analysis* is designed to simulate the portfolio quantitatively and compliments our ex-post and qualitative assessment below.

Credit Risk

The Manager places significance on bottom-up analysis, with extensive due diligence conducted across the deal process. Each investment considers the level of security over assets, equity in the capital structure, covenants and guarantees, ensuring protection of capital across the life of the loan.

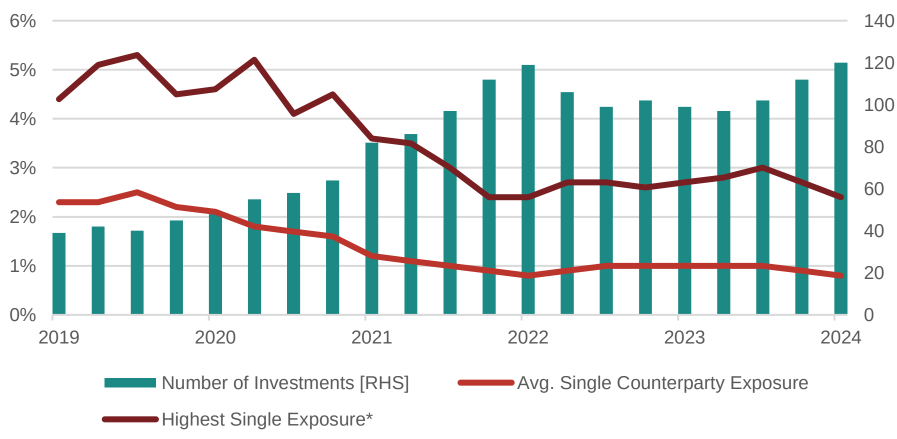
Figure 17. REDF* Individual Loan Exposures



*Source: BondAdviser, Metrics. As at 31 December 2024. Weights based on loan commitment value. *Reflects the underlying fund (REDF).*

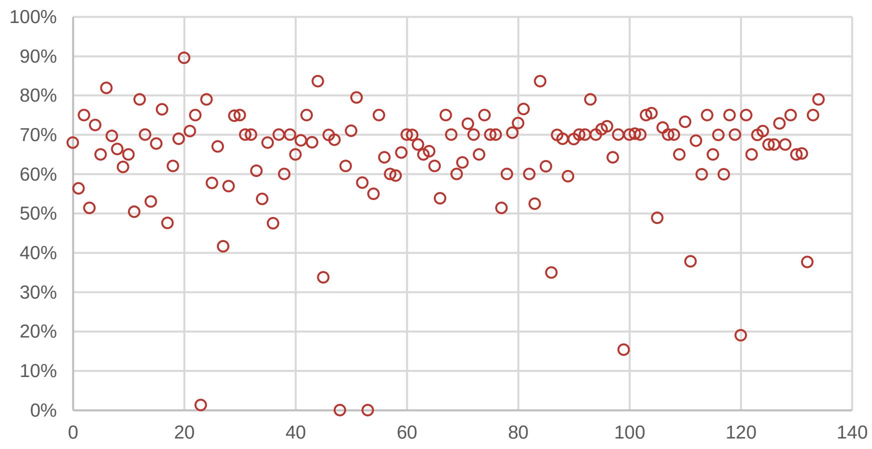
Given the negative skew return profile of credit investments with small upside and potentially large downside, asset and portfolio diversity is key to mitigating tail losses. The underlying fund is well diversified by loan number, with over 120 individual exposures and a total maximum exposure of 2.22% on a commitment value basis. As seen in the below figure, the size of the average exposure has fallen over time, as AUM has grown – which has been credit positive for investors of REDF.

Figure 18. REDF Individual Loan Exposures – Time Series**



*Source: BondAdviser, Metrics. As at 31 December 2024. *Based on commitment value. **Reflects the underlying fund (REDF).*

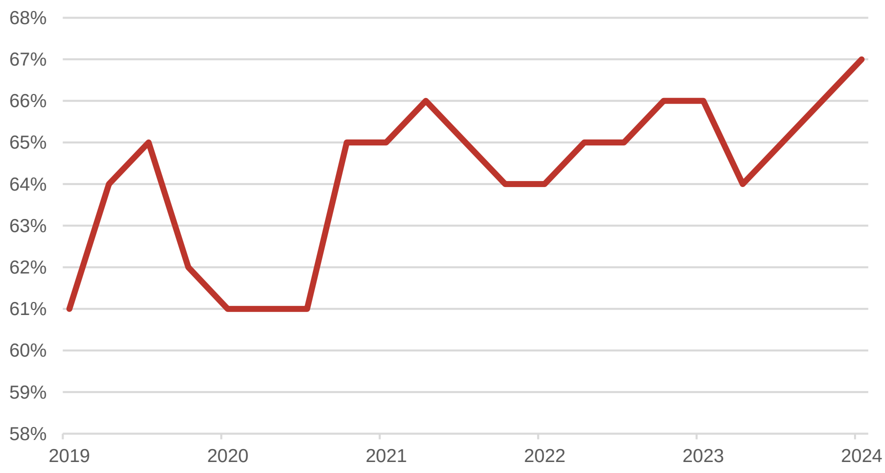
Figure 19. LVR Mix – REDF*



*Source: BondAdviser, Metrics. As at 31 December 2024. Based on commitment value of each loan. *Reflects the underlying fund (REDF).*

Additional to the portfolio diversity, risk management is further supported at a loan level with the 66% weighted average LVR of the portfolio providing sufficient downside (34%) protection in the event of default. For there to be a loss incurred, we note that each underlying loan would also have to see complete loss of the developer's margin, and loans may have additional security agreements on a case-by-case basis (GSAs, personal and corporate guarantees, etc). These measures provide us comfort that the Manager can achieve its target return while protecting against downside events.

Figure 20. LVR Time Series – REDF*

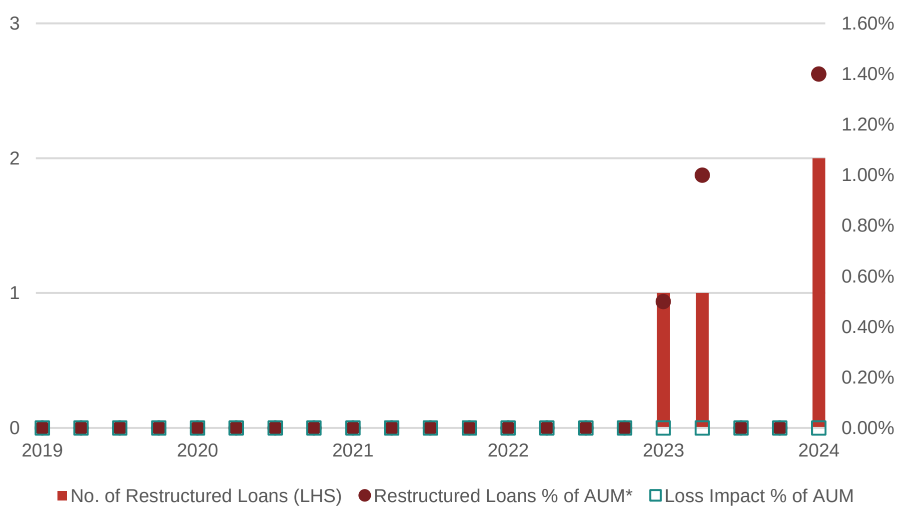


*Source: BondAdviser, Metrics. As at 31 December 2024. *Reflects the underlying fund (REDF).*

Metrics assigns credit ratings to its underlying loans based on S&P's methodology. Based on this methodology, the portfolio's credit rating profile is weighted towards BBB to BB assets, a function of relatively conservative LVRs across the portfolio.

In terms of restructuring events, the Master Trust had a relatively unblemished track record in regard to defaults until the end of 2023 – since then rising interest rates have put pressure on the real estate sector. Importantly, however, REDF has not incurred any capital losses in spite of a minor increase in restructuring events, reflecting robust credit risk management, loan document structuring, and the security over real assets.

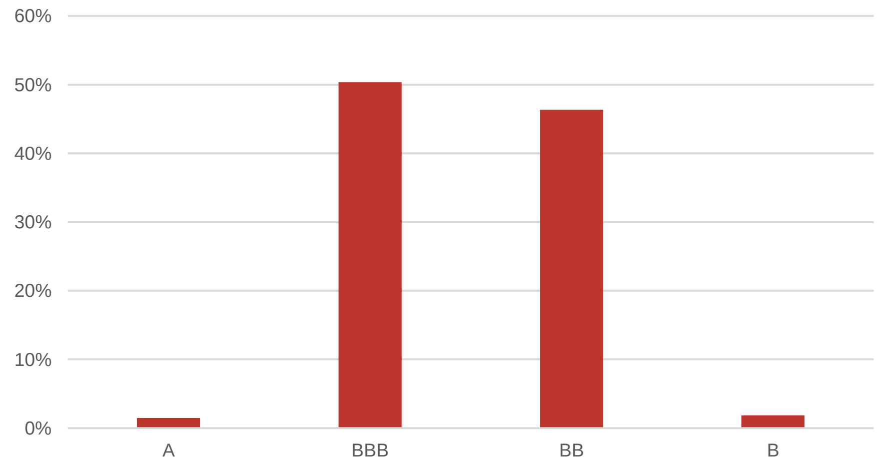
Figure 21. Restructuring Events & Loss Impact – REDF*



*Source: BondAdviser, Metrics. As at 31 December 2024. *Reflects the underlying fund (REDF).*

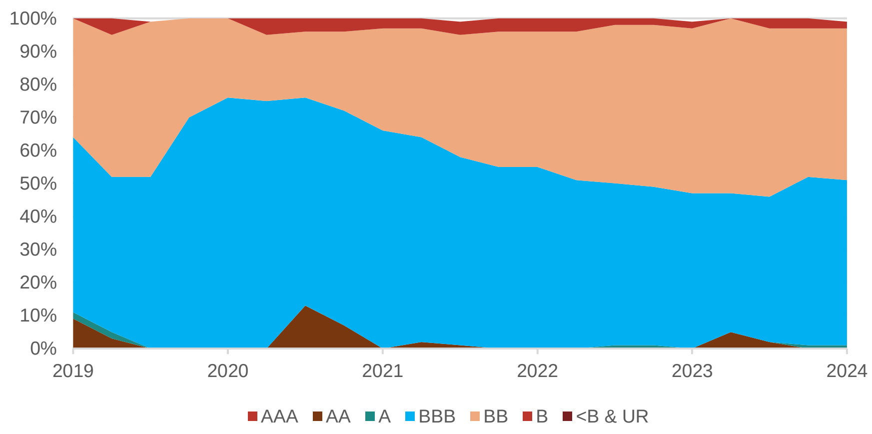
Whilst the underlying loans are not explicitly rated by S&P, Metrics utilises S&P's methodology to assign credit ratings to loans within the portfolio. Based on this methodology, the portfolio is tilted to primarily BBB and BB loans. Exposure weightings have drifted over time as seen in Figure 23, with BBB exposure falling since late 2020.

Figure 22. Shadow Credit Rating Mix – REDF*



*Source: BondAdviser, Metrics. As at 31 December 2024. *Based on internal rating methodology framework of the Manager. Reflects the underlying fund (REDF).*

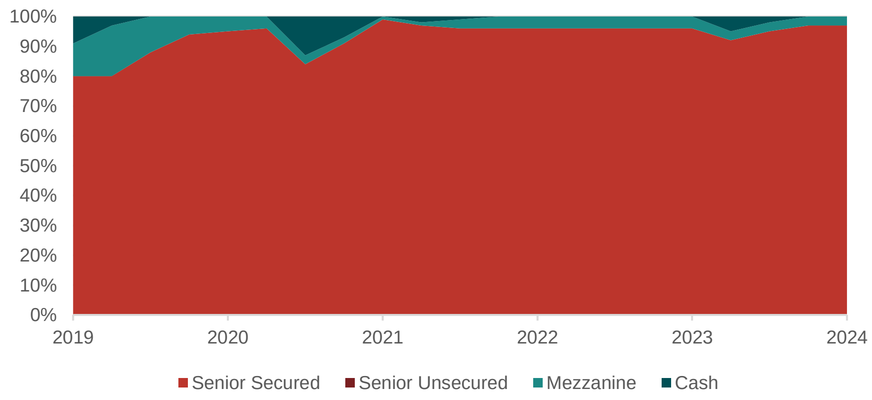
Figure 23. Shadow Credit Rating Mix – REDF*



*Source: BondAdviser, Metrics. As at 31 December 2024. *Based on internal rating methodology framework of the Manager. Reflects the underlying fund (REDF).*

The Fund has a small exposure to mezzanine loans. These loans are subordinated to senior creditors in the capital structure, but still hold security over underlying assets. These exposures make up a minimal proportion of the Fund (3% on commitment value basis) and have historically remained a low proportion of the Fund's exposures.

Figure 24. Seniority Mix – REDF*

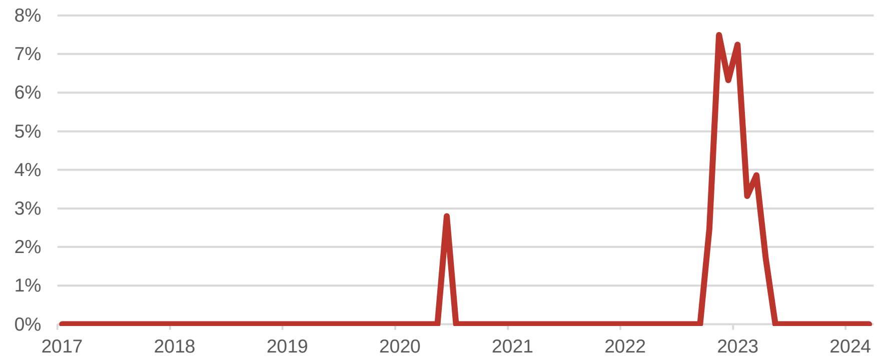


*Source: BondAdviser, Metrics. As at 31 December 2024. *Reflects the underlying fund (REDF).*

The loans underlying the portfolio are Level 2 assets, held to maturity and not expected to be traded and therefore do not experience market valuation movements. Any movements in carrying value would be where an impairment is recognised if there is material doubt that recovery value exceeds the carrying value of the asset. If impairment occurs, the net asset value of the fund will be marked down should there be insufficient provisioning. This process is inherently subjective but we take comfort in the fact that impairment is independently tested monthly by a big four auditing firm reporting directly to the RE.

The Sub-Trust may use leverage for working capital requirements and liquidity risk management. The Master Trust (REDF) may also use leverage but is not expected to ever exceed 30% of the gross asset value (GAV) of the fund, and intends to remain below 20% GAV over the life of the fund. The purpose of the facility is also to meet working capital requirements, rather than for the purpose of enhancing returns, helping to mitigate cash drag. As seen in the below figure, the Master Trust has not exceeded a net leverage ratio of 8% (accounting for cash), providing further comfort to investors regarding the use of leverage.

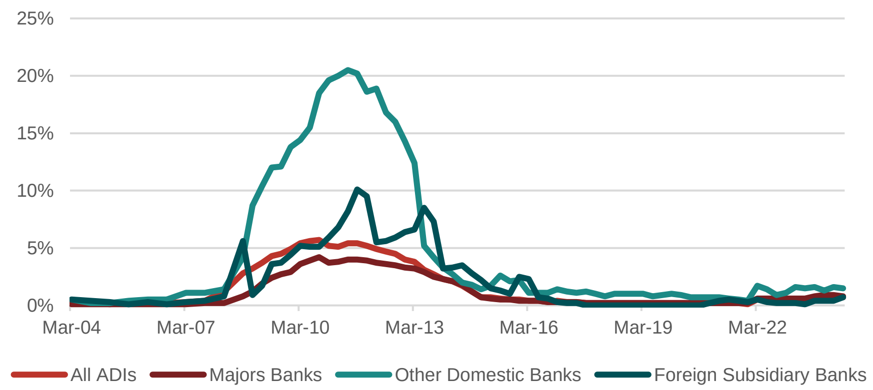
Figure 25. Net Leverage – REDF*



Source: BondAdviser, Metrics. As at 31 December 2024. Historical net leverage in master trust.

As shown in Figure 26, the Australian commercial real estate debt can still experience significant impairments, reaching up to 20% during the Global Financial Crisis (GFC) for certain Authorised Deposit Taking Institutions (ADIs). However, we acknowledge overall improvement in lending standards over the past decade. Further, private lenders such as Metrics have increased flexibility to exhaust all workout scenarios, whereas banks can typically be forced sellers of non-performing exposures due to regulatory pressure and generally lower risk appetite.

Figure 26. Australian CRE Debt Impairment Ratio by Type of Lender



Source: BondAdviser, APRA. As at 30 June 2024.

Taking a more recent example, we highlight the significant decline in office real estate valuations in recent years due to rising interest rates and increased working from home trends driving higher vacancy rates, with a peak to trough of over 20% in key domestic CBD markets and comparable to the GFC. This is a sector that has been consistently plagued by poor demand, materially impacting not only prices (and therefore recoveries in default), but also income to meet principal and interest payments as vacancies have swelled across the sector. Nonetheless, an extreme valuation drawdown scenario of 20% (as seen in office markets) the impact would depend on the LVR of the individual impacted loan, but based on the portfolio weighed average LVR of 66%, there would be significant cushioning if applied across the portfolio. That said, there are some exposures with over 80% LVRs that may be partially impacted in the event of default and insolvency under this hypothetical scenario but we would expect this to be managed prudently in a by the Manager which gives us comfort in par recovery post workout. We note that the underlying fund has minimal office exposure across the portfolio, however this does give some context into extreme downside scenarios across the real estate market.

Liquidity Risk

Liquidity for MREIF is comprised of two elements, (1) that it can sufficiently provide liquidity to borrowers on request, within the loan commitment period and (2) investor liquidity.

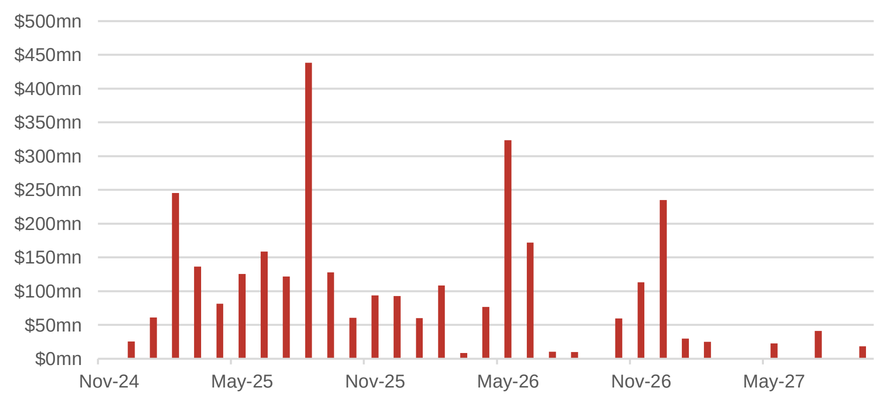
Loan Liquidity

The underlying loans in the Master Fund are illiquid and non-traded, and these loans are intended to be held to maturity. Whilst this allows the Fund to capture illiquidity premia, the non-traded nature of these assets means that actual market valuations are not visible and exiting positions may be more difficult than exiting frequently traded assets. That said, the carrying values of fund assets are reviewed monthly by an International Accounting Firm, including impairment testing. Asset valuations are independently overseen by the RE. The Master Trust has access to a syndicated liquidity facility, which helps manage liquidity and minimise cash drag. The facility can be drawn up to 50% of gross asset value of the fund, but is intended to be drawn up to 20% to fund liquidity/working capital requirements, rather than speculation and return enhancement.

Investor Liquidity

MREIF is an open ended fund, which opens up investors to liquidity-based risks. Investors seeking to redeem their holdings are required to request redemption, which will typically be accepted by the RE monthly under normal market conditions. Whilst total redemptions are limited to 5% of NAV per month, which is a standard practice for unlisted open ended private credit funds, Metrics intends to meet redemptions in full where liquidity permits. This differs from more liquid funds, such as ASX-listed funds whereby investors can sell their position on market (whether at or differing from NAV). We note that this is a function of the liquidity of the underlying assets, but nonetheless it is something investors should be aware of prior to investing. That said, the credit duration of the underlying fund is currently 0.8 years, and so we expect that any redemptions will be able to be met comfortably by natural loan roll off. The RE may also reject a redemption request, or elect to redeem units in whole or in part. Investors who have strict liquidity requirements should consider these constraints when investing in the Fund.

Figure 27. Monthly Maturity Profile – REDF*



*Source: BondAdviser, Metrics. As at 31 December 2024. Based on commitment value. *Reflects the maturity profile of the underlying fund (REDF).*

Fund Governance

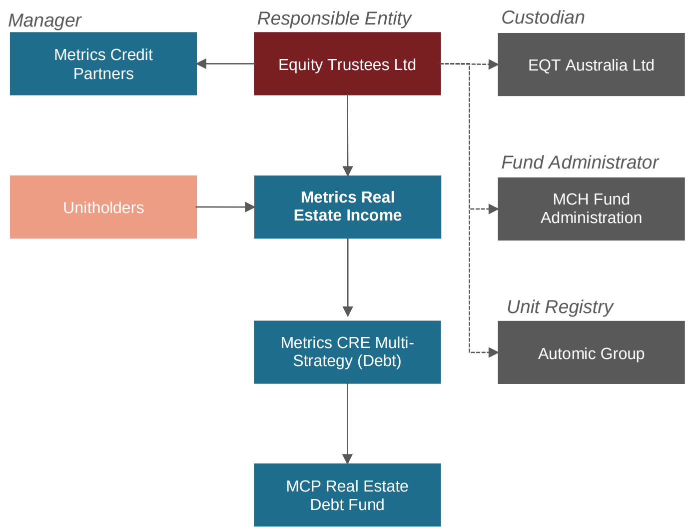
MREIF is a retail unlisted open-ended unit trust. The key documents governing this Fund are the product disclosure statement and the Fund's constitution. Equity Trustees Limited is the Responsible Entity of the Fund and independently oversees the valuations of assets held within the Fund.

Equity Trustees Limited is ultimately responsible for monitoring the obligations and legal compliance of all service providers to the Trust. We view the appointment of an independent RE to be a best practice in fund governance as it provides a level of oversight and objectivity over the assets of the fund.

The investment management agreement (IMA) is complemented by the Trust Constitution which governs the terms of MREIF. It covers cash management (redemptions, applications and distributions), valuation (unit pricing and valuation policy) and the responsibilities of Equity Trustees in its capacity as the RE. As a result, the RE is bound by the Constitution. MREIF's legal structure is described in the figure below and illustrates strong external governance mechanisms as a protective overlay for investors.

Metrics provides periodic reports set out by the RE which includes management reporting of the Fund, financial accounts of Metrics (to assess Manager financial viability) and ASIC documents. Metrics is required to facilitate these requirements via standardised reporting which must pass a due diligence committee and compliance committee including any significant events. All documents are checked and signed off at the Equity Trustees board level.

Figure 28. Legal Structure*



*Source: BondAdviser, Metrics. *MREIF may also invest up to 5% of NAV into ASX: MRE.*

MCH Fund Administration Services Pty Ltd acts as the Fund's administrator responsible for fund accounting and other financial reporting as set out by the Constitution. Valuation inputs are provided daily by the Manager for calculating the unit price. EQT Australia acts as the custodian of MREIF with the sole responsibility of holding the assets of the Fund and cash management processing.

In terms of fee structure, the inclusion of a performance fee whilst capping the total fee (management plus performance) is viewed positively in our opinion given the alignment of interest between investors and the Manager. It ensures incentive for positive performance while disincentivising taking greater risk to generate higher performance fees. Additionally, upfront origination fees generated on underlying loans are split 50/50 between Metrics and Master Fund investors.

Overall, we view the governance processes implemented by Metrics to be best in class among domestic private credit managers. This includes the appointment of an independent RE and independently reviewed asset valuations and impairment testing of the Master Fund assets.

Quantitative Analysis

Limited publicly available data and the inherent opaqueness of Australian commercial real estate lending makes quantitative analysis of expected credit loss more challenging than for other more developed asset classes. The difficulty in applying traditional quantitative credit loss models is made more difficult by the bespoke nature of these investments, and lack of publicly available data.

Whilst imperfect, the analysis presented in this section is intended to simulate the portfolio under varying conditions based on empirically observed inputs, including historical data such as Jump to Default (JTD) and other credit rating migration probabilities, recovery rates across asset types, and yield curves. Our simulations show the probability of returns for expected gross capital loss/gain (grey curve) and total gross return (orange curve).

We have adopted the CreditMetrics framework for our analysis. This framework attempts to model credit migrations, including JTDs, that directly impact the valuation of the Fund. Based on historical and estimated fair value yield curves, we can revalue each individual holding for each derived credit rating. This is to simulate the likelihood and severity of deterioration in security values. The heart of the analysis is determined by the probabilities of a JTD, and the recovery given default (loss given default, LGD). Our analysis places no limit on adverse credit migration to model a possible worse-case scenario for investors. **We note that this approach makes no assumptions on Metrics' capability in avoiding capital losses through active portfolio management.**

Whilst our modelling is based on the 2009 and 2018 historical data, for context we list the average migration rates and recovery rates observed over 1970-2022 in the two tables below. The first table displays the probability of an issuer moving from its current credit rating over a one-year period, whilst the second displays the average recovery based on seniority in the capital structure for different time periods.

Table 1. Average Migration Rates (1970-2022)

FROM\TO	AAA	AA	A	BBB	BB	B	CCC	Default
AAA	91.5%	7.9%	0.6%	0.1%	0.0%	0.0%	0.0%	0.0%
AA	0.8%	90.0%	8.7%	0.4%	0.1%	0.0%	0.0%	0.0%
A	0.0%	2.5%	91.7%	5.2%	0.4%	0.1%	0.0%	0.0%
BBB	0.0%	0.1%	3.9%	91.5%	3.5%	0.6%	0.1%	0.2%
BB	0.0%	0.0%	0.4%	6.4%	83.9%	7.4%	0.8%	0.9%
B	0.0%	0.0%	0.1%	0.4%	5.3%	82.7%	7.5%	3.4%
CCC	0.0%	0.0%	0.0%	0.1%	0.3%	6.8%	81.9%	8.0%

Source: BondAdviser, Moody's. Withdrawn ratings and ratings that have moved to CC or below are excluded from totals.

For each rating, an instrument's credit rating is likely to remain the same over the modelled timeframe, with some probability of an adverse movement. Our analysis builds on the principles behind Merton's structural credit model to randomly generate a series of credit ratings in one year's time. This is based on stochastic principles, with no Gaussian (Normal distribution) assumptions being made. Asset returns are derived from coupon and fee income, credit rating migrations and loss given default. **Impacts of duration and liquidity are ignored**. The main assumption is that asset returns are determined by the yield curve and credit rating or default, and recovery of the security at that time.

We simulate 10,000 scenarios for each set of assumptions, where each portfolio asset has an end credit rating which is defined by transition probabilities. Mapping valuation changes, or loss given default, to these hypotheticals, allows us to derive a probability distribution of portfolio valuation. The revaluation overlay allows us to estimate (unrealised) mark-to-market losses over a one-year horizon. The primary driver of our scenarios is dependent on JTD and LGD rates.

Additionally, in select figures (curves labelled *Gross E(r)*) we have included the estimated impact of coupon carry for the year. These curves reflect the offset coupon payments have against credit migration losses. In a highly diversified portfolio, a single default has an impact that is insignificant compared to the income generated. This is not present in less diversified portfolios where credit counterparty risk is more material.

When an individual asset jumps to default in any scenario, we assume that no interest payments are made. In evaluating a recovery value in a JTD event, we simulate a random variable utilising a beta distribution. Distributions change by seniority and are constructed using mainly historical data (Table 2-3).

Table 2. Recovery Rate Inputs (Bonds and Loans)*

	1983 - 2022 Average**	GFC Scenario	2022
First Lien Loans	69%	70%	70%
Senior Secured	58%	43%	61%
Senior Unsecured	44%	27%	31%
Subordinated	36%	22%	18%
Equity***	10%	5%	15%

Source: BondAdviser, Moody's, S&P
** Individual recovery rates will vary, based on a simulated random variable utilising a beta-distribution, using mean and variance parameterisation. ** First Lien Loans long-term average from 1990 - 2022, not 1983 - 2022.*
**** Not empirically based, standardised across all BondAdviser QA testing as a punitive input.*
Constant standard deviation of 10% used for equity.

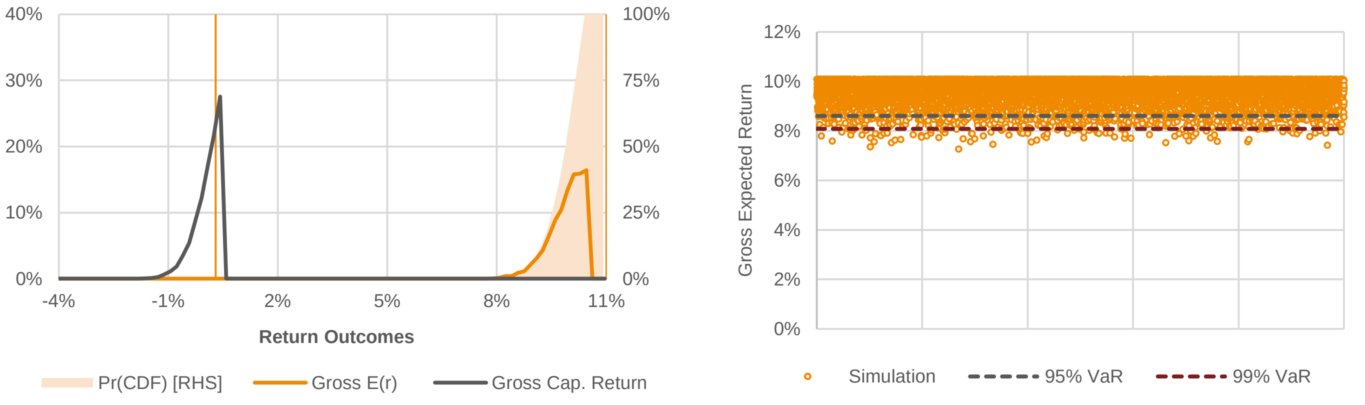
Table 3. Scenario 1 - Bond & Loan* Migration Rates (2018)

FROM\TO	AAA	AA	A	BBB	BB	B	CCC	Default
AAA	**96.1%**	3.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.3%	**94.1%**	3.8%	0.4%	0.4%	0.4%	0.3%	0.3%
A	0.3%	3.8%	**89.9%**	4.2%	0.6%	0.5%	0.4%	0.4%
BBB	0.0%	0.0%	3.6%	**92.4%**	2.2%	0.4%	0.8%	0.5%
BB	0.0%	0.0%	0.2%	7.7%	**80.1%**	6.3%	3.0%	2.6%
B	0.0%	0.0%	0.3%	1.5%	6.8%	**79.2%**	7.9%	4.2%
CCC	0.0%	0.0%	0.4%	2.2%	2.3%	7.0%	**79.5%**	8.7%

Source: BondAdviser, Moody's
** Further adjusted for loan assets, to eliminate probability of an upgrade or upwards revaluation.*

The portfolio performs well under our benign scenario modelling, with a median return of 9.5%, marginally above the hurdle return. We note however that this modelling does not include management or performance fees, nor does it include upfront and line fees paid to the Fund. 81.6% of simulated returns exceed the target return, which includes credit losses across riskier assets. That said, the modelling does not account for Metrics' workout experience which may result in significantly better recovery outcomes in the event of default. The portfolio exhibits strong downside protection, with a 99% and 95% VaR of 8.1% and 8.6%, respectively.

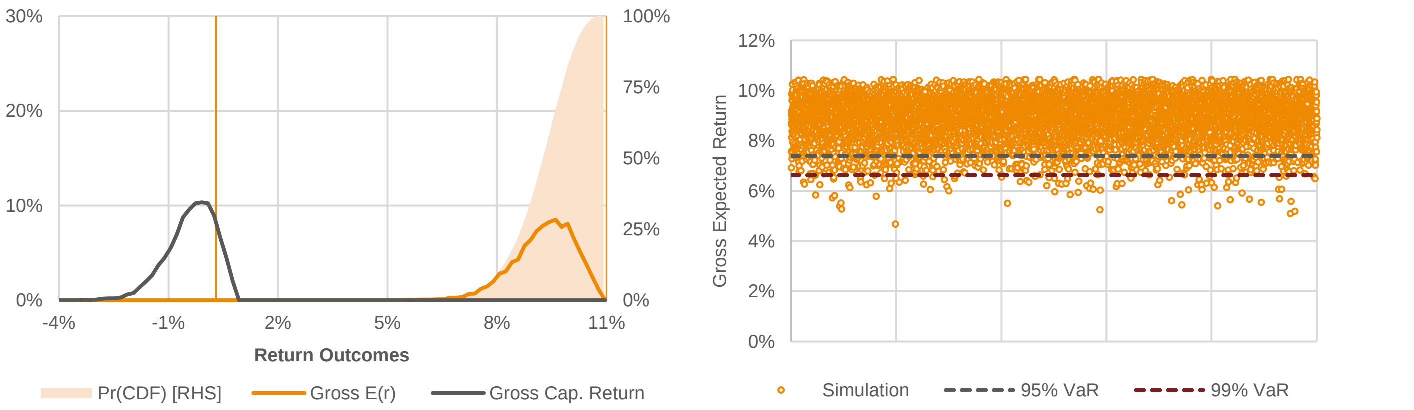
Scenario 1. Baseline Asset Assessment



Source: BondAdviser Estimates as of 31 December 2024 portfolio. ***Excludes impact of management and other 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.*
For a more detailed explanation of the methodology, please contact BondAdviser. Based on underlying fund REDF.

To test the portfolio under stressed conditions, we use migration rates from 2009, the worst recorded year for global default rates due to the GFC. Our 2nd scenario models against identical assumptions to the 1st scenario but is substituted with 2009 credit rating migration and corporate yield curve data.

Scenario 2. Stressed Asset Assessment



Source: BondAdviser Estimates as of 31 December 2024 portfolio. ***Excludes impact of management and other 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.* Based on underlying fund REDF.

Under our Stressed modelling, the portfolio still exhibits strong downside protection as a function of the level of counterparty diversity and security over assets. Extreme left tail events are still positive under this modelled scenario with the lowest simulated return being 4.7%. The median simulated return was 8.9% with a 99% and 95% VaR of 6.6% and 7.4%. Overall, the modelled downside protection is estimated to be strong despite allocation to some riskier credits. We note that this modelling does not account for operational failures which may result in losses, given the difficulty of incorporating this into quantitative analysis.

Table 4. Scenario 2 - Bond & Loan* Migration Rates (2009)

FROM\TO	AAA	AA	A	BBB	BB	B	CCC	Default
AAA	**64.9%**	35.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.5%	**71.6%**	23.3%	1.9%	0.9%	0.7%	0.7%	0.5%
A	0.6%	0.9%	**80.9%**	13.6%	1.2%	1.3%	0.7%	0.8%
BBB	0.0%	0.1%	1.3%	**87.8%**	6.5%	1.5%	1.3%	1.6%
BB	0.0%	0.0%	0.2%	4.8%	**72.5%**	14.3%	3.1%	5.1%
B	0.0%	0.0%	0.2%	1.0%	3.9%	**69.4%**	15.9%	9.7%
CCC	0.0%	0.0%	0.3%	1.4%	1.4%	9.0%	**52.2%**	35.8%

Source: BondAdviser, Moody's.
** Further adjusted for loan assets, to eliminate probability of an upgrade or upwards revaluation.*

Whilst this modelling is standardised across our fund research platform, we note that there are deficiencies to our approach, including, but not limited to, the following:

- Commercial real estate lending is not identical to corporate lending, and has different default paths and outcomes relative rated corporates.
- It does not consider the additional protections implemented by Metrics to mitigate credit migration or default risks.
- Correlations are not explicitly accounted for. In periods of distressed market valuations, we would expect probability and severity of default to be higher. Given the Fund invests solely in the real estate sector, correlations may be higher, especially during distressed market conditions.
- Our modelling contains assumptions, several of which, are subjective and may have otherwise material impacts to the modelling output.

The quantitative structuring defines the forward-looking risk score for our product assessment of the Fund. This is consistent with the BondAdviser Fund Research Methodology and overlays an objective evaluation to our recommendation. Based on our analysis, **we assign the Fund a risk score of High / BB.** This reflects the credit quality of the underlying assets and construction of the current portfolio.

This risk assessment does not account for the expertise or skill of Metrics in avoiding, defaults and instead assumes that assets would be held to default, without specifying any restructuring activities. Borrowers are actively researched, followed, and subjected to many levels of examination and oversight. We expect that assets would be managed prior to such an event occurring.

Research Methodology - Overview

Overview

At BondAdviser, our focus is on delivering the highest quality data, research and insights so that investors can make intelligent decisions about the fixed income market. At the centre of our approach is a proprietary 5-pillar process for analysing fixed income funds in a rigorous and disciplined manner. Our approach results in a recommendation scale that investors can readily use to identify the most attractive investment opportunities.

Our ability to provide a clear and concise investment recommendation from the very diverse and unique fixed income portfolios and funds within our coverage universe is a key benefit of our research process. We simplify an otherwise complex procedure for investors into a simple, recognisable and consistent recommendation scale.

We use a bespoke combination of qualitative assessments and forward-looking quantitative analysis. In our experience, most other research is backwards looking, which naturally limits its usefulness. By combining our deep understanding of fixed income markets and their emergent trends with our extensive modelling and forecasting capabilities, we aim to solve this limitation and output meaningful, risk-adjusted prospective recommendations for investors.

Research Approach

BondAdviser has adopted a multi-pillar, risk-based approach to the assessment of funds. In our opinion, an investor's exposure to credit risk is not uniform and can be well mitigated by manager skill, experience and supporting governance structures. We identify 5 key pillars of credit risk mitigation and these then form sections of analysis in our reports:

- Investment Objectives, Strategy and Performance
- Portfolio Construction and Investment Process
- Liquidity, Operating & Financial Risk Management
- Governance, Asset Stewardship and Compliance
- Quantitative Analysis

Research Process

The initial screening of funds and assets is based on a globally recognised best practices approach to alternative assets as defined by the Alternative Investment Managers Association (AIMA) and risk management as identified by the International Organisation of Securities Commissions (IOSCO).

All assets and managers must meet minimum requirements as outlined in our initial due diligence questionnaires. Detailed interviews, operational checks, process documentation and data collection then follow. Each of these steps helps to ensure that our recommendations are consistent and are based on a comprehensive understanding of the key drivers of the underlying market segment and asset class(es), the investment manager and broader portfolio.

Classification

We broadly adhere with international and Australian accounting standards and global best practice in designating assets according to their place in the fair value hierarchy defined in International Financial Reporting Standard 13 (IFRS13) - Fair Value Measurement (Australian version – AASB 13). All assets designated as "Credit" fall under three categories based on market observability as outlined below:

- **Level 1 (Active Markets)** - assets that have quoted prices in active markets, providing the most reliable evidence of fair value. As a result, transactions for these assets can generally occur at this price as at the measurement date. Domestically, typical examples of Level 1 assets include Australian Government Commonwealth bonds, listed debt and hybrid instruments and RBA repo-eligible financial instruments.

• **Level 2 (Non-Active Markets)** - assets that have observable prices (directly or indirectly), not included within the Level 1 category (i.e. not quoted on an exchange). Assets referencing credit spreads and interest rates would qualify if the input is observable for the full tenor. This category generally encompasses credit markets which have limited secondary market activity such as corporate bonds, subordinated debt and syndicated loans.

• **Level 3 (Illiquid and Alternative Credit)** – assets that have mostly unobservable inputs and hence valuation models are used, driven in part by assumptions and expectations. There may be an independent overlay and a model risk adjustment to derive an exit (market) price. A limited secondary market is typical and these assets are often referred to as alternative credit. Examples of this segment include "structured" credits such as RMBS, CMBS, ABS and private debt investing.

Product Assessment

The BondAdviser Product Assessment is the culmination of our research process applied to our pillar-based research approach. We conclude whether a fund is screened-out, approved, recommended or highly recommended as broadly defined below:

• **Screened Out** – The fund does not (or no longer) satisfies our minimum criteria for research inclusion.

• **Approved** – Our research allows us to conclude that the fund manager, governance structure, policies and procedures appear to be sound and capable of managing the fund adequately to target its benchmark.

• **Recommended** – We have a reasonable expectation that the fund will achieve its target benchmark.

• **Highly Recommended** – We believe that superior skills, systems and processes mean that the fund has a high likelihood of meeting and probably exceeding its benchmark target. Note that we only Highly Recommended assessments after issuing multiple reports over an extended period of time

Risk Score

Our Risk Score is aligned to the same methodology that is utilised in BondAdviser's single-instrument reports. It is not a credit rating and should not be used as such.

• AAA – Very Low

• AA – Low

• A – Lower Medium

• BBB – Upper Medium

• BB – High

• B – Very High

• CCC – Extreme

• D – Default (Fund Closed)

Our overall Risk Score is driven by the underlying credits of a fund coupled with our quantitative analysis. It is mutually exclusive to the Product Assessment. For example, it is possible for a fund to be Highly Recommended and have a risk score of CCC. This could occur where the fund invests in riskier credit assets but we are very confident of its capability to meet or exceed its benchmark target. Conversely, a fund comprising mostly of government bonds may hold a Risk Score of AAA but its governance processes, history and controls are not as strong as peers and warrant only an Approved assessment.

Alternative Investment Fund Research Methodology

Click here to view

Important Information

BondAdviser has acted on information provided to it and our research is subject to change based on legal offering documents. This research is for informational purposes only. This information discusses general market activity, industry or sector trends, or other broad-based economic, market or political conditions and should not be construed as research or investment advice.

The content of this report is not intended to provide financial product advice and must not be relied upon or construed as such. The statements and/or recommendations contained in this report are our opinions only. We do not express any opinion on the future or expected value of any Security and do not explicitly or implicitly recommend or suggest an investment strategy of any kind.

BondAdviser will receive a licensing fee from the Manager in relation to this research report. BondAdviser Asset Management or associate investment vehicles which it controls may also choose to hold units of the Fund as necessary.

This report has been prepared based on available data to which we have access. Neither the accuracy of that data nor the research methodology used to produce the report can be guaranteed or warranted. Some of the research used to create the content is based on past performance. Past performance is not an indicator of future performance. We have taken all reasonable steps to ensure that any opinion or recommendation contained in the report is based on reasonable grounds. The data generated by the research is based on methodology that has limitations; and some of the information in the reports is based on information from third parties.

We do not therefore guarantee the currency of the report. If you would like to assess the currency, you should compare the report with more recent characteristics and performance of the assets mentioned within it. You acknowledge that investment can give rise to substantial risk and a product mentioned in the reports may not be suitable to you.

You should obtain independent advice specific to your particular circumstances, make your own enquiries and satisfy yourself before you make any investment decisions or use the report for any purpose. This report provides general information only. There has been no regard whatsoever to your own personal or business needs, your individual circumstances, your own financial position or investment objectives in preparing the information.

We do not accept responsibility for any loss or damage, howsoever caused (including through negligence), which you may directly or indirectly suffer in connection with your use of this report, nor do we accept any responsibility for any such loss arising out of your use of, or reliance on, information contained in or accessed through this report.

Report created on 24 April 2025.