

Fund Research

MCP Master Income Trust (ASX: MXT)



Overview

The Metrics Credit Partners ("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. Metrics completed an institutional placement in April 2021 worth ~\$200 million, taking the market capitalisation to a total of ~\$1.5 billion.

This sub asset-class 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, MXT offers a unique investment opportunity and exposure to a market typically not accessible to retail investors.

The investment objective of the Trust is to provide stable income with a target return of the **RBA cash rate plus 3.25% p.a.** (currently 3.35%) **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).

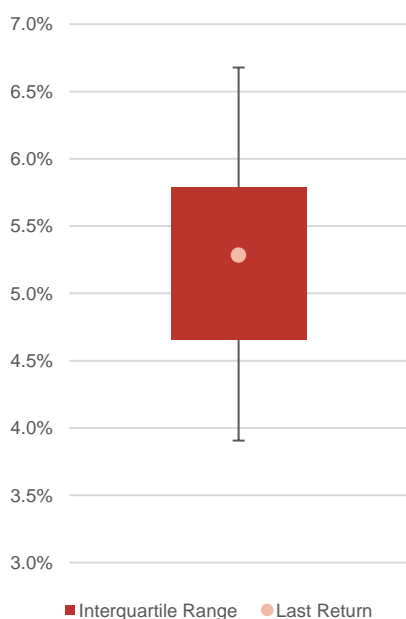
Figure 1. Monthly Net Returns* (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	0.33	0.33	0.43										1.09
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	5.01
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	5.39
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	5.26
2017											0.35	0.41	0.76

Source: BondAdviser, Metrics. As at 31 March 2021.

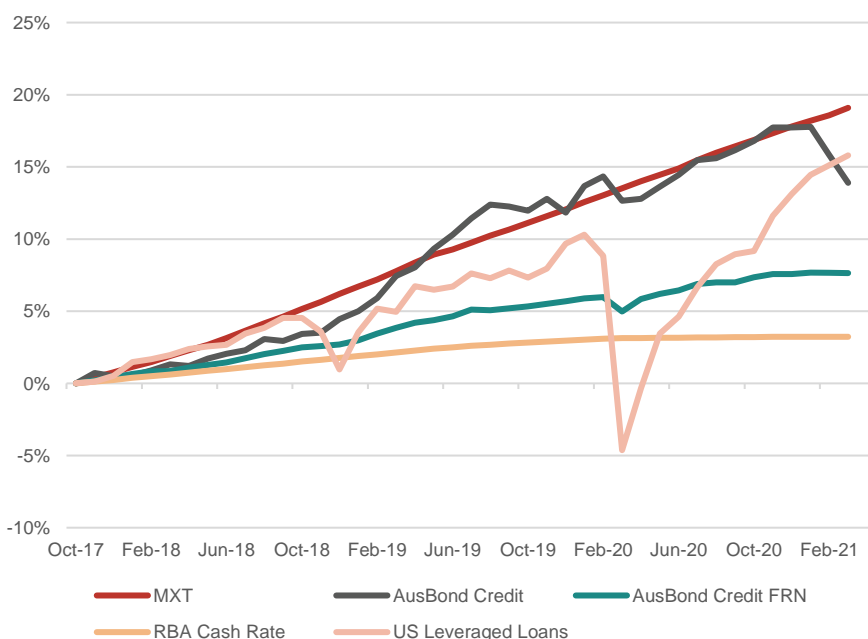
* Return is monthly net total return based on NTA plus dividends.

Figure 2. Monthly Net Returns Box Plot



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

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.

Product Assessment

Highly Recommended

Corporate lending offers robust risk-adjusted returns that are not correlated to equity markets.

Given Metrics' demonstrated skills, systems, and processes, in parallel with a proven investment strategy, we expect MXT will continue to outperform from a risk-reward perspective.

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

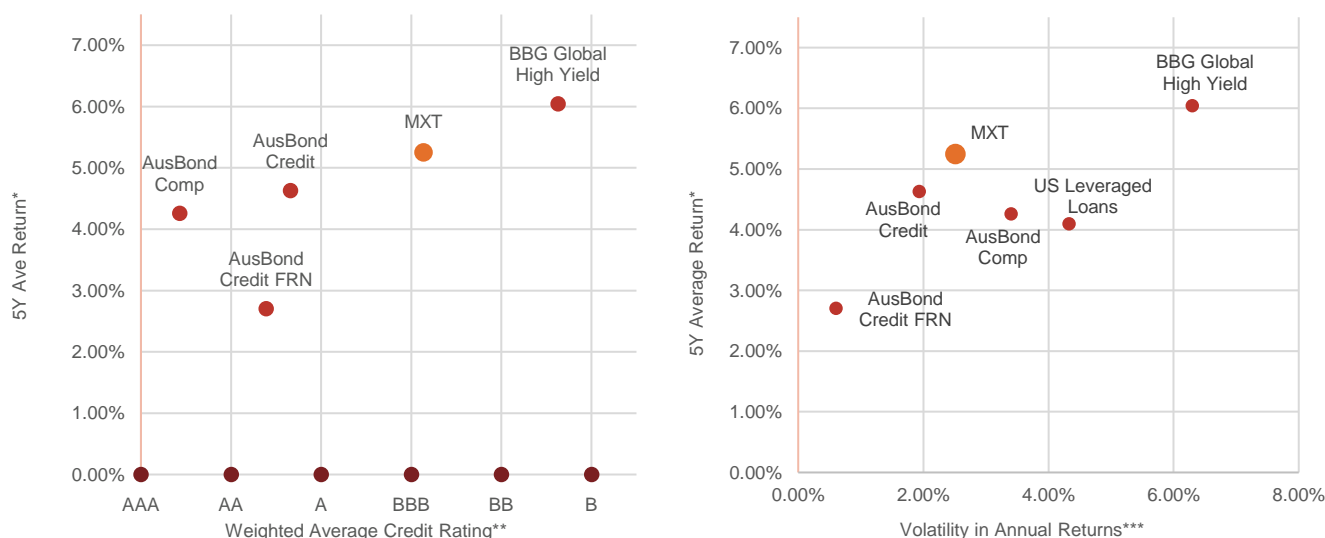
The portfolio has consistently outperformed its target of the RBA Cash Rate + 3.25% with exposure to both investment and sub-investment grade Australian corporate credit opportunities. **We are confident in Metrics' ability to structure credit at origination and to meticulously monitor portfolio performance** so that financial risk is appropriately mitigated.

This product is best suited for investors looking to generate an **attractive and steady return** from a **diversified portfolio of private loans**. As the 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.

We have been satisfied with MXT's performance since inception in October 2017, both in terms of capital and income performance. During COVID, the NAV of the fund held strong, while there was a dislocation in the ASX traded unit price of MXT, similar to other LITs. Post the significant sell-off in March, **MXT's price has recovered well and is back trading slightly above NAV.**

BondAdviser has covered MXT for several years, across which, it has **consistently exceeded our expectations**. This is not just from a return perspective, MXT has continued to minimise its risk profile, despite traded price volatility. Given Metrics demonstrated skills, systems, and processes, in parallel with a proven investment strategy, we expect MXT will continue to outperform from a risk-reward perspective, forming the basis for our rare **Highly Recommended** product assessment.

Figure 4. Estimated Risk-Adjusted Return Comparison



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

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

Construction and Investment Process

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

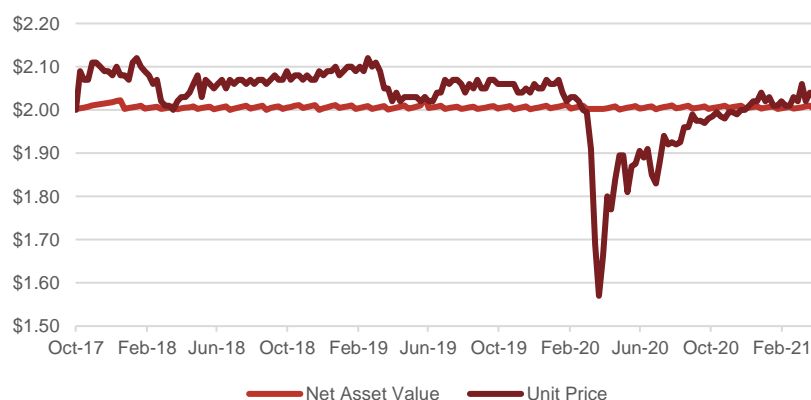
Portfolio Risk Management

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

Fund Governance

Listed on the ASX, the MCP Master Income Trust is publicly traded and owned by retail and institutional investors. Since listing in October 2017, the manager has also launched an unlisted version of the Fund in July 2020, namely the Metrics Direct Income Fund (MDIF). MXT 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.

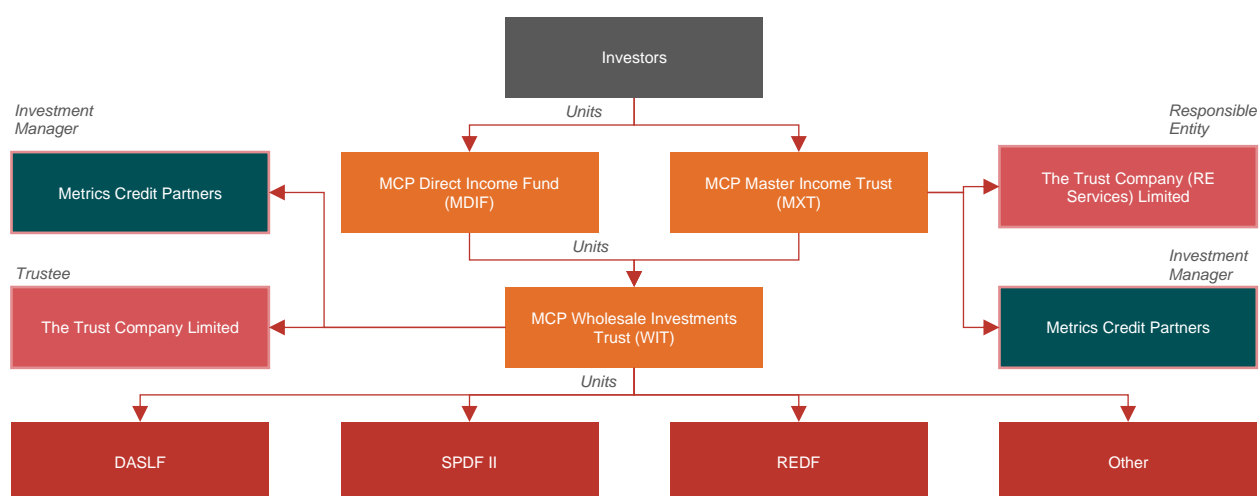
Figure 5. Net Asset Value Against Unit Price



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

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.

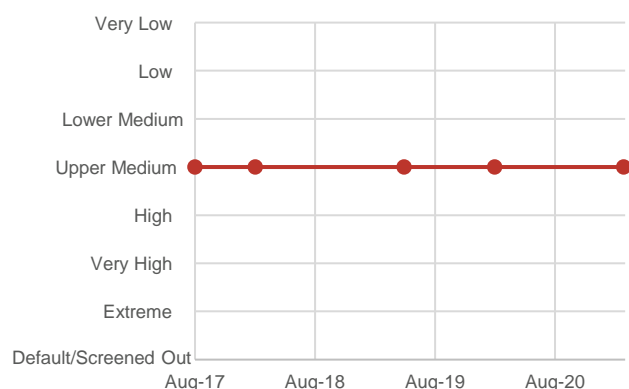
Figure 6. Legal Structure



Source: BondAdviser, Metrics

Quantitative Analysis

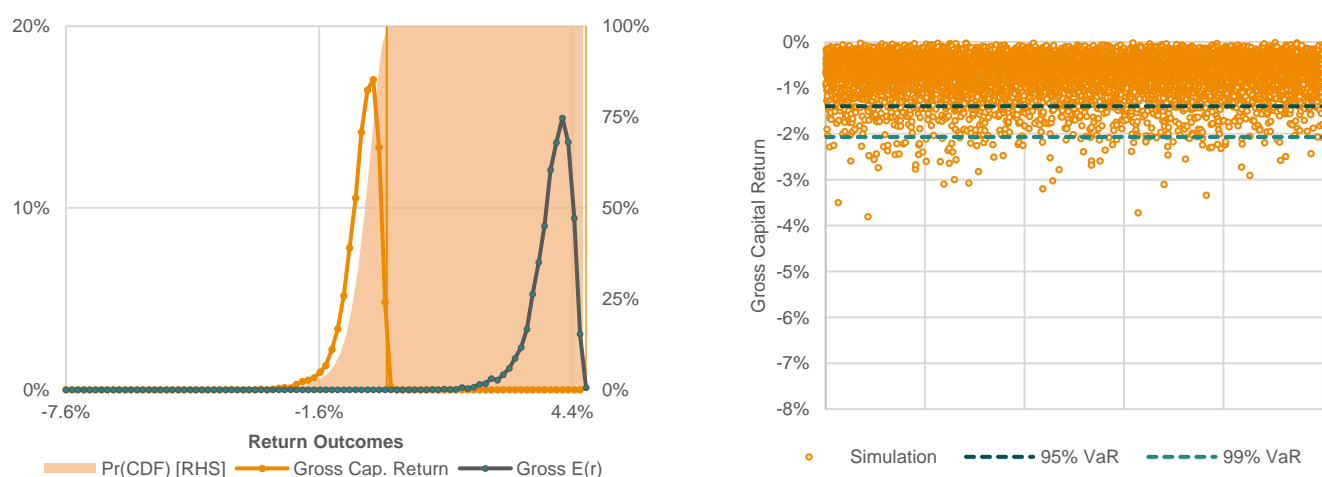
Figure 6. Risk Score



The **portfolio performs exceptionally well in our stress testing**. This is materially influenced by diversification of underlying borrowers, seniority of the assets (driving stronger LGD outcomes) and a short average remaining term of securities (quantum of cashflows revalued on impairment is less), which is consistent with the way in which Metrics manage the portfolio.

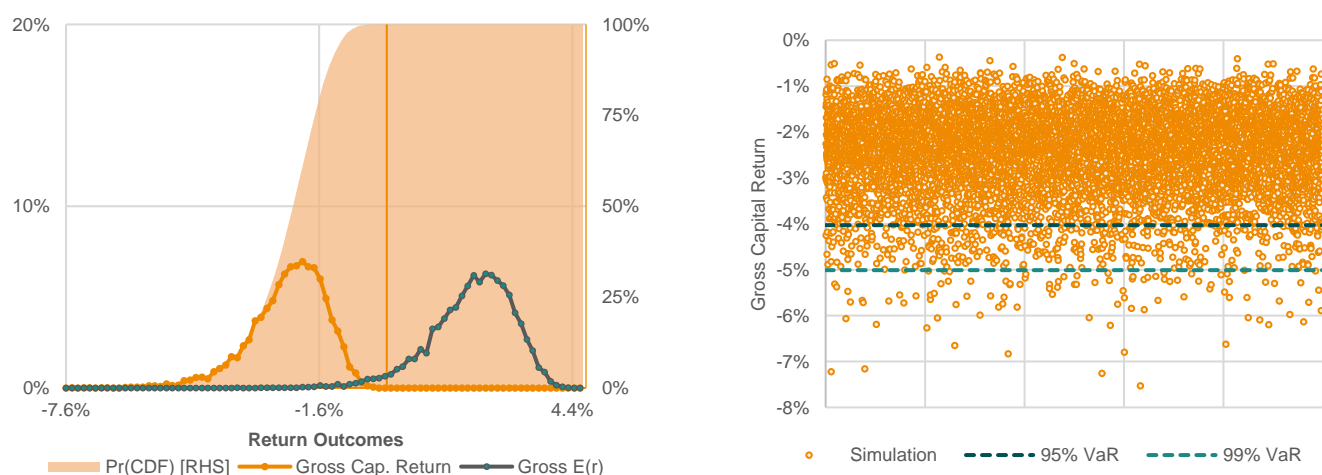
Over the past four years of coverage, our Risk Score for MXT has been unchanged at “Upper Medium”.

Scenario 1. Baseline Underlying 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 click through to prior reports on the next page.

Scenario 2. Stressed Underlying 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

[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](#)

Important Information

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