

Fund Research

# Metrics Income Opportunities Trust (ASX: MOT)



## Overview

The Metrics 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.

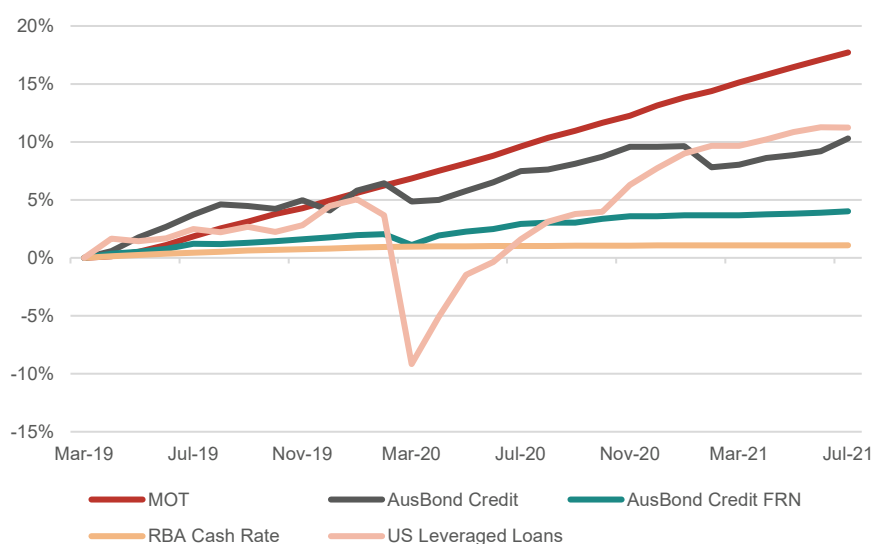
The investment objective of the Trust is to provide attractive risk-adjusted returns with a **target return of 8 – 10% p.a. net of fees**, over a three-year period, with cash distributions payable monthly at a target of 7% p.a. The Trust has invested in the MCP Wholesale Income Opportunities Trust, which, in turn, invests in wholesale funds that participate across the credit risk spectrum and are managed by Metrics Credit Partners Pty Ltd (Metrics).

**Figure 1. Monthly Net Returns\* (%)**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	0.60	0.48	0.67	0.56	0.57	0.56	0.53						3.44
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

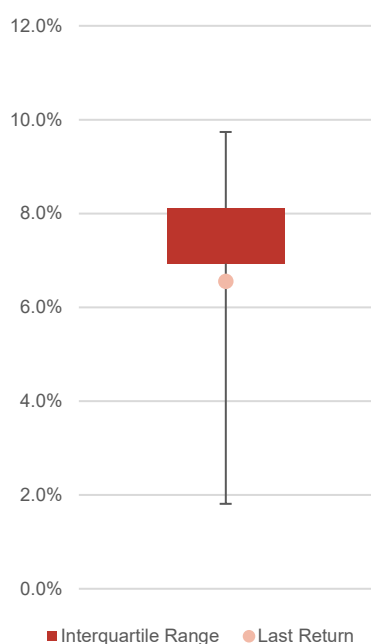
Source: BondAdviser, Metrics. As at 31 July 2021.  
\* Return is monthly net total return based on NTA plus dividends.

**Figure 3. Relative Cumulative Performance**



Source: BondAdviser, Metrics, Bloomberg. As at 31 July 2021.  
Calculated from cumulative net monthly returns of the Underlying Fund.  
Returns on NAV, not traded unit price, see Figure 9 for unit price variance.

**Figure 2. Monthly Net Returns Box Plot**



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

*MOT provides attractive risk-adjusted return from a diversified portfolio of opportunistic credit.*

*We expect outperformance over a longer period as equity-like assets are realised.*

## Product Assessment

### Approved

The Metrics 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. 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). MOT has now been operational for over two years and has built a well-diversified portfolio of both senior and subordinated loans along with equity-like investments. **We remain confident in Metrics' ability to structure credit at origination and to meticulously monitor portfolio performance** so that financial risk is appropriately mitigated.

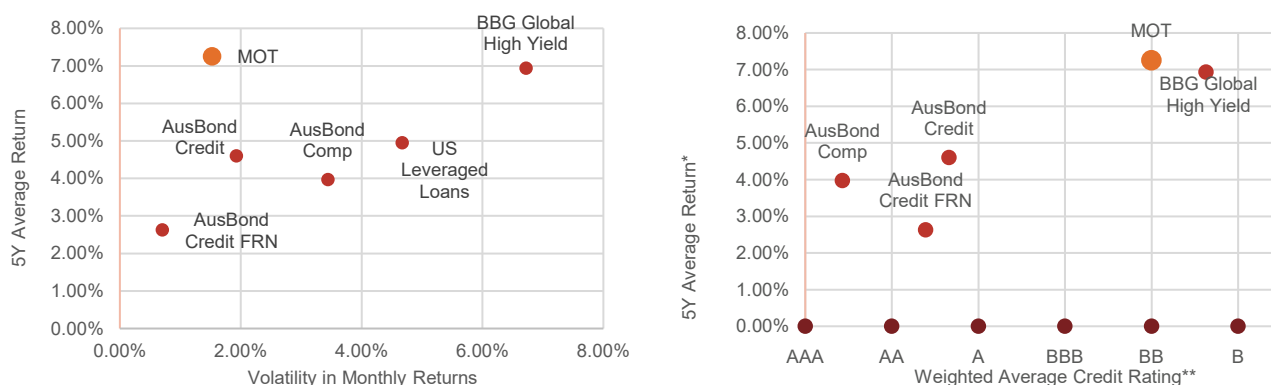
This product is best suited for investors looking to generate an **attractive risk-adjusted return** from a **diversified portfolio of opportunistic credit**. We expect the product will exhibit beneficial long-term correlation to traditional asset classes. This makes it a suitable diversifier for investor income portfolios.

MOT has failed to meet its target returns on both a cash and total return basis since inception. Whilst this is disappointing, there are some qualifications. Firstly, MOT has not radically underperformed, rather, its net return since inception (7.47%) is only slightly below the bottom-end of its target. Additionally, this can, in part, be attributed to most equity-like assets (options, warrants, exit fees) still being unrealised. As these investments roll off and are remarked above par, we expect to see the capital benefit of these higher returning investments flow through. Moreover, performance must also be viewed within the context of a 140 bps fall in the cash rate since inception. Taking account of this decline, **on a margin basis, both cash and total returns have exceeded target returns**.

In addition, despite slight underperformance, the Fund has not sought out yield at the expense of credit quality. This is reflected in our risk assessment score, which has remained steady because of a stable credit rating profile but note the improving diversification of counterparty risk. We view this positively, preferring the Fund to preserve its strong risk management practices at the expense of a slight margin benefit.

We retain an **Improving** outlook. Currently, the only requirement precluding MOT from a Recommended assessment is achieving two years' worth of benchmark outperformance. MOT continues to offer strong risk-adjusted returns and we have confidence this proven manager will deliver on its target through the investment cycle.

**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 July 2021. \*\*\* Calculated based on annualised monthly returns data for past five years for indices and since inception for MOT.



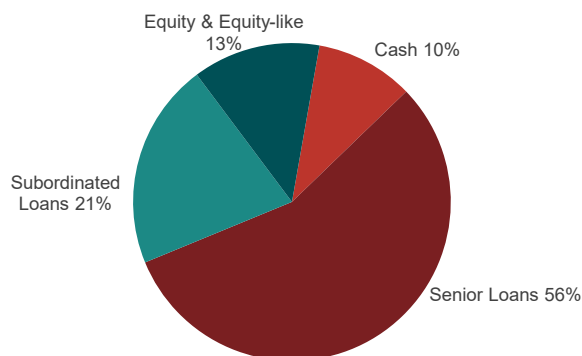
## Construction and Investment Process

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

## Portfolio Risk Management

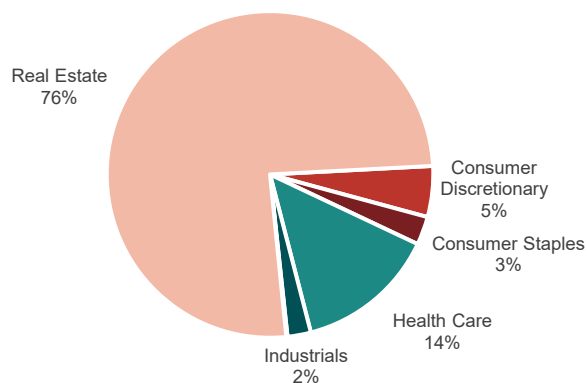
There have been **no material changes** to MOT's portfolio risk management.

**Figure 5. Portfolio Credit Rating Mix**



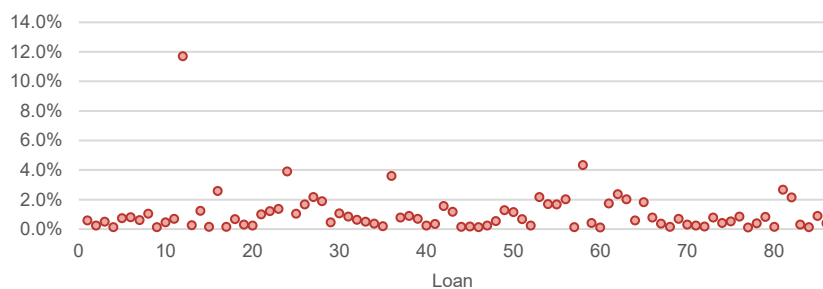
Source: BondAdviser, Metrics. As at 30 June 2021.

**Figure 6. Portfolio S&P Sector Mix\*\***



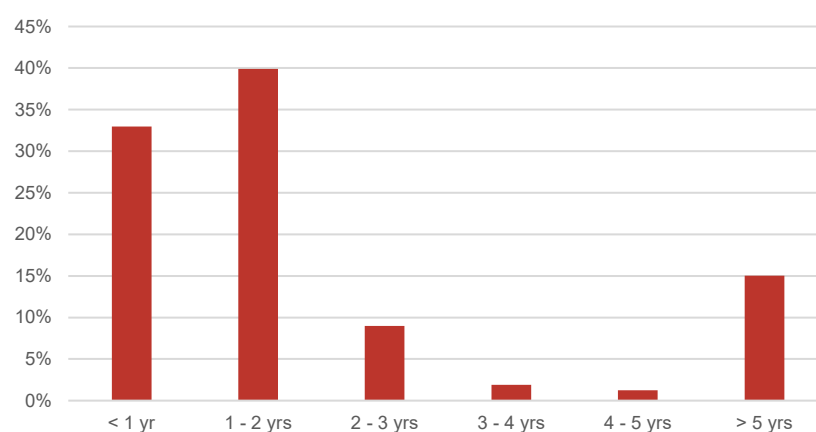
Source: BondAdviser, Metrics. As at 30 June 2021. \*\*Excluding cash.

**Figure 7. Portfolio Individual Loan Mix\*\*\***



Source: BondAdviser, Metrics. As at 30 June 2021. \*\*\*Including cash for weighting purposes.

**Figure 8. Portfolio Loan Tenor Mix\***



Source: BondAdviser, Metrics. As at 30 June 2021. \*Excluding cash.

## Fund Governance

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

**Figure 9. Net Asset Value Against Unit Price**

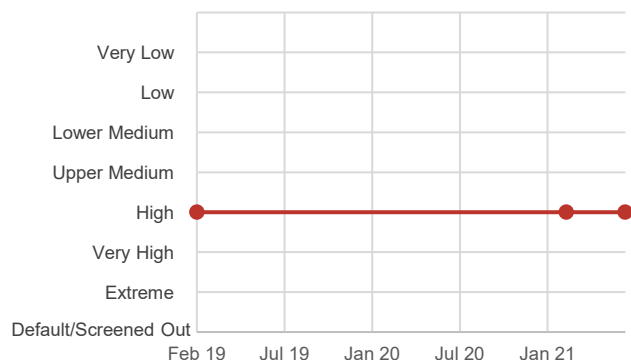


Source: BondAdviser, Metrics, Bloomberg. As at 12 August 2021.

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 has not changed and is detailed in prior reports (see page 4 of [MOT Update Report – 21 April 2021](#)).

## Quantitative Analysis

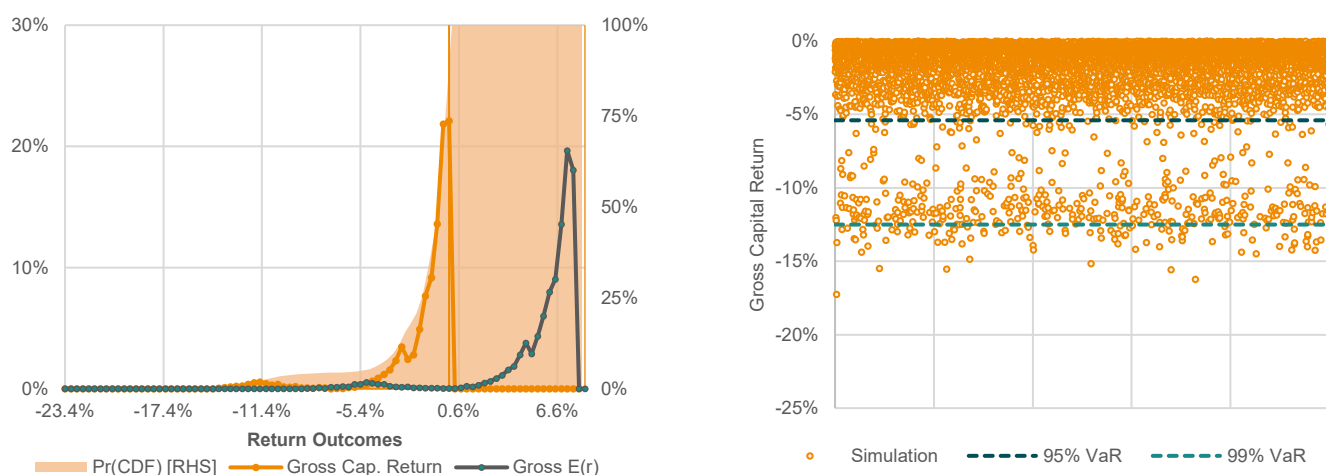
Figure 10. Risk Score



The **portfolio performs well** in our simulations 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 from subordination which is reflected in our Risk Score.

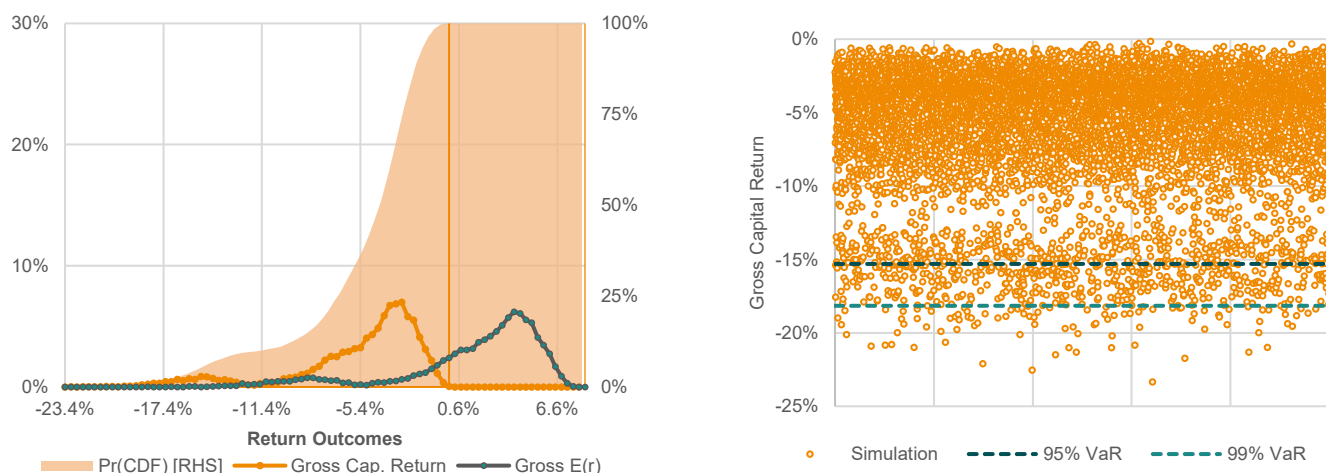
Our Risk Score has remained steady at “High”. This is a function of a stable credit rating profile of the underlying and a marginal improvement in the distribution of counterparties.

### Scenario 1. Baseline Asset Assessment



Source: BondAdviser Estimates as of March 2021 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 March 2021 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

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

[MOT IPO Report - 28 February 2019](#)

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