

Fund Research

Metrics Master Income Trust (ASX: MXT)



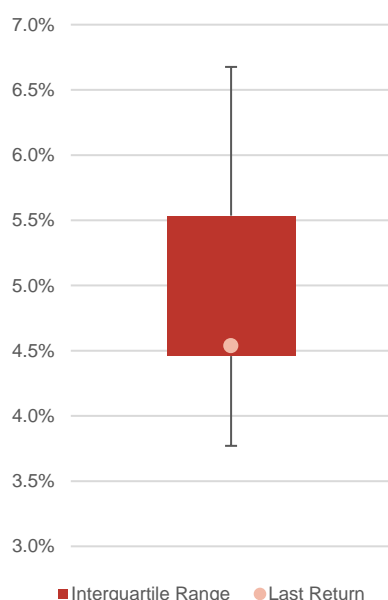
Overview

The Metrics Master Income Trust (the “Trust” or “MXT”) is a listed investment trust designed to provide investors with access and exposure to the Australian corporate loan market. As at 31 March 2022 the market capitalisation of the Fund was ~\$1.63 billion.

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 stable capital value and income with a target return of the **RBA cash rate plus 3.25% p.a.** (currently 3.60% p.a.) **after fees**, payable monthly. The Trust has invested in the MCP Wholesale Investments 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).

Figure 2. Monthly Net Returns Box Plot



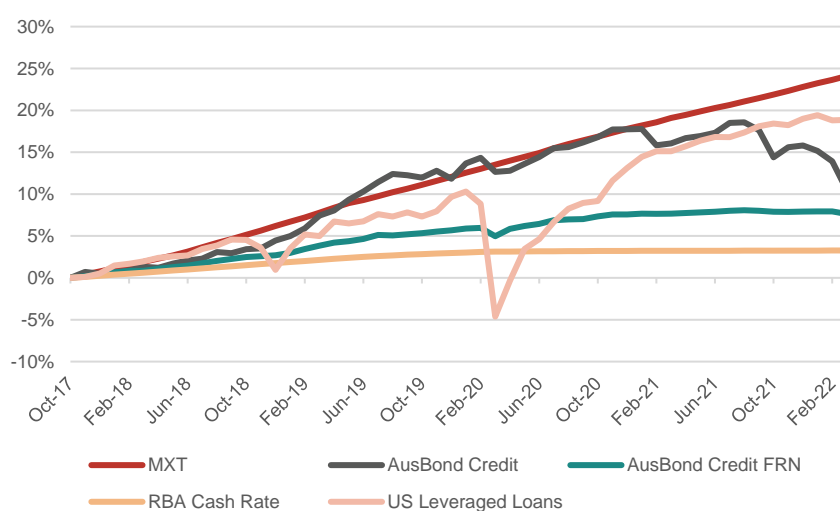
Source: BondAdviser, Metrics. Annualised monthly returns, after fees since inception.

Figure 1. Monthly Net Returns* (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2022	0.36	0.32	0.37										1.06
2021	0.33	0.33	0.43	0.31	0.36	0.32	0.31	0.34	0.34	0.34	0.37	0.38	4.14
2020	0.45	0.41	0.43	0.43	0.39	0.40	0.50	0.44	0.38	0.38	0.40	0.40	5.03
2019	0.48	0.47	0.54	0.54	0.52	0.33	0.43	0.43	0.38	0.42	0.42	0.43	5.41
2018	0.38	0.32	0.43	0.38	0.38	0.45	0.50	0.49	0.45	0.49	0.47	0.52	5.27
2017										0.46	0.35	0.41	1.23

Source: BondAdviser, Metrics. As at 31 March 2022.
* 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 13 for unit price variance.

Product Assessment

Highly Recommended

Metrics has demonstrated market leading systems and processes over several years, blended with a proven investment strategy, we expect MXT will continue to outperform on a risk-reward basis and continue to issue the Fund a rarely attained **Highly Recommended** product assessment.

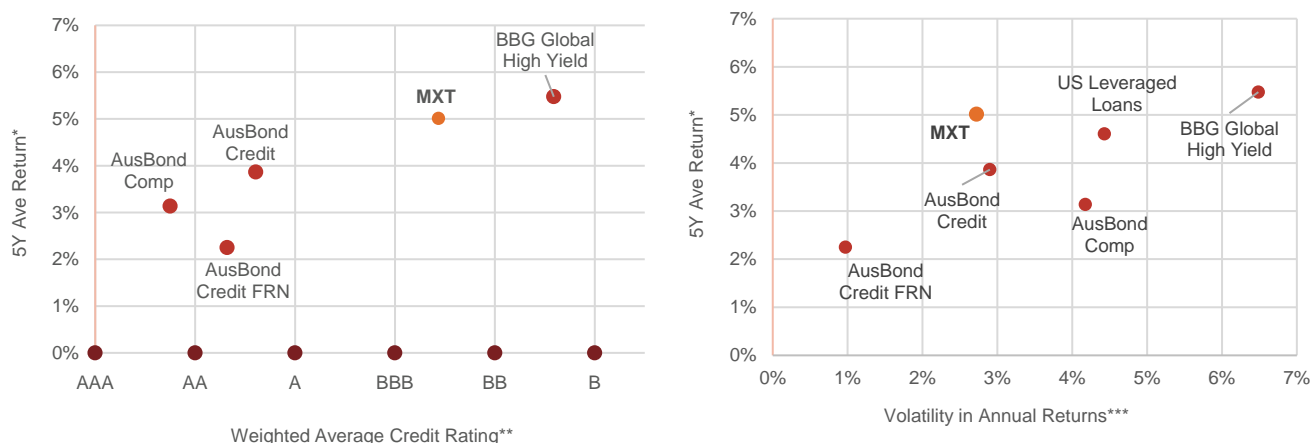
The Metrics Master Income Trust (ASX: MXT) provides investors with exposure to three of Metrics wholesale unlisted funds. All three funds offer diversified exposure to commercial loans where the returns are uncorrelated with equity returns. The majority (~60%) of the portfolio is invested in Metrics Credit Partners Diversified Australian Senior Loan Fund (DASLF), with ~20% allocated to the MCP Secured Private Debt Fund II (SPDF II) and the MCP Real Estate Debt Fund (REDF).

Since inception the Fund has exceeded its net return target of the RBA Cash Rate + 3.25% p.a. with exposure to both investment and sub-investment grade Australian corporate loans – furthermore the NAV has remained stable throughout. The Fund has returned 4.19% on a rolling 12-month basis and has delivered a 5.04% annualised net return since its inception. Whilst COVID caused a dislocation in the ASX traded unit price, in line with other LITs and the market more broadly, this has been retraced. MXT is now consistently trading at a material premium to NAV.

This product is best suited for investors looking to generate an **attractive and steady return** from a **diversified portfolio of private loans**. As this asset class matures, we expect the product will exhibit a low long-term correlation to traditional asset classes, making it a suitable diversifier to investor income portfolios, which are typically biased towards domestically sourced, equity-based and/or hybrid income streams. The number of borrowers exceeds 240, and the maximum exposure of a single borrower is 1.67%, highlighting the Fund's level of counterparty diversification.

We expect MXT to continue to outperform on a risk-reward basis, given Metrics demonstrated, market leading, systems and processes.

Figure 4. Estimated Risk-Adjusted Return Comparison



*All returns for indices calculated using annualised monthly returns for the past five years. Average return for MXT calculated since inception in October 2017.

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

Construction and Investment Process

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

Portfolio Risk Management

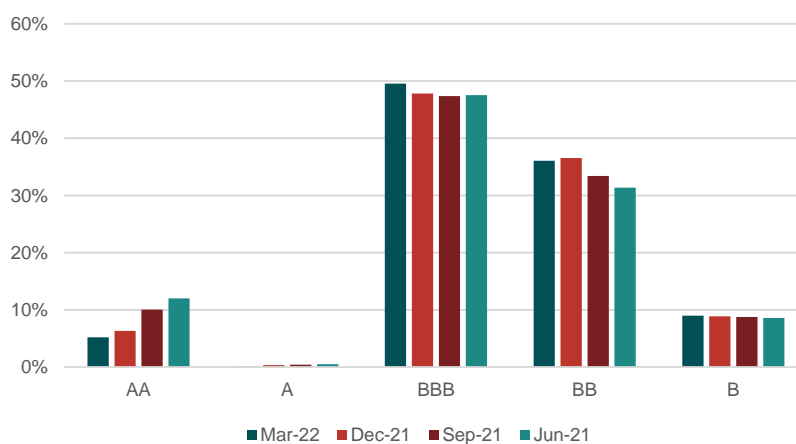
The Fund's allocation across the credit spectrum remained largely unchanged across the past quarter. The Fund's weighted average credit rating remained flat, still inside the lower end of the investment grade band, which was largely characterised by a minor winding down of cash holdings and BB securities 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*



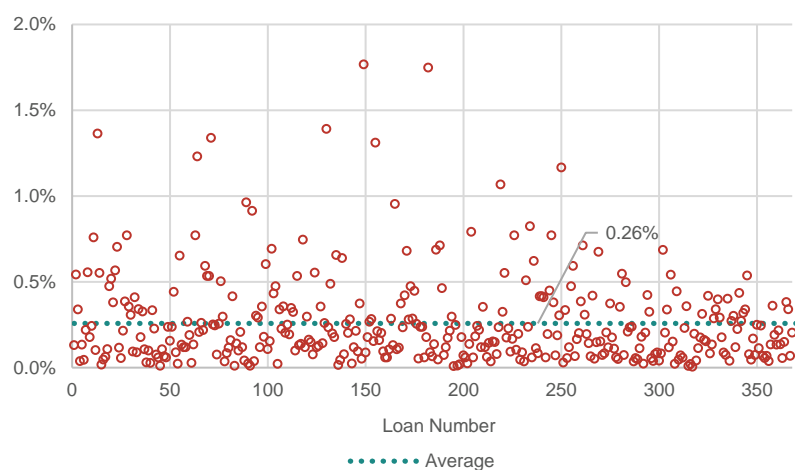
Source: BondAdviser, Metrics. As at 31 March 2022. * Excluding cash.

Figure 6. Portfolio Credit Rating Mix*



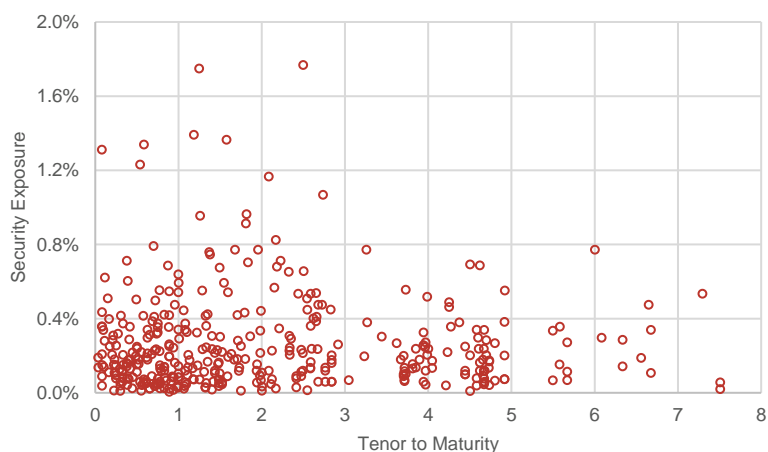
Source: BondAdviser, Metrics. As at 31 March 2022. * Including cash which is rated AA.

Figure 7. Portfolio Individual Loan Exposure*



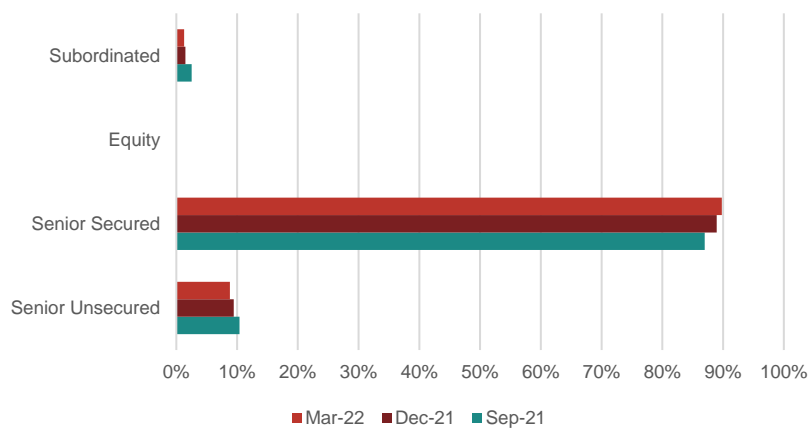
Source: BondAdviser, Metrics. As at 31 March 2022. * Excluding cash.

Figure 8. Portfolio Loan Tenor Mix*



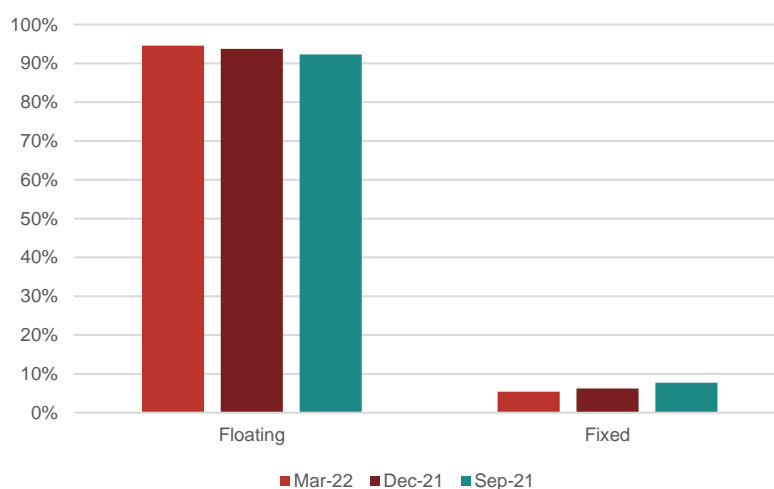
Source: BondAdviser, Metrics. As at 31 March 2022. * Excluding cash.

Figure 9. Portfolio Seniority*



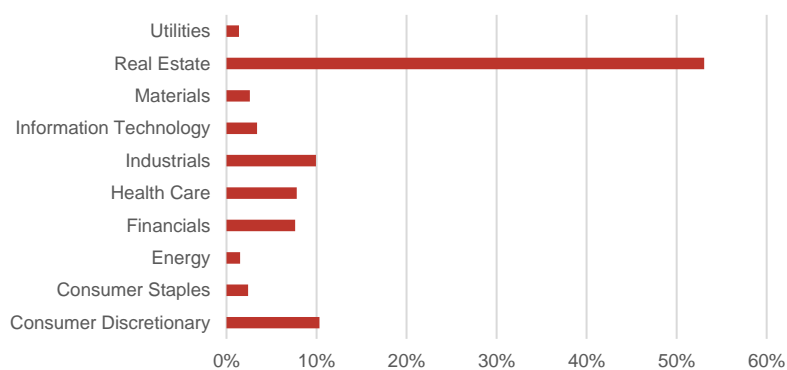
Source: BondAdviser, Metrics. As at 31 March 2022. * Excluding cash.

Figure 10. Portfolio Exposure*



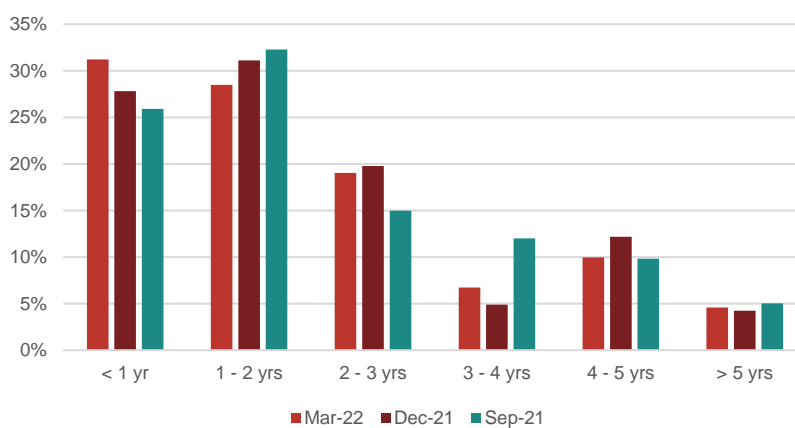
Source: BondAdviser, Metrics. As at 31 March 2022. * Excluding cash.

Figure 11. Portfolio Exposure by S&P Sector*



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

Figure 12. Portfolio Loan Tenor*

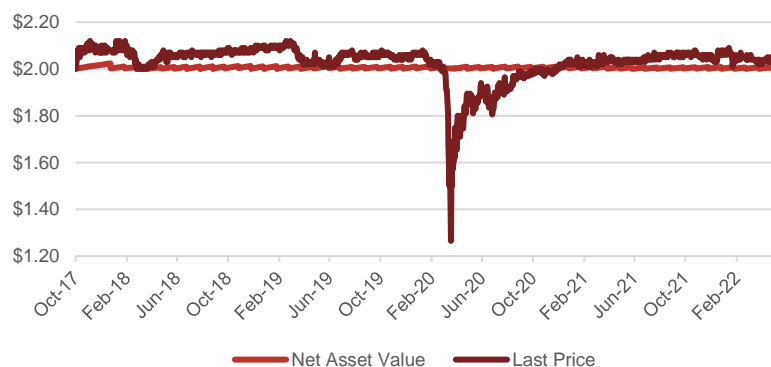


Source: BondAdviser, Metrics. As at 31 March 2022. * Excluding cash.

Fund Governance

There have been **no material changes** to MXT's fund governance.

Figure 13. Net Asset Value Against Unit Price

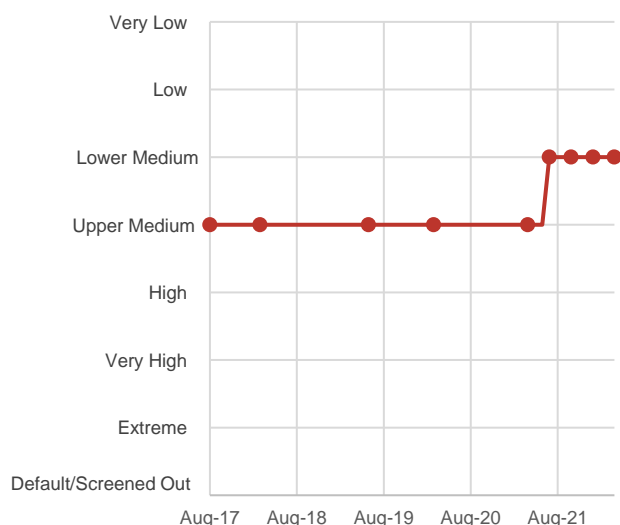


Source: BondAdviser, Metrics, Bloomberg. As at 25 May 2022.

Metrics provide daily updates on the NAV and monthly reports on the portfolio performance with insights into the portfolio composition. The structure of the Trust is detailed and has not changed. This is outlined in prior reports (see page 4 of [MXT Update Report – 21 April 2021](#)).

Quantitative Analysis

Figure 14. Risk Score

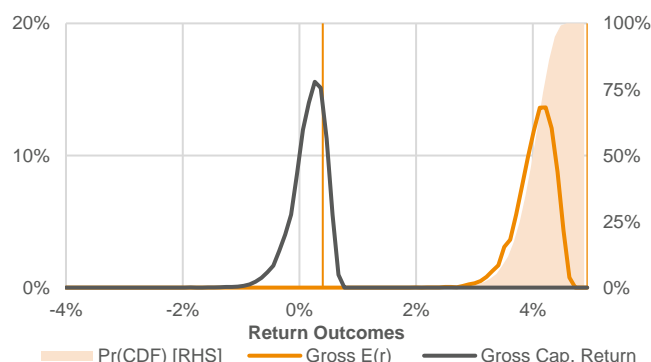


In our modelling, the **portfolio performs well in both the baseline scenario, and under the stressed scenario**. Under the baseline scenario, our modelling shows a low chance of losses on a gross expected return basis. This is materially driven by higher yielding assets with lower LGD (given the portfolio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

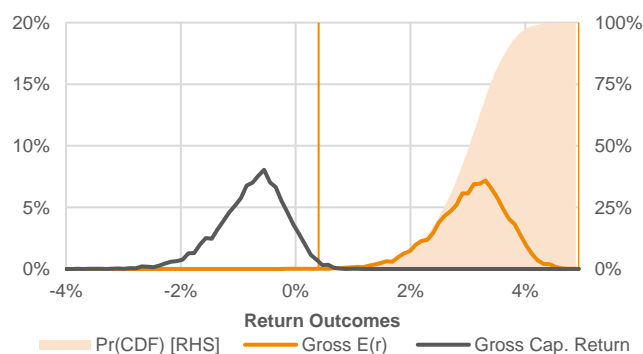
Our risk score is maintained at “Lower Medium”, a notch above the underlying portfolio’s weighted average credit rating, reflecting the Fund’s high level of diversification to counterparties, strong credit profile and performance under stressed conditions.

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

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

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

[MXT Update Report – 21 August 2021](#)

[MXT Update Report – 21 April 2021](#)

[MXT Update Report – 27 February 2020](#)

[MXT Update Report - 8 May 2019](#)

[MXT Entitlement Offer Report - 26 February 2018](#)

[MXT IPO Report – 1 August 2017](#)

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