

AUSTRALIAN

# RESEARCH

INDEPENDENT INVESTMENT RESEARCH

## MCP Master Income Trust (MXT)

Listed Managed Investments

June 2019 Quarterly Review

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Independent Investment Research, "IIR", is an independent investment research house based in Australia and the United States. IIR specialises in the analysis of high quality commissioned research for Brokers, Family Offices and Fund Managers. IIR distributes its research in Asia, United States and the Americas. IIR does not participate in any corporate or capital raising activity and therefore it does not have any inherent bias that may result from research that is linked to any corporate/ capital raising activity.

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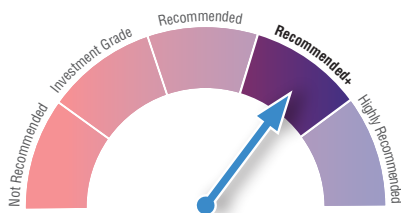
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- 6) All staff are not allowed to trade in any stock or accept stock options before, during and after (for a period of 6 weeks) the research process.

## Rating



## LMI Type

Listed investment trust

## Investment Area

Australia

## Investment Assets

Fixed Income Trusts

## Investment Sectors

Diversified

## Key Investment Information

Price (\$) at 3 September 2019 2.06

Market cap (\$M) 1,312.6

Units on issue (M) 637.2

Options on issue (M) 0.0

Units traded (\$M p.a) 402.7

12-month L/H (\$) 1.986/2.114

Listing date October 2017

## Fees

Management Fee (%) 0.67

Performance Fee (%) Nil, but underlying funds may charge a performance fee

## Premium/Discount to Pre-tax NTA

As at 30 June 2019 2.0%

Average since listing 3.5%

## Distribution Yield

%

FY17 na

FY18\* 3.4uf

FY19 5.7uf

\*Based on a partial year given the Trust was only listed in October 2017 and commenced paying distributions in December.

## COMPANY OVERVIEW

MCP Master Income Trust (ASX:MXT) is a listed investment trust that invests in a portfolio of Australian corporate loans. It does so through investments in wholesale funds managed by its Investment Manager, debt-specialist fund manager Metrics Credit Partners (MCP or Manager). MXT listed on the ASX in October 2017. The Manager is targeting a return equal to the RBA Cash Rate plus 3.25% per annum net of fees and pays cash distributions monthly.

## INVESTMENT OBJECTIVE

MXT's objective is to provide monthly cash income, low risk of capital loss and portfolio diversification by actively managing diversified loan portfolios and participating in Australia's bank-dominated corporate loan market. The Manager seeks to implement active strategies designed to balance delivery of the target return, while seeking to preserve capital.

## STYLE AND PROCESS

The Manager directly originates and sources all loans and uses a detailed due diligence process for all transactions. The process considers and assesses all the risks associated with a business' cashflows and the likely impact on the Manager's capital. The analysis incorporates industry analysis as well as company specific aspects such as management, strategy, financial projections and capital structure. The process culminates with a credit rating for both the issuer and the proposed transaction which is then reviewed by the Investment Committee and decision arrived at whether to proceed or not. Knowledge gained through the due diligence phase is used to negotiate appropriate terms and conditions with the borrower. All loans are monitored on a daily basis and a formal review process is conducted when new financial information is received about a particular borrower.

## PORTFOLIO CHARACTERISTICS

MXT invests in three wholesale funds managed by Metrics Credit Partners, all of which provide exposure to the Australian corporate loan market but with differing risk-return investment profiles and target loan investments. From a credit quality perspective, the Manager targets the investment grade through to sub-investment grade segment (A through to <BB rated). At 30 June 2019, there were 117 individual investments with 61% in investment grade assets, including cash. The weighted average credit duration of the portfolio was 2.5 years.

## INDEPENDENT INVESTMENT RESEARCH COMMENTS

MXT is a unique investment proposition in that it provides exposure to a diversified portfolio of direct-lending corporate loans by way of a listed investment trust structure. It does so through a portfolio created and actively managed by a team with a deep skill set and a track-record of delivering a risk-return outcome in excess of target levels and without a single negative month or credit loss, albeit during a period of benign credit markets. The investment team is stable, operates according to a flat culture and there is a strong alignment of interest with investors.

Distributions totalling 11.63 cents per unit were paid for the 12 months to 30 June 2019 representing a yield of 5.7% based on the share price at 30 June 2019, above its benchmark of RBA cash rate plus 3.25%, currently 4.25% after the two recent rate cuts of 0.25% each by the RBA in June and July 2019.

The NAV of the trust has remained stable since inception, varying little from the \$2.00 NAV per unit at listing. The Manager sees a strong pipeline of opportunities, in particular in the real estate development and mid-sized private equity sponsored acquisition financing sectors. The Trust continues to trade at a slight premium to the NAV.

The Trust has raised in excess of \$400m over the first 6 month of 2019 through multiple capital raising showing the strong demand for a steady yield style of investment that is above Australian bank deposit rates.

Industry Exposure	30 Jun (%)
Real Estate Development	21.0
Real Estate Investment Trusts	14.0
Health Care Providers & Services	7.0
Hotel, Restaurants & Leisure	5.0
Other	36.0
Cash	17.0

Credit Quality	30 Jun (%)
AA (cash)	17.0
A	3.0
BBB	41.0
BB	35.0
<BB	4.0

Investment Committee
Justin Hynes
Andrew Lockhart
Graham McNamara
Andrew Tremain

## PERFORMANCE ANALYTICS

Performance	Jun Quarter	1 year	3 year p.a	5 year p.a
NAV + Distributions (%)	2.7	7.3	na	na
Unit Price + Distributions (%)	2.2	5.6	na	na

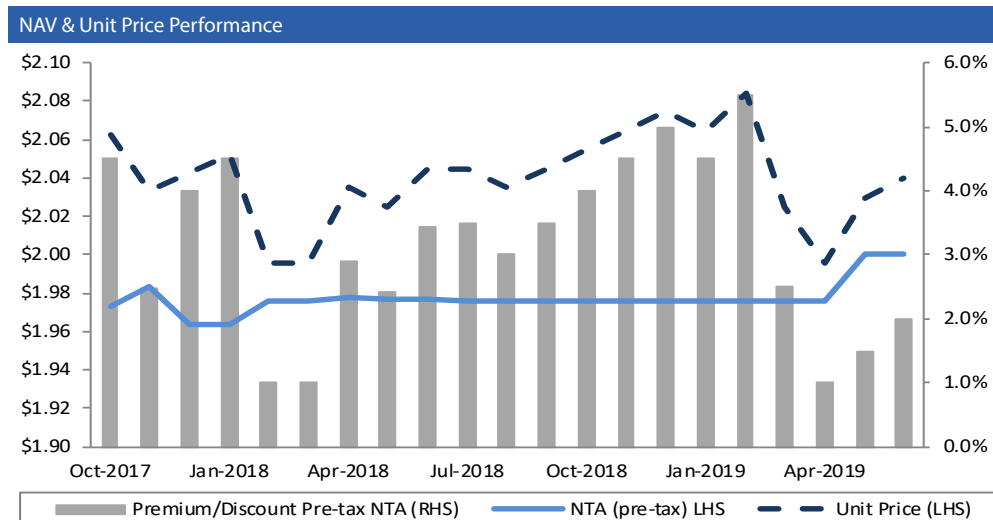
## OTHER DATA

- ◆ Distribution policy – The trust intends to pay distributions to unitholders monthly. Distributions are expected to match the income (net of fees and expenses) achieved by the Trust.
- ◆ Capital management policy – na
- ◆ LIC tax concessions – n.a
- ◆ DRP available – Yes.

## MXT's Portfolio

Trust	Weighting (%)
Metrics Credit Partners Diversified Australian Senior Loan Fund	60
Metrics Credit Partners Real Estate Debt Fund	20
Metrics Credit Partners Secured Private Debt Fund II	20
Total	100

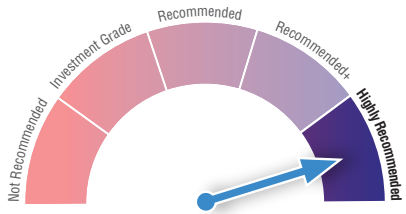
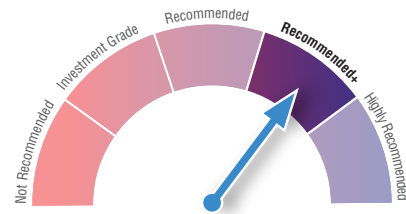
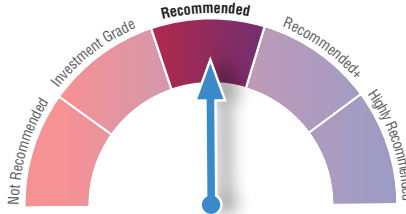
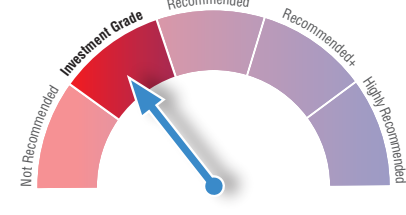
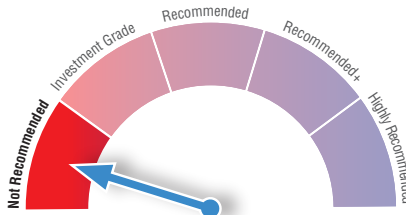
Source all figures: MXT/Independent Investment Research/IRESS.  
All data as at 30 June 2019 unless otherwise specified.



## APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system

IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

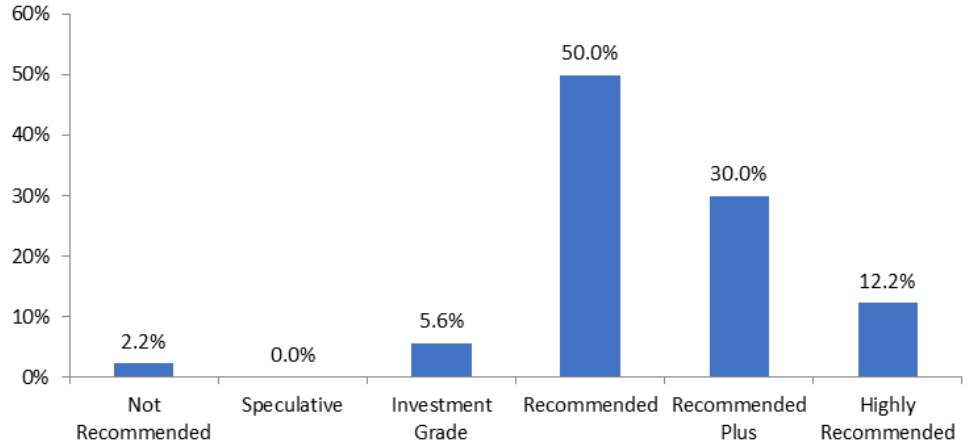
LMI Ratings	SCORE
Highly Recommended	83 and above
	<p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
Recommended +	79–83
	<p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
Recommended	70–79
	<p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
Investment Grade	60-70
	<p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.</p>
Not Recommended	<60
	<p>This rating indicates that IIR believes that despite the product’s merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</p>

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## APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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