

Fund Research

Metrics Income Opportunities Trust (ASX: MOT)



Overview

The Metrics Income Opportunities Trust (ASX: MOT) is a listed investment trust (LIT) that allows investors to invest indirectly in the private credit market. 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 access has historically been limited to major global banks and institutional investors. Metrics is an experienced manager in this space and MOT provides retail investors with the ability to get exposure to the higher-yielding aspects of corporate credit that are otherwise not readily accessible to them through direct investment.

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 Metrics Wholesale Income Opportunities Trust (WIOT), which, in turn, invests in wholesale funds that participate across the credit risk spectrum and are managed by Metrics Credit Partners Pty Ltd (Metrics).

The Fund raised ~\$52 million through an institutional placement in August 2021. It followed up with a Unit Purchase Plan in October 2021 and a non-renounceable entitlement offer in March, totalling ~\$23 million and ~\$113 million, respectively. As at the end of March, the current market capitalisation of MOT is \$572 million.

Figure 2. Monthly Net Returns Box Plot



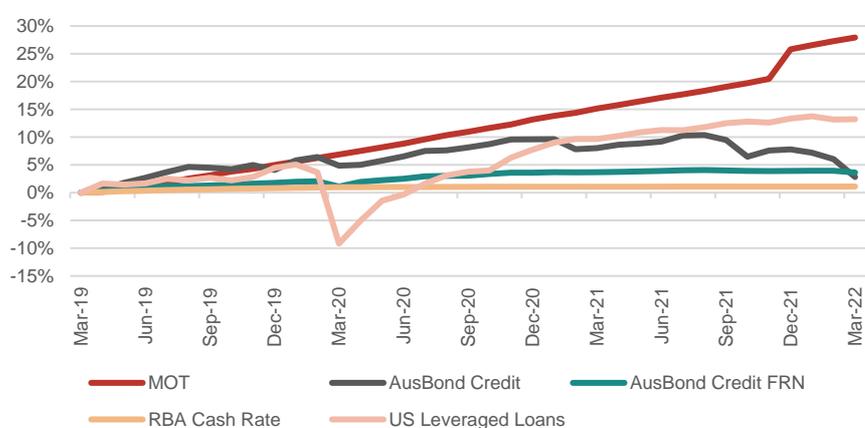
Source: BondAdviser, Metrics. Average annualised monthly returns, after fees since inception.

Figure 1. Monthly Net Returns* (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2022	0.58	0.57	0.52										1.67
2021	0.60	0.48	0.67	0.56	0.57	0.56	0.53	0.53	0.61	0.55	0.65	4.42	10.72
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	4.86

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 9 for unit price variance.

Product Assessment

Recommended

The exposure to private credit, alongside first-class governance and processes, provides investors a platform to achieve attractive risk-adjusted returns.

MOT best suits investors seeking attractive risk-adjusted returns from a diversified portfolio of opportunistic credit investments.

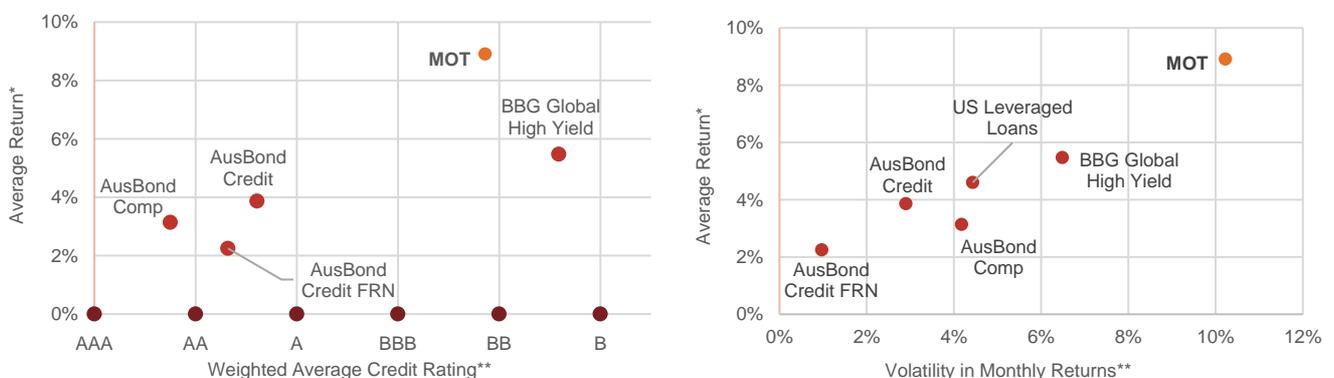
BondAdviser has covered MOT for three years, across which counter-party risk has decreased and performance has improved. Whilst the Fund initially underperformed, through the context of a 140bps fall in the cash rate, on a margin basis, outperformance was present. With the December 2021 revaluations of equity-like assets, rolling performance now exceeds the total return target. Over the last year, the Fund has seen increases in exposure to senior-secured and a reduction in high-yield exposures, significantly improving downside performance in our stressed modelling scenario. Considering the improvements on a risk-return basis, Metrics' first-class governance and processes, we expect MOT to continue to outperform. This forms the basis for our **Recommended** product assessment.

The Fund provides investors with access to the private credit market, gaining access to wholesale funds to an otherwise inaccessible section of the market in fixed income. This exposure can provide additional diversification benefits to an investor's portfolio, and combined with Metrics superior governance and processes, can provide attractive risk-adjusted returns.

The Metrics Income Opportunities Trust (ASX: MOT) provides investors with exposure to four of Metrics wholesale unlisted funds. The four underlying funds provide investors with diversified exposure to corporate loans across the credit spectrum. Within the Fund, 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). We expect the product will exhibit beneficial long-term correlation to traditional asset classes, providing valuable diversification benefits to investor's portfolios. Investors should be aware of the high allocation to the real estate sector, which on a drawn and committed basis is respectively 83% and 84% of the Fund. It should be noted that in the case of a severe downturn in real estate, such a high exposure within the Fund may result in correlated losses.

Strong performance during December saw MOT exceed its target net return of 8 – 10% p.a. net of fees. As at March 2022, the Fund has delivered 11.10% on a net annualised basis for the past year, and 8.73% since inception. Up until November 2021 (prior to its first revaluation of equity-like assets), the Fund had slightly underperformed its net return target. Importantly during this period Metrics did not chase higher returning investments at the expense of credit quality.

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.

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

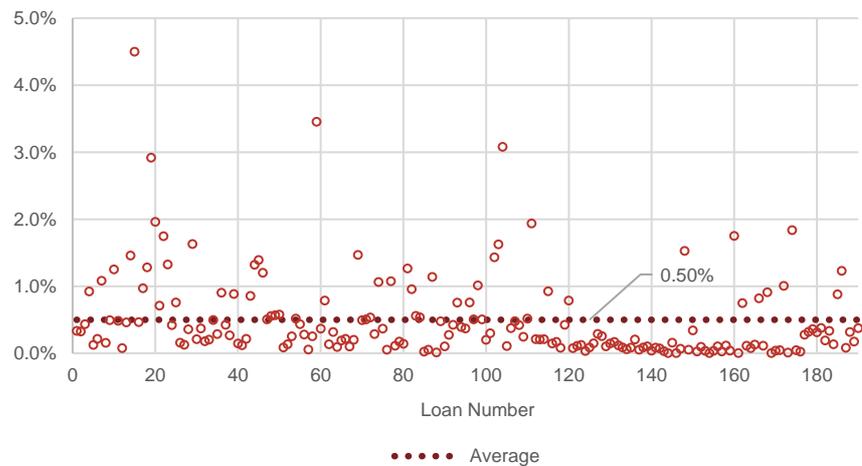
Construction and Investment Process

Although there have been no announced changes to the Fund’s construction and investment process, over the past six months there has been a notable improvement in credit quality – however this has occurred in parallel with an increase in sector concentration. We also note a corresponding shift in seniority with a reduction in allocation to Equity and Subordinated positions in exchange for an increase in weighting to Senior Secured ranking loans.

Portfolio Risk Management

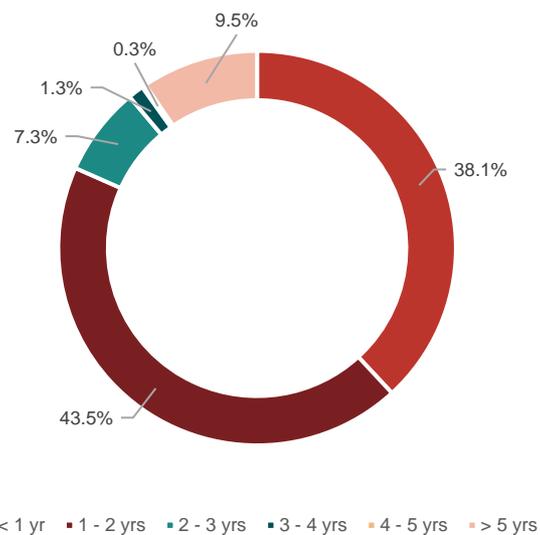
There have been **no material changes** to MOT’s portfolio risk management.

Figure 5. Portfolio Individual Loan Mix*



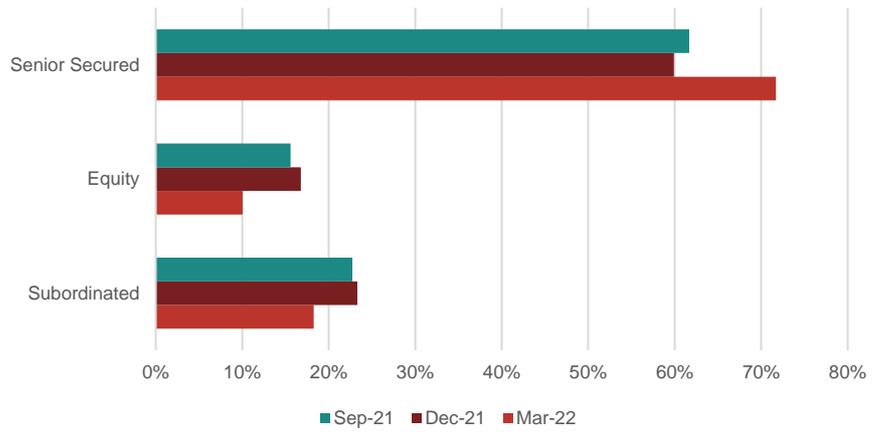
Source: BondAdviser, Metrics. As at 31 March 2022. *Based on Metrics’ underlying portfolio (WIOT) not MOT and including cash for weighting purposes.

Figure 6. Portfolio Loan Tenor Mix*



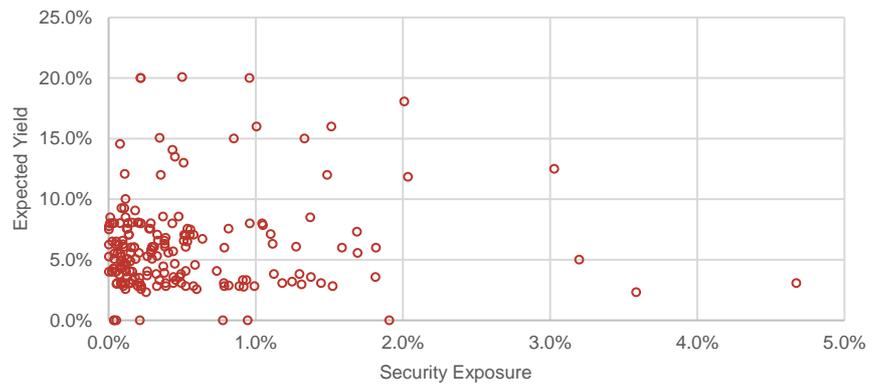
Source: BondAdviser, Metrics. As at 31 March 2022. *Excluding cash.

Figure 7. Portfolio Seniority*



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

Figure 8. Individual Security Exposure vs Expected Yield*

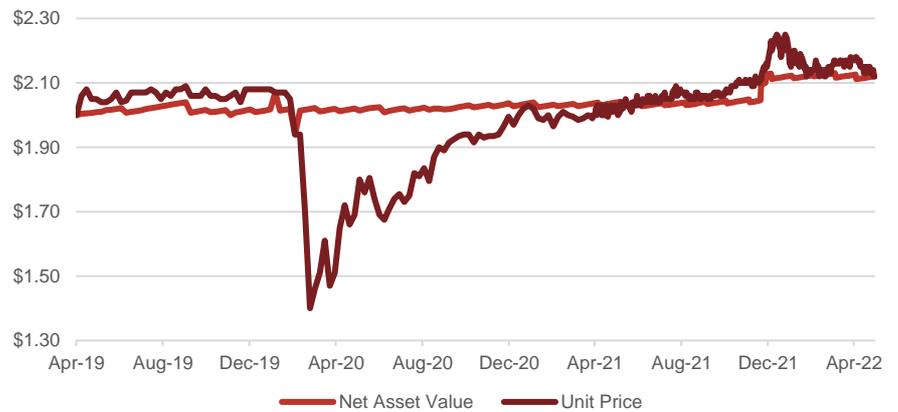


Source: BondAdviser, Metrics, As at 31 March 2022. * Excluding cash.

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

Quantitative Analysis

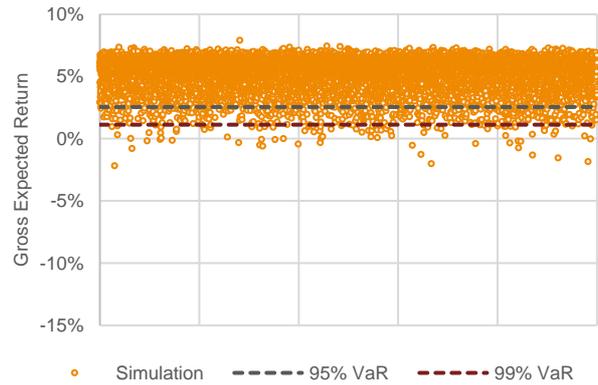
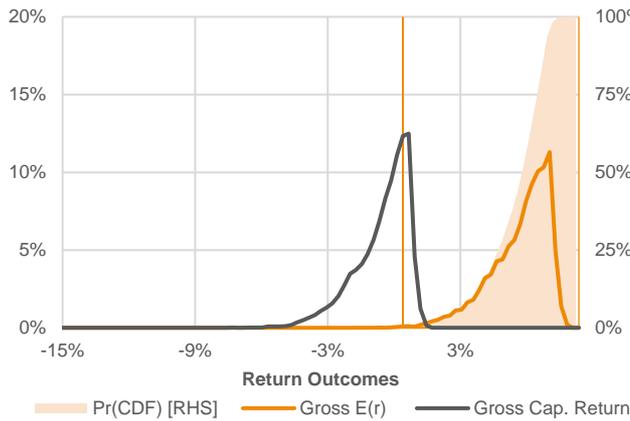
Figure 10. Risk Score



A reduction in exposure to higher yielding assets has resulted in a portfolio that earns slightly less modelled returns in a baseline scenario than when we last tested the portfolio three months prior. Although the expected return on the modelled portfolio has fallen by 1.0%, the stressed environment has improved considerably from this better insulated portfolio. The standard deviation in returns for our stressed assessment have fallen from 3.7% to 2.3% and the 99% VaR has improved from -11.9% to -5.0%.

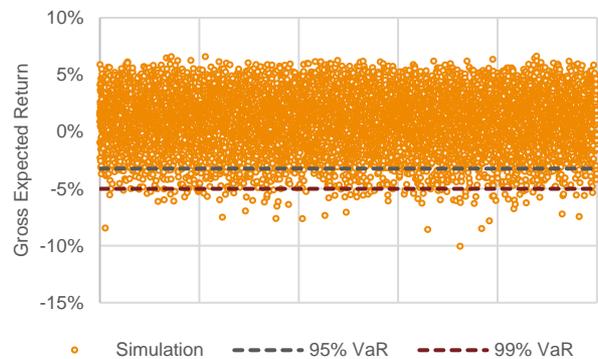
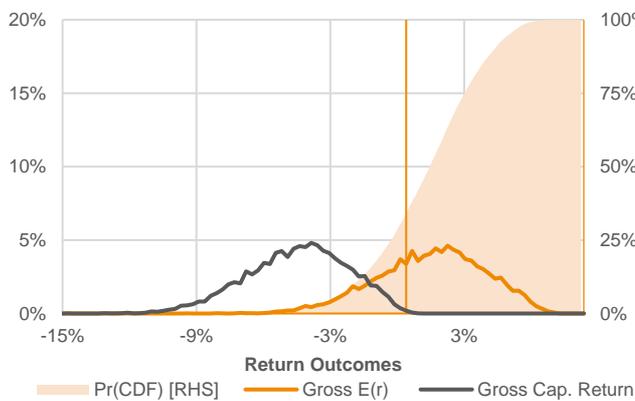
We view this shift in investment approach to be appropriate given the rising rate environment and the 68.1% floating rate exposure. This provides the Manager with an opportunity to meet its target returns with a less risky portfolio as seen from the reduction in Subordinated and Equity positions. **Our Risk Score remains “High”**, noting that should greater diversification and reduced exposure to riskier securities continue to be a theme, the Fund will be eligible for an upwards notching on its risk rating.

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

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

[MOT Update Report – 5 November 2021](#)

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

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

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

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