

Fund Research

MCP Income Opportunities Trust (ASX: MOT)



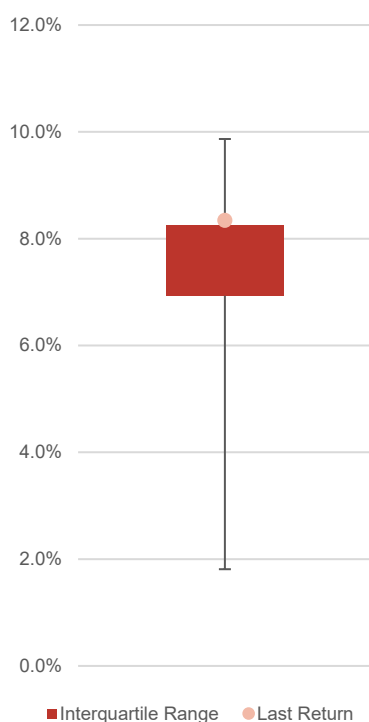
Overview

The MCP Income Opportunities Trust (ASX: MOT) is a listed investment trust (LIT) designed to provide investors with exposure to private credit. Private credit is a broad asset class that includes investments spanning the entire capital structure, from senior secured loans through to equity-like investments.

Private credit is a major pillar of the Australian corporate debt market but has historically been restricted to major global banks and institutional investors. For this reason, MOT offers a unique investment opportunity through exposure to the higher-yielding aspects of corporate credit that are otherwise not accessible for retail investors.

The investment objective of the Trust is to provide attractive risk-adjusted returns with a **target return of 8 – 10% p.a. net of fees**, over a three-year period, with cash distributions payable monthly at a target of 7% p.a. The Trust has invested in the MCP Wholesale Income Opportunities Trust, which, in turn, invests in wholesale 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



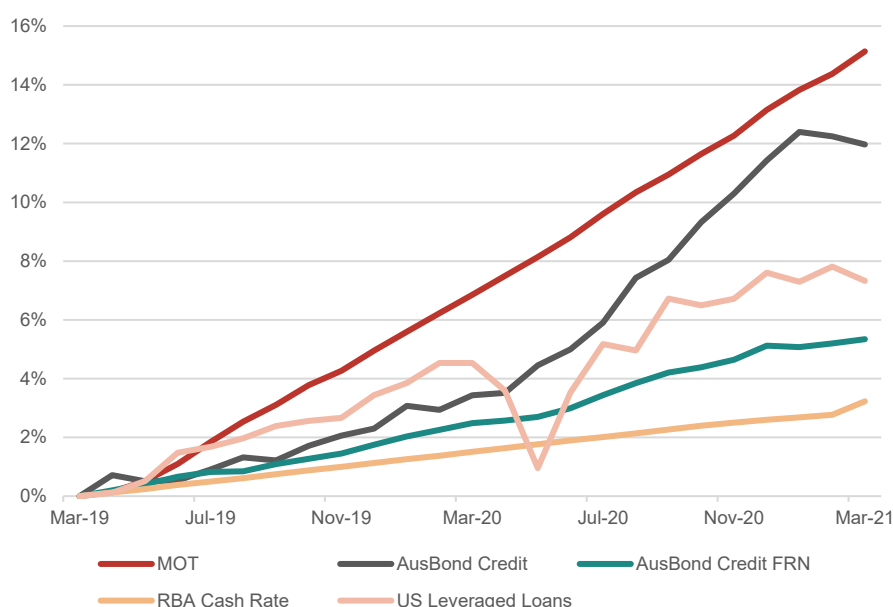
Source: BondAdviser, Metrics. Annualised monthly returns, after fees since inception.

Figure 1. Monthly Net Returns* (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	0.60	0.48	0.67										1.75
2020	0.61	0.60	0.59	0.60	0.60	0.62	0.73	0.67	0.55	0.63	0.56	0.78	7.54
2019				0.15	0.36	0.58	0.74	0.68	0.56	0.65	0.47	0.66	4.85

Source: BondAdviser, Metrics. As at 31 March 2021.
* Return is monthly net total return based on NTA plus dividends.

Figure 3. Relative Cumulative Performance



Source: BondAdviser, Metrics, Bloomberg. As at 31 March 2021.
Calculated from cumulative net monthly returns of the Underlying Fund.
Returns on NAV, not traded unit price, see Figure 5 for unit price variance.

Australia's mid-market corporate lending environment has high barriers to entry.

On an interest-rate spread basis, both cash and total returns have exceeded expectations.

Product Assessment

Approved

The MCP Income Opportunities Trust (ASX: MOT) provides investors with exposure to four of Metrics wholesale unlisted funds. All underlying funds offer diversified exposure to corporate loans and credit, an asset class with returns uncorrelated with equity markets. The portfolio's investments are in the MCP Secured Private Debt Fund (SPDF), MCP Secured Private Debt Fund II (SPDF II), the MCP Real Estate Debt Fund (REDF) and the MCP Credit Trust (MCP CT).

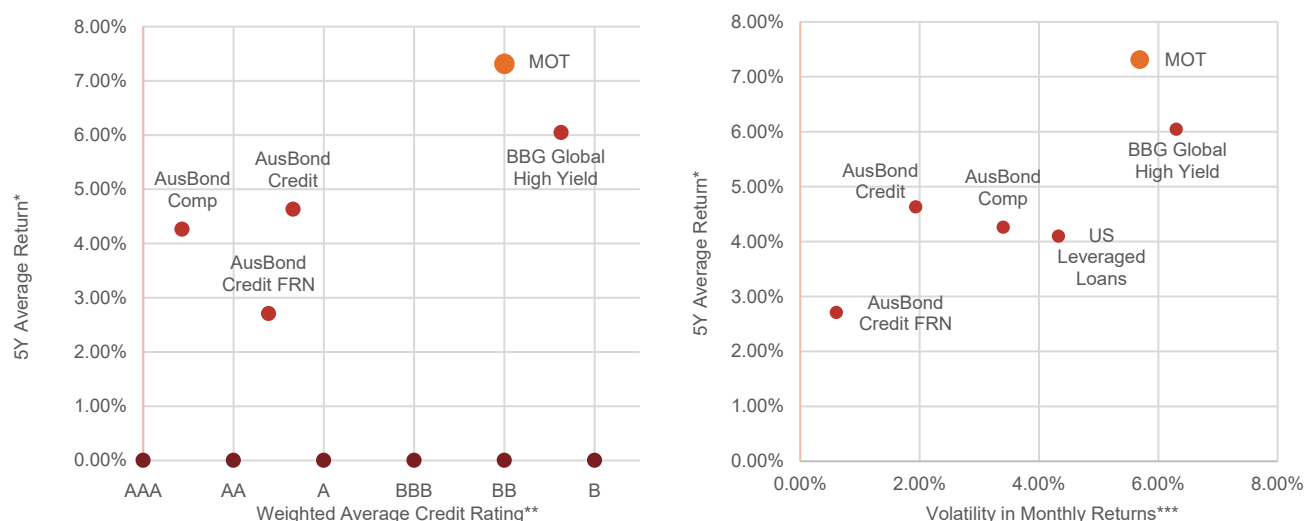
Although the track record remains on the shorter side, the portfolio has performed in line with its target of an 8 - 10% net return after fees with exposure to both senior and subordinated loans along with equity-like investments. **We are confident in Metrics' ability to structure credit at origination and to meticulously monitor portfolio performance** so that financial risk is appropriately mitigated.

This product is best suited for investors looking to generate an **attractive risk-adjusted return** from a **diversified portfolio of opportunistic credit**. We note there is an elevated exposure to the commercial real estate sub-sector.

We expect the product will exhibit beneficial long-term correlation to traditional asset classes (especially as the asset class matures). This alongside an attractive outright yield, makes it a suitable alternative and diversifier for investor income portfolios, which are typically biased towards domestically sourced, equity-based and/or hybrid income streams.

Post-ramp up, following the initial public offering in April 2019, MOT has failed to meet its target returns on both a cash and total return basis. Would it not be for the underperformance in relation to target returns, we would consider upgrading our recommendation. Whilst disappointing, this should be viewed in the context of a cash rate that was then 1.50%. With the cash rate now at 0.10%, **on a margin basis, both cash and total returns have significantly exceeded target returns**. In light of this, we have assigned an **Improving** outlook. Forming the basis for our Approved assessment was: (1) a long track record of performance by Metrics, (2) a proven investment process, (3) demonstrating best-in class local industry practices.

Figure 4. Estimated Risk-Adjusted Return Comparison



*All returns for indices calculated using annualised monthly returns for the past five years. Average return for MOT calculated since inception in April 2019.

** Calculated as at 31 March 2021. *** Calculated based on annualised monthly returns data for past five years for indices and since inception for MOT.

Construction and Investment Process

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

Portfolio Risk Management

There have been **no material changes** to MOT's portfolio risk management.

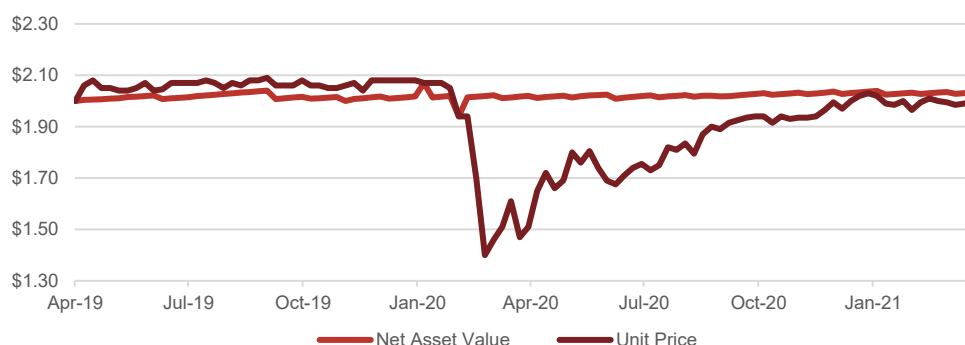
Fund Governance

In January 2020 it was announced Metrics would waive its performance fee on the difference between total return and the hurdle. The performance fee will now only apply on the Trust's returns which exceed 7.50% per annum. We view this favourably, given Metrics are appropriately not benefiting solely from a reduction in the base rate.

Listed on the ASX, the MCP Income Opportunities Trust is publicly traded and owned by retail and institutional investors. MOT follows many best practices covering its governance and risk procedures but also by performing regular (monthly) external valuations and using an independent Responsible Entity / Trustee.

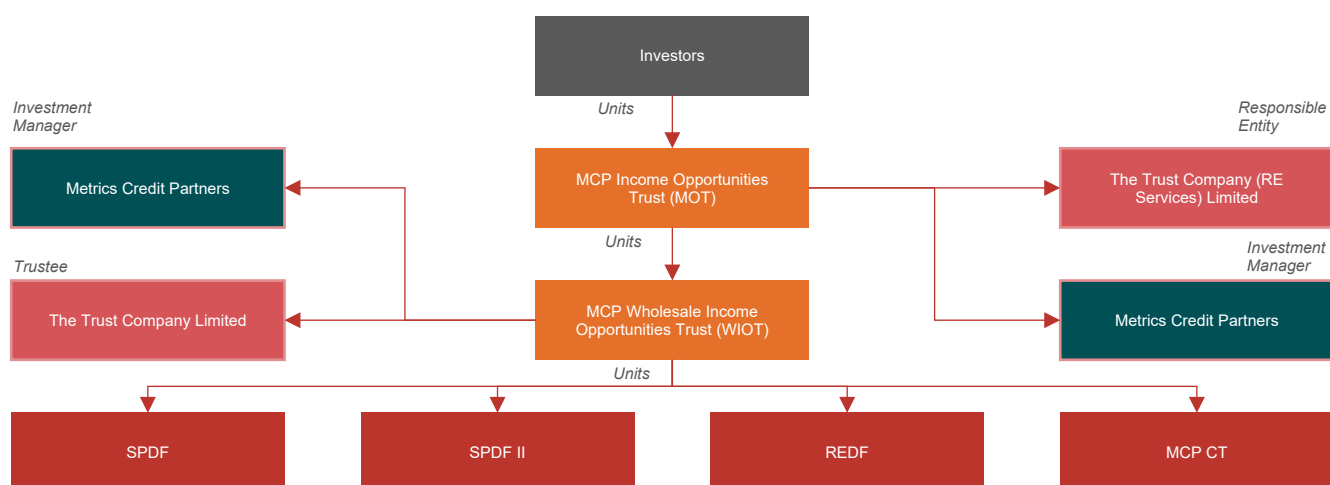
Metrics provide daily updates on the NAV and monthly reports on the portfolio with insight into the portfolio composition. The structure of the Trust is detailed in the diagram below.

Figure 5. Net Asset Value Against Unit Price



Source: BondAdviser, MCP. As at 16 April 2021.

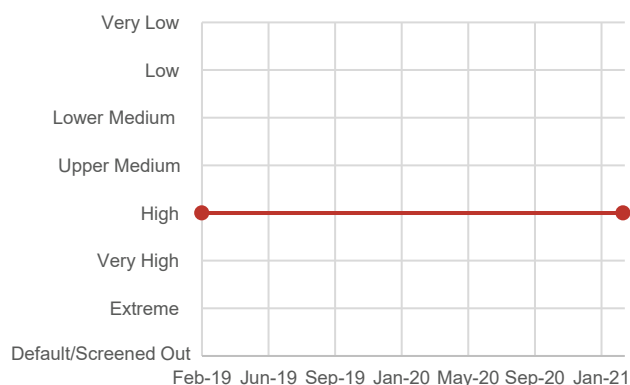
Figure 6. Legal Structure



Source: BondAdviser, Metrics

Quantitative Analysis

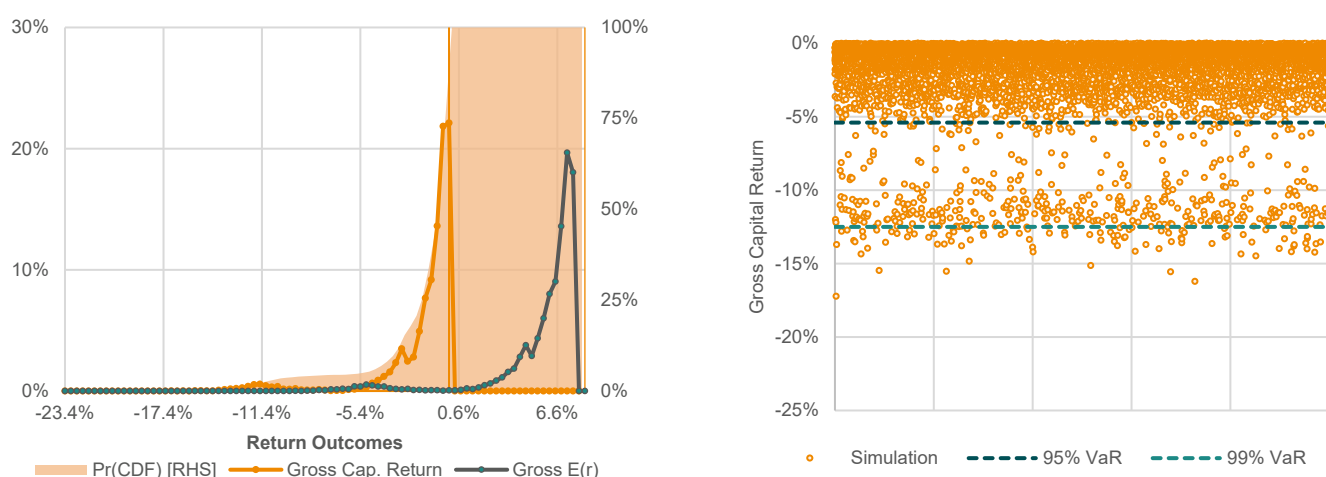
Figure 7. Risk Score



The **portfolio performs well** in our simulations. This is principally due to counterparty diversification and a short average remaining term of securities (quantum of cashflows revalued on impairment is less). There is an element of bimodality in our distribution, due to a single investment representing >10% of the portfolio. Whilst well compensated, there is an elevated risk in terms of subordination and this is reflected in our Risk Score.

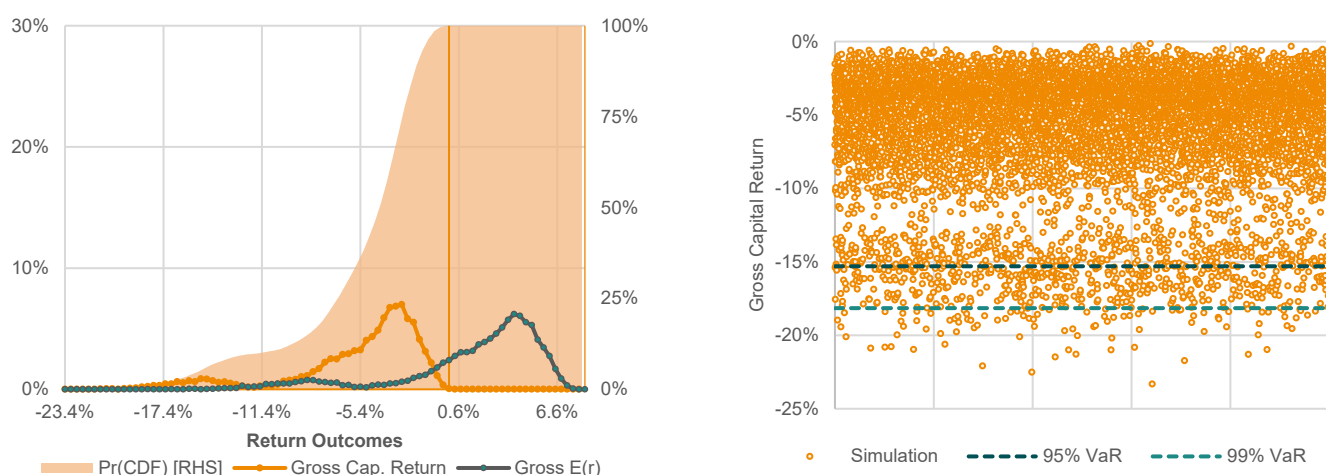
Over the past two years of coverage, our Risk Score for MOT has been unchanged at “High”.

Scenario 1. Baseline Asset Assessment



Source: BondAdviser Estimates. 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. 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

MOT IPO Report - 28 February 2019

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Report created on 29 April 2021.