

# Metrics Direct Income Fund

Initiating Coverage

12 August 2022

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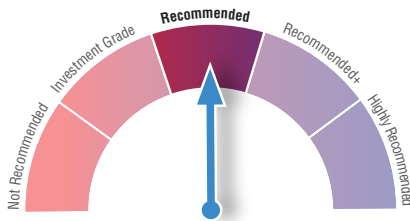
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**Note:** This report is based on information provided by Metrics Credit Partners Pty Ltd

### Rating



### Key Investment Information (as at 31 May 2022)

|                                      |   |
|--------------------------------------|---|
| NAV per unit (\$)                    | 1.0374  |
| FUM (\$m)                            | 729.9   |
| Trailing 12-month Distribution Yield | 4.4%  |
| Launch Date                          | July 2020   |
| Minimum Application Amount           | \$1,000   |
| Responsible Entity                   | Equity Trustees Limited                             |
| Investment Manager                   | Metrics Credit Partners Pty Ltd                     |
| Investment Structure                 | Open-ended Unlisted Unit Trust                      |
| Target Cash Distribution             | RBA Cash Rate + 3.25%p.a (net of fees and expenses) |
| Distribution Frequency               | Monthly   |
| Redemptions                          | Monthly   |
| Fees:                                |   |
| Management Fee (p.a)                 | 0.60%   |
| Performance Fee                      | #   |

#The Manager is eligible for performance fees for the SPDF II and REDF underlying wholesale funds.

### Key Exposure

|                           |   |
|---------------------------|---|
| Underlying Exposure       | Diversified portfolio of direct loans to Australian corporates through an investment in three underlying wholesale funds: (1) DASLF - 60%-70%; (2) SPDF II - 20%-30%; and (3) REDF - 10%-20%. MDIF can also invest in units of MXT. |
| Foreign Currency Exposure | MDIF provides exposure to Australian corporate loans. There is no direct foreign currency exposure.   |

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

## PRODUCT SUMMARY

Metrics Direct Income Fund ("MDIF" or the "Trust") is an unlisted unit trust that was established in July 2020. The Trust is managed by Metrics Credit Partners ("MCP" or the 'Manager') an Australian debt-specialist asset manager founded in 2011 and with significant expertise in the Australian corporate loan market. MDIF provides exposure to a portfolio of loans to Australian companies diversified by borrower, industry and credit quality. It does so through an investment in a Sub-Trust, MCP Wholesale Investment Trust (WIT), which subsequently invests in three wholesale funds managed by MCP, all of which provide exposure to the Australian corporate loan market but with differing risk-return investment profiles and target loan investments. In addition to the underlying wholesale funds, the Trust can hold units in the Metrics Master Income Trust (ASX: MXT). MXT provides the same exposure as MDIF, both investing in the same Sub-Trust (WIT), however MXT is listed on the ASX. From a credit quality perspective, the Manager targets investment grade through to sub-investment grade segments (A through to B rated), reflecting the Manager's view that this segment presents a particularly attractive opportunity set in terms of market pricing relative to default risk. Through the underlying investments, the Manager is targeting a return equal to the RBA Cash Rate + 3.25% per annum, net of fees and expenses. The Trust pays distributions on a monthly basis. Where the Trust is liquid, the Responsible Entity (RE) will accept redemption requests on a monthly basis, at the end of each month, where an investor has provided 10 business days written notice. In certain circumstances redemptions may be restricted and in the event the Trust receives redemptions requests of more than 10% of the NAV of the Trust in any given month, the RE may stagger the redemptions over successive five month periods.

## INVESTOR SUITABILITY

The Trust provides retail investors access to an actively managed portfolio of direct corporate loans, providing an enhanced yield to traditional fixed income securities such as government and corporate bonds and term deposits. Unlike bonds traded in the secondary market, the Manager's investment strategy is very hands-on transactional, with the focus on originating transactions, conducting detailed bottom-up due-diligence, structuring the loan and managing the loan life-cycle thereafter. As such, the Manager's ability to successfully structure and manage transactions that meet the investment objectives and avoid credit defaults is critical. In this regard, the Manager has a strong track-record with minimal defaults and recouping all outstanding capital in those loans that have defaulted. The portfolio has exposure to sub-investment grade loans which have a higher level of default risk associated with them. Investors should be mindful that defaults generally tend to cluster during periods of prolonged economic distress. In terms of income, as a unit trust, the income that is generated on the loan asset will flow through to the investor and be paid on a monthly basis. Investors should note that distributions are exposed to default risk and there is the potential for capital loss on individual loans.

## RECOMMENDATION

Independent Investment Research (IIR) has assigned the Metrics Direct Income Fund a **Recommended** rating. MDIF provides retail investors access to an unlisted version of the Metrics Master Income Trust (ASX: MXT) with a key difference being the unlisted trust can invest in MXT units. In addition to providing a source of capital, one of the primary reasons for the establishment of the Trust was to provide a mechanism to assist supporting MXT when it is trading at a discount, providing the Trust with the potential for capital gains in addition to the income component in the event the discount narrows. The unlisted trust structure removes the potential for the Trust to trade at a discount or premium to NAV which is a feature of the listed trust, however, liquidity is limited by comparison. The allocation to MXT units will vary throughout the life of the Trust depending on the capital available and the trading price of MXT. The Trust has exceeded its target distribution to date and is largely exposed to floating interest rates, therefore we view interest rate risk to be low. The Trust has a limited track record in the unlisted trust structure with the Trust established in July 2020, although we note the underlying wholesale funds in which the Trust invests have a longer track record.

## SWOT

### Strengths

- ◆ Specialist skill is required to successfully operate in the direct lending corporate loan market. The four-member IC is highly experienced in all aspects of the loan life-cycle, from originating, structuring, and managing the loan, with each member having in excess of 23 years relevant experience. The four-member IC also mitigates key person risk.
- ◆ Competitive and well-structured fees, with retail investors benefiting from wholesale rates.
- ◆ A thorough and proven investment and portfolio monitoring process that is closely and integrally overseen by the four-member IC. This has seen very few defaults in the underlying wholesale funds.
- ◆ The Trust has achieved its target return objectives to date.
- ◆ The Manager has shown a strong capability to raise and deploy capital without diminishing the return profile for investors.
- ◆ The portfolio is highly diversified with 248 loans in the portfolio at 31 March 2022 and an individual loan exposure of <0.5%.
- ◆ Since being established in 2011, the Manager has grown to \$11b+ AUM. The Manager has continued to add resources in line with growth with the Manager now having 107 employees and an investment team of more than 50, including the members of the IC.
- ◆ While MDIF is a relatively new unit trust, the Trust invests in the MCP Wholesale Investment Trust (WIT) which has a track record dating back to October 2017 and has delivered on its target objectives to date. Further to this, the primary investment is in DASLF which has a track record dating back to June 2013.

### Weaknesses

- ◆ Liquidity is limited with redemption requests accepted on a monthly basis. However, the approval and payment of redemptions will be dependent on the liquidity of the Trust at any given time. In the event the Trust receives redemption requests of more than 10% of the Trust in any given month, the RE may stagger the redemption requests over successive five month periods.

### Opportunities

- ◆ The Trust provides access to a portfolio of private credit investments that is not readily accessible to retail investors.
- ◆ The Trust provides access to a portfolio of loans which typically experience low levels of capital volatility, potentially providing diversification benefits to an investors portfolio.

### Threats

- ◆ MDIF will have exposure to sub-investment grade loans. By its very nature, sub-investment grade debt tends to have a higher probability of default and this risk tends to cluster around specific events and/or economic environments, notwithstanding that secured loans provide options in workout/restructuring.
- ◆ DASLF can leverage up to 30% and SDPF II and REDF can leverage up to 50% of the gross asset value of the portfolio. The use of leverage has the potential to increase returns, however can also magnify losses. The Manager has noted that DASLF and REDF seek to maintain drawn debt of less than 15% in order to maintain their rating from S&P.
- ◆ Unlike a publicly traded bond, where the value of the asset is determined by its traded price, the portfolio will largely comprise loans where a traded price does not exist. Investors should note that NAV calculations will be based on the Manager's internal loan valuations combined with a rigorous and ongoing external review and oversight. While the valuation processes are thorough and prudent, there is nevertheless a risk the valuations may not accord with what the market may ultimately value these assets.
- ◆ The economic environment in the short-to-medium term is expected to provide a number of challenges with the risks in the credit market heightened. In particular we view the risks in the real estate market to be heightened given the increasing interest rate environment which may put downward pressure on asset valuations. We note the conservative LVR of the portfolio provides protection against valuation declines. While the Trust has not operated during a prolonged economic downturn, we note the IC members were all directly involved in managing corporate loan books during the GFC period and, hence, have experience during a prolonged downturn.

## PRODUCT OVERVIEW

Metrics Direct Income Trust (MDIF) provides exposure to an actively managed portfolio of Australian corporate loans with the portfolio generally reflecting activity in the corporate loan market resulting in diversification by borrower, industry and credit quality. The Trust is an open-ended unlisted unit trust. The Trust seeks to deliver a target return of RBA Cash Rate + 3.25% p.a, net of fees and expenses, and pay monthly cash distributions. The Trust is managed by Metrics Credit Partners ("MCP" or the 'Manager') an Australian debt-specialist asset manager founded in 2011 and with significant expertise in the Australian corporate loan market.

From a credit quality perspective, the Manager targets the investment through to sub-investment grade segment (A through to B rated), reflecting the Manager's view that this segment presents a particularly attractive opportunity set in terms of market pricing relative to default risk. The portfolio is focused on senior secured loans with the Trust having a small exposure to subordinated debt.

MDIF invests in the MCP Wholesale Investment Trust, which in turn invests in three wholesale trusts managed by the Manager in accordance with the target allocation ranges, detailed in the below table. The largest exposure is to the Metrics Credit Partners Diversified Australian Senior Loan Fund (DASLF), which was the first fund launched by the Manager in June 2013 and has grown to \$4.5b FUM. In summary:

**1) Metrics Credit Partners Diversified Australian Senior Loan Fund (DASLF)** - provides exposure to a diversified portfolio of corporate loans. As at 31 March 2022, the Fund had 170 investments with 59% of the loans rated investment grade. At least 90% of loans must be senior ranking. It is designed to have a high investment grade, lower risk, lower return profile and has a target return of 90-day BBSW + 2.75%-3.25% p.a. The Manager has typically generated returns within the target return range or exceeded the target return since inception. The Fund has an issuer rating of A- from Standard and Pools.

**2) MCP Secured Private Debt Fund II (SPDF II)** - SPDF II was established in October 2017 and as the name suggests is the second iteration of the strategy. The Fund provides exposure to predominantly sub-investment grade corporate loans across mid-market borrowers. The Fund has a target return of 90-day BBSW + 4.0% p.a. At 31 March 2022, the Fund comprised 72 loans, 94% of which were senior ranking. The Fund has consistently generated net returns in excess of the target return to date.

**3) MCP Real Estate Debt Fund (REDF)** - REDF was also established in October 2017 and provides exposure to a portfolio of commercial real estate (CRE) debt. The Fund has a target return of 90-day BBSW + 5.0% p.a, which the Fund has consistently exceeded since inception. The Fund has grown to \$1.7b. At 31 March 2022, the Fund had 86 loans, 99% of which were senior ranking. The portfolio is predominantly exposed to residential properties with 68% of the portfolio allocated to residential properties. Loans are concentrated to NSW with 65% of the loans secured against properties in NSW at 31 March 2022. 15% of loans are secured against properties located in VIC. The heightened target returns of the Fund reflects the increased risk associated with CRE debt.

| Wholesale Fund Allocation   |                   |                    |                               |
|---|-------------------|--------------------|-------------------------------|
| Underlying Wholesale Fund   | Target Allocation | Actual Allocation* | Target Return                 |
| Metrics Credit Partners Diversified Australian Senior Loan Fund (DASLF) | 60%-70%           | 60%                | 90 day BBSW + 2.75%-3.25% p.a |
| MCP Secured Private Debt Fund II (SPDF II)                              | 20%-30%           | 20%                | 90 day BBSW + 4.0% p.a        |
| MCP Real Estate Debt Fund (REDF)  | 10%-20%           | 20%                | 90 day BBSW + 5.0% p.a        |

\*The actual wholesale fund allocation has remained at the stated levels for the life of the Trust to 31 March 2022.

In addition to the wholesale funds, MDIF may invest in units of Metrics Master Income Trust (ASX: MXT). The Manager has the ability to buy units in MXT when they are trading at a discount to NAV but will also use the investment in MXT as a source of liquidity. As at 31 March 2022, 4.5% of the Trust was invested in units of MXT, the remainder was directly invested in units of WIT.

The Manager will receive a management fee out of the assets of the Trust equal to 0.21% p.a of the Trust's gross asset value. In addition, the Manager will receive management and performance fees from WIT, where WIT makes direct investments, and the underlying

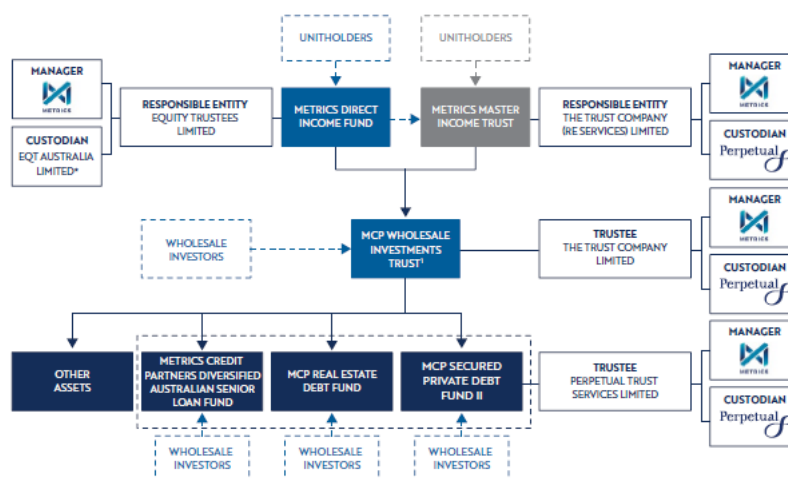
wholesale funds. Total management fees are currently 0.60%p.a. Any management fees charged by the underlying wholesale funds will be rebated.

DASLF does not have a performance fee but SPDF II and REDF do. The Manager is entitled to 15% of the outperformance of the hurdle rates of SPDF II and REDF (up to a maximum of 0.55%), which is represented by the target returns of the two funds. Performance fees are calculated and accrued daily and are payable in arrears at the last business day of the financial year.

Units in the Trust are issued monthly following payment of the prior month's distribution. The issue price for units will be calculated at the NAV plus transaction costs (if any). Where liquid, the RE will accept redemption requests on a monthly basis, at the end of each month, subject to investors providing 10 business days prior written notice. In certain circumstances redemptions will be restricted, with redemptions dependent on the liquidity of the Sub-Trust. The redemption price for units will be calculated as the NAV minus transaction costs (if any). The underlying securities the Trust invests in are considered illiquid with loans having a term of 6 months to 10 years and not traded on the public market. The Trust may hold units in MXT in order to be able to satisfy redemption requests. At times, where the Trust acquires units in MXT by way of wholesale placement, this may be at a premium to the price at which such units are traded. In such circumstances, where units in MXT are required to be sold in order to fund redemption requests, the Trust may realise a loss in respect of the MXT units. Where the Trust receives redemption requests of more than 10% in any given month, the RE may stagger redemption requests over successive five month periods.

The Responsible Entity has appointed the Manager on an exclusive basis to manage the assets of the Trust. There is no set term of the Investment Management Agreement that has been entered into, however both parties have the ability to terminate the agreement under certain conditions.

### MDIF Structure



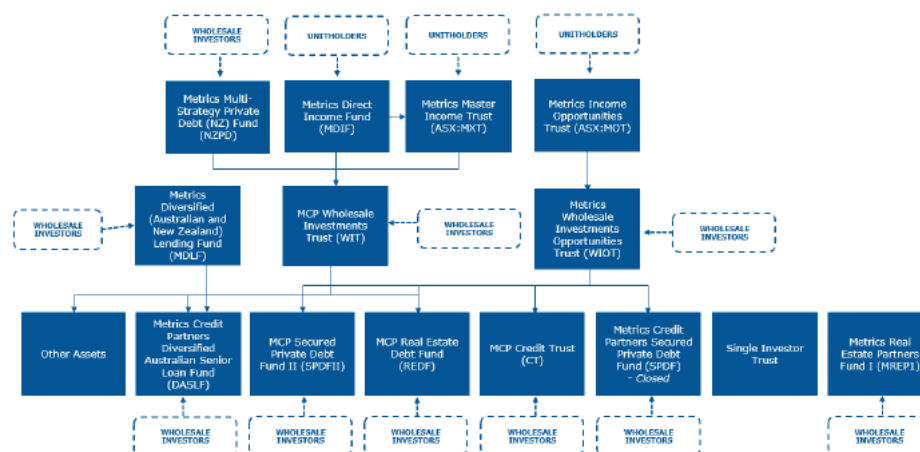
## INVESTMENT MANAGER

The Trust is managed by Metrics Credit Partners (MCP), a specialist Australian debt asset manager established in May 2011. MCP is owned 65% by the four Managing Partners and 35% by Pinnacle Investment Management Limited. The 65% ownership by the four Managing Partners is held in equal shares of 16.25% by each of the four partners.

Since being established in 2011, the Manager has grown to have 107 employees and over \$11b in AUM. MCP offers funds to both retail and wholesale investors and currently manages a total of 14 trusts. The retail offerings include two listed investment trusts (LITs) and an unlisted unit trust. All capital is predominantly invested in or alongside five underlying wholesale funds, which when combined provide exposure to the full credit spectrum. An overview of the funds managed by MCP is provided below.

The Manager has expanded its operations to New Zealand with an office established in Auckland in January 2020.

## MCP Funds



## Investment Team

As mentioned above, MCP has 107 employees in total, over 50 of which are members of the investment team (including the Investment Committee members). This has grown from 16 since 2018.

The key members of the investment team are the Investment Committee (IC) which consists of the four Managing Partners. The Investment Committee has sole responsibility for investment and divestment decisions.

All four members have significant experience in corporate loan origination and running large scale loan portfolios within banks. Further, since establishing MCP in 2011, the team has been an active market participant in the Australian private credit market.

The skill set of the IC covers the full life cycle of the loan, starting with directly originating a transaction via an extensive network of relationships with banks, corporate advisors, and directly with borrowers. Then the ability to undertake detailed bottom-up credit analysis due diligence, the negotiation of legal documentation, facility arrangements, security details, and execution of those transactions, and finally significant experience in the running of large-scale portfolios and managing the attendant risk on a daily basis.

In addition to the IC, the investment team consists of two other key internal groups: (1) New Assets & Origination; and (2) Portfolio Monitoring & Analytics. In originating a new potential transaction, the New Assets & Origination team works closely with the IC around formalising the investment credit papers through to the execution of a transaction. Specific responsibilities include investment submissions, cash flow modelling, credit rating analysis, legal documentation, transaction execution, and ESG compliance. The IC formally reviews the relevant submissions as part of the investment decision making process.

Subsequent to a transaction close, the Portfolio Monitoring & Analytics team is responsible, in collaboration with the IC, for the ongoing credit monitoring, portfolio monitoring, mandate compliance, stress test analysis and investor reporting.

The IC works on the basis that all four members are equally involved in each potential transaction and that investment decisions are based on unanimous approval. Similarly, it is the IC as a collective that has responsibility for each borrower on an ongoing basis, rather than being appointed to a particular team member.

Given the collegiate nature of the four key Partners in addition to the inherent stability of this team, IIR considers key person risk to be low. However, if any of the Partners departed, IIR believes a replacement IC member of equal skill would need to be appointed sooner rather than later given the significant number of transactions the Manager is involved in.



| IC Members/Managing Partners |   |                             |                             |
|------------------------------|---|-----------------------------|-----------------------------|
| Name                         | Key Experience  | Industry Experience (years) | Tenure with Manager (years) |
| Justin Hynes                 | Portfolio management, corporate debt origination. Previously specialised in leverage and acquisition finance as well as corporate finance.        | 23                          | 9                           |
| Andrew Lockhart              | Portfolio management, corporate debt origination, specialised in leverage and acquisition finance as well as corporate and institutional lending. | 33                          | 9                           |
| Graham McNamara              | Portfolio management, corporate loan origination, syndications, agency management and corporate banking. Specialised in loan syndications.        | 40                          | 9                           |
| Andrew Tremain               | Portfolio management, debt origination, syndications. Specialised in leveraged and acquisition finance as well as loan syndications.              | 33                          | 7                           |

## INVESTMENT PROCESS

### Investment Objective

The Trust seeks to provide a monthly cash distribution, low risk of capital loss and portfolio diversification through its exposure to the Sub-Trust (WIT) and the underlying wholesale funds. The Trust has a target distribution rate of RBA Cash Rate + 3.25%p.a. Returns are primarily income in nature, however given the investment in units of MXT, the total return may rise or fall based on the performance of the listed trust.

### Investment Process

The investment process starts with directly originating and sourcing transactions. This is the responsibility of the four IC members who are active on a daily basis interacting with the broader market (banks, corporate borrowers, advisors). The Manager's strong origination network is a key strength and holds the Manager in good stead in creating and maintaining a solid pipeline of new deal opportunities.

Prospective corporate loan deals then move to the detailed due diligence stage ultimately designed to consider and assess all the risks associated with a business' cashflows (the risk of a deterioration in credit quality) and the likely impact on the Manager's capital. The analysis incorporates an industry analysis (risks, financial trends, etc), where the borrower sits competitively within the industry (SWOT analysis), in addition to company specific aspects such as management, strategy, financial projections, capital structure. It is a process that requires gaining a granular understanding of the products and services that the company offers and delivers to its customer base and how it is generating cashflows from those activities.

The analysis gets written up in a formalised and detailed credit assessment report. While it is the New Asset & Origination team that is responsible for the write-up, the four IC members are invariably integrally involved in the due diligence process, meeting the relevant parties (management, directors, potentially employees, other banks, legal advisors) and reviewing the original due diligence source materials.

The process culminates with a credit rating for both the issuer and the proposed transaction which is then reviewed by the IC and decision arrived at to proceed, or otherwise.

The knowledge and understanding gained through the due diligence phase is then used to negotiate appropriate terms, conditions, covenants and controls with the borrower. Risk is then priced and, assuming both parties agree, the loan is then legally documented, the security transferred and the money lent.

Once the loan has been executed, the Portfolio Monitoring & Analytics team works with the IC on a daily basis to monitor the reporting and compliance of all borrowers. A process exists whereby any time new financial information is provided, a formal review process of the credit is conducted.

The IC meets on a daily basis to review the output from the Portfolio Monitoring & Analytics team. A more formalised assessment of the portfolio as a whole is held each Monday while on Wednesday and Friday new transactions are reviewed once the due diligence has been completed.

## Portfolio Construction

The Trust invests the capital raised in the MCP Wholesale Income Trust (WIT), which invests capital in three underlying wholesale funds with the respective target allocations:

- ◆ 60%-70% in the Metrics Credit Partners Diversified Australian Senior Loan Fund (DALSF);
- ◆ 20%-30% in the MCP Secured Private Debt Fund II (SPDF II); and
- ◆ 10%-20% in the MCP Real Estate Debt Fund (REDF).

The wholesale funds principally invest in direct loans to Australian companies, however the Manager's investment mandates in respect of the wholesale funds permit the funds to hold and invest in other financial instruments in certain situations, such as a corporate restructure or recapitalisation, where the Manager considers it necessary to hold an alternative financial instrument to best protect investor capital in accordance with the investment objective.

At the underlying fund level, portfolio construction is subject to both formal constraints and subjective assessments of prudent exposure levels. Maximum counterparty, sector and credit quality limits apply. The former is also impacted by credit rating, with a lower maximum counterparty exposure applying to lower investment grade borrowers, and vice versa. To facilitate liquidity, the Manager seeks to diversify by holding period and term to maturity.

## UNDERLYING WHOLESALE FUNDS

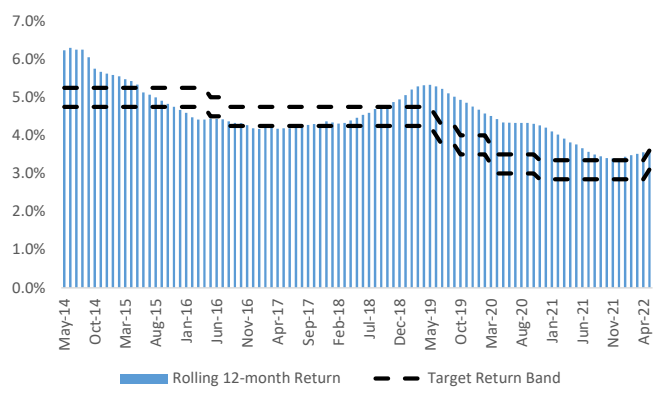
The Trust ultimately invests the Trust's capital in three underlying wholesale funds, a summary of which is provided below. While the length of track-record and risk-return profile of the funds vary, the same team, processes, approach, philosophies apply across the board. The separate mandates were established more as a way of addressing the very specific requirements (or prohibitions) certain institutional investors have in addition to institutional investors having different buckets of capital that can be allocated to certain return and risk profiles. As the Manager notes, they are lenders that lend across the credit risk spectrum from very high investment grade, through to sub-investment grade borrowers, and they lend up and down the capital structure.

### Metrics Credit Partners Diversified Australian Senior Loan Fund (DALSF)

Launched in June 2013, DALSF invests primarily in Australia's domestic loan market, participating in corporate and institutional loan facilities alongside banks and other lenders in addition to bilateral facilities originated by MCP. Investments include loans provided to: listed companies; large and medium sized private companies; project finance borrowers including public-private partnerships; property developers and investors, including real estate investment trusts; and acquisition finance facilities. DALSF can invest in corporate facilities that are both term drawn and revolving, multi-currency, secured and unsecured, senior and subordinated.

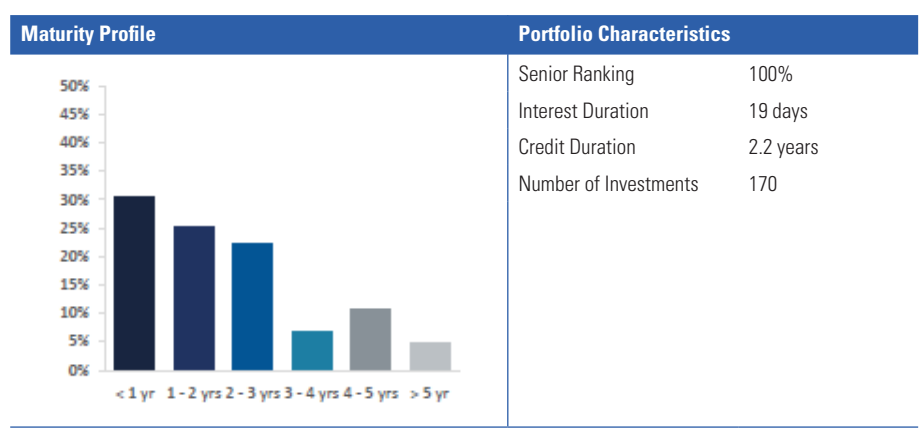
| DALSF Key Terms         |   |
|-------------------------|---|
| Term                    | Detail  |
| Structure               | Open-ended unit trust   |
| FUM (as at 31 May 2022) | \$4,464.4m  |
| Benchmark               | 90-day BBSW   |
| Target Return           | Benchmark + 2.75%-3.25%p.a  |
| Asset Duration          | Target weighted average tenor of assets of 3 to 5 years.                |
| Leverage                | Up to 30% of gross asset value.<br>The fund has a \$1.4b debt facility. |
| Distribution Frequency  | Monthly   |

**Rolling 12-month Net Returns**



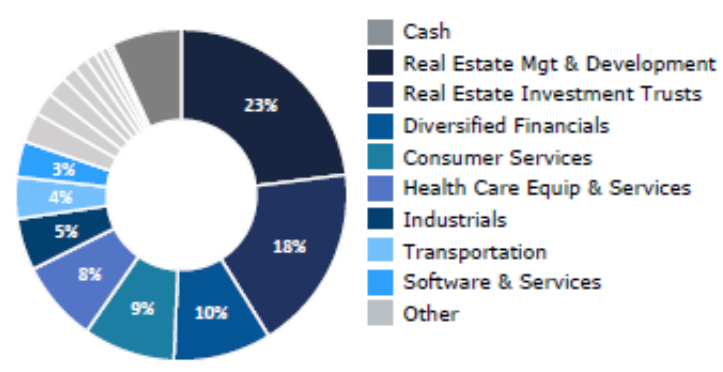
**Portfolio Characteristics as at 31 March 2022**

As at 31 March 2022, the portfolio had a weighted average credit rating of BBB- with 59% of the portfolio invested in investment grade loans. The portfolio is highly diversified with 170 investments at 31 March 2022. 100% of the loans are senior ranking. The portfolio is diversified by sector. As with all the MCP trusts, the portfolio is weighted to the real estate sector.



Source: Metrics Credit Partners Pty Limited

**Sector Allocation**



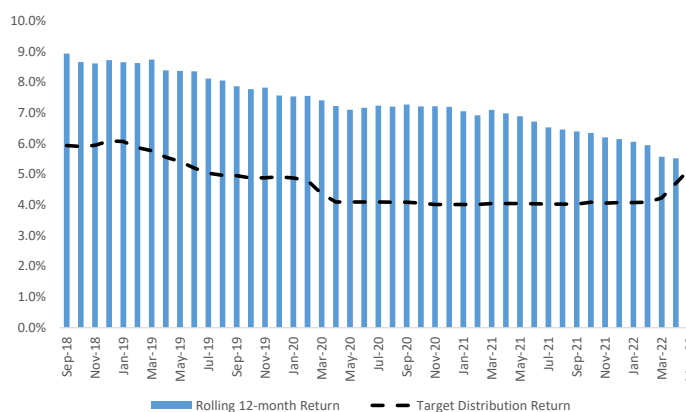
Source: Metrics Credit Partners Pty Limited

**MCP Secured Private Debt Fund II (SPDF II)**

SPDF II was launched in July 2017 and implements the same strategy of SPDF which was launched in November 2015, however is structured as an open-ended unit trust. SPDF II provides direct exposure to Australian corporate debt across predominantly mid-market borrowers. SPDF II invests primarily in loans to sub investment grade mid-market Australian companies. SPDF II can invest in both term and undrawn and revolving, senior and subordinated debt facilities.

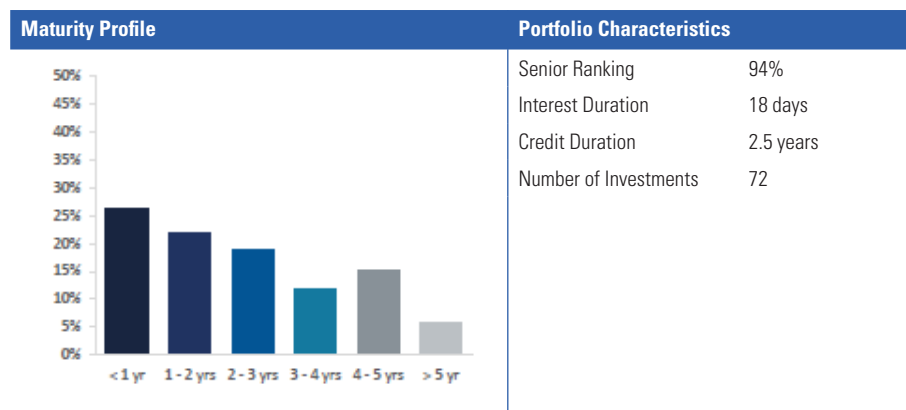
| SPDF II Key Terms       |   |
|-------------------------|---|
| Term                    | Detail  |
| Structure               | Open-ended unit trust   |
| FUM (as at 31 May 2022) | \$1,339.6m  |
| Benchmark               | 90-day BBSW   |
| Target Return           | Benchmark + 4.00%p.a. (net of fees and expenses)                                      |
| Asset Duration          | Loans with a tenor to maturity of 6 months to 10 years                                |
| Leverage                | Up to 50% of gross asset value. The Fund does not currently have any debt facilities. |
| Distribution Frequency  | Monthly   |

### Rolling 12-month Net Returns



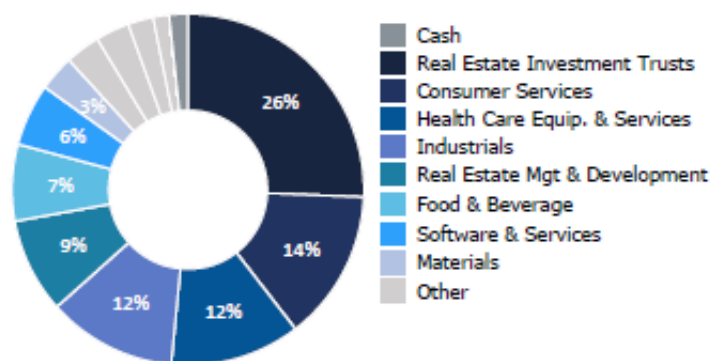
### Portfolio Characteristics as at 31 March 2022

As at 31 March 2022, the portfolio had a credit duration of 2.5 years with the majority of loans having a term of five years or less. The majority of the portfolio is in senior ranking loans and is largely invested with small levels of cash. The portfolio is diversified both by sector and by investment with 72 investments at 31 March 2022.



Source: Metrics Credit Partners Pty Limited

## Sector Allocation



Source: Metrics Credit Partners Pty Limited

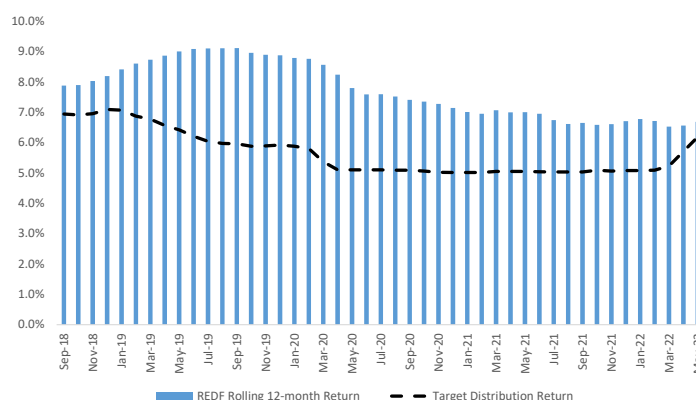
## MCP Real Estate Debt Fund (REDF)

REDF was established in July 2017 and provides exposure to a portfolio of Australian commercial real estate (CRE) debt. Banks have restricted capital to the real estate sector resulting in attractive CRE lending opportunities. The fund provides access to this market via direct origination of CRE loans diversified by projects and borrowers.

## REDF Key Terms

| Term                    | Detail   |
|-------------------------|--|
| Structure               | Open-ended unit trust  |
| FUM (as at 31 May 2022) | \$1,745.1m   |
| Benchmark               | 90-day BBSW  |
| Target Return           | Benchmark + 5.00%p.a. (net of fees and expenses)                               |
| Asset Duration          | Loans with a tenor to maturity of 6 months to 10 years.                        |
| Leverage                | Up to 50% of gross asset value. The fund currently has a \$200m debt facility. |
| Distribution Frequency  | Monthly  |

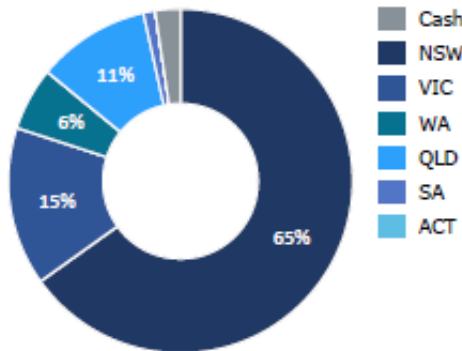
## Rolling 12-month Net Returns



## Portfolio Characteristics as at 31 March 2022

The portfolio is diversified with 86 loans at 31 March 2022. The portfolio is weighted to properties located in NSW and is heavily weighted to Residential properties. The portfolio has a short credit duration of 0.9 years, reflecting the typically short-term nature of the loans.

**Maturity Profile**

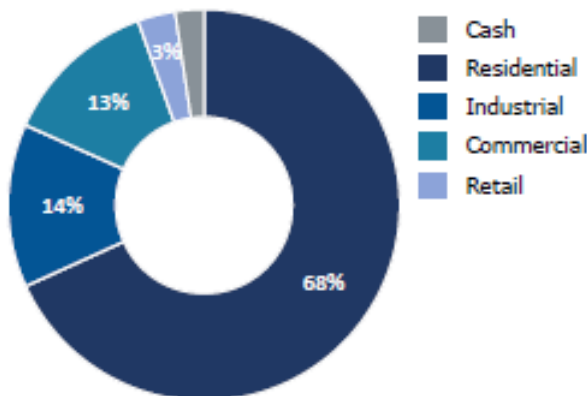


**Portfolio Characteristics**

|                       |           |
|-----------------------|-----------|
| Senior Ranking        | 99%       |
| Interest Duration     | 18 days   |
| Credit Duration       | 0.9 years |
| Number of Investments | 86        |

Source: Metrics Credit Partners Pty Limited

**Sector Allocation**



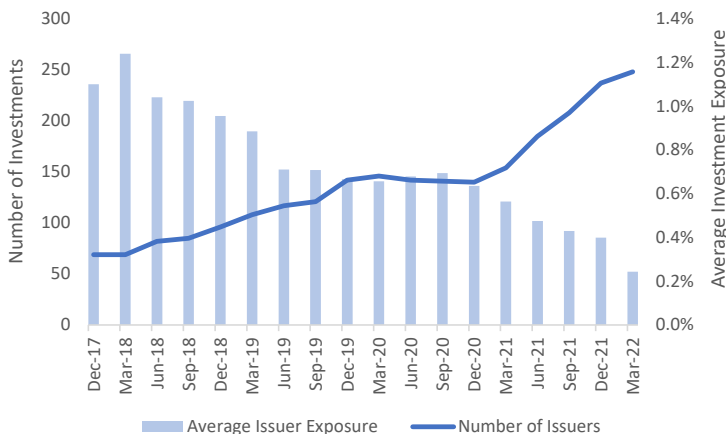
Source: Metrics Credit Partners Pty Limited

**PORTFOLIO POSITIONING**

MDIF invests in WIT, which then invests capital in the underlying wholesale funds. The below portfolio positioning data is provided for WIT given WIT has a longer track record than MDIF, with MDIF being established in July 2020.

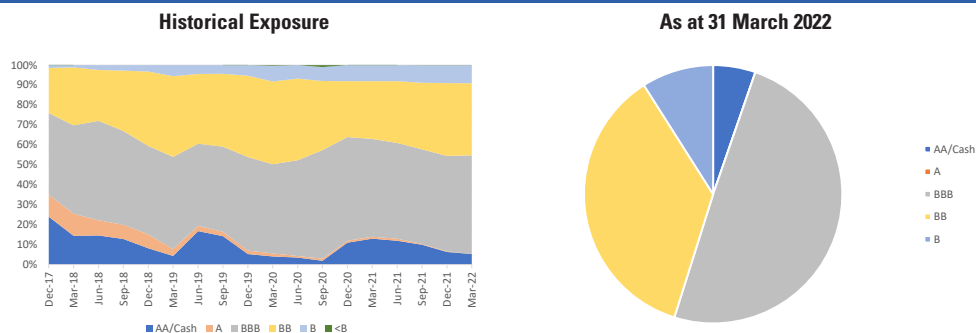
As WIT has grown, the portfolio diversification of the Trust has grown. As at 31 March 2022, the portfolio was exposed to 122 individual investments. As the number of loans has increased, the average exposure to an individual loan has declined, as shown in the below chart.

**Number of Loans & Average Loan Exposure of WIT**



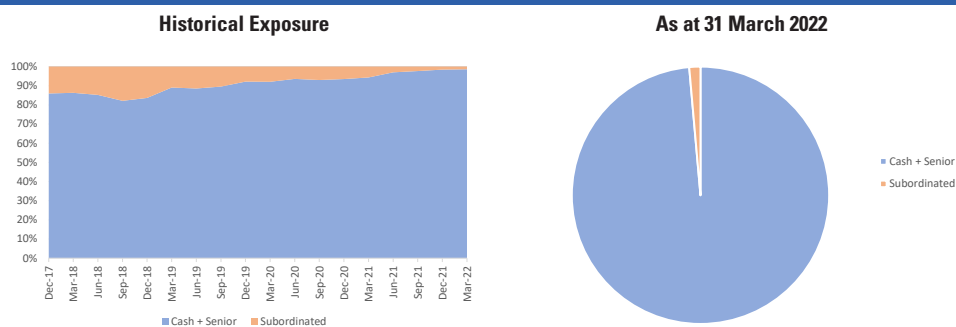
The portfolio is exposed to investment grade and sub-investment grade loans, with the majority of loans spanning the BBB and BB categories. As at 31 March 2022, 86% of the portfolio was exposed to loans rated BBB and BB with exposure to both these categories of loans increasing over the last 12-months. The portfolio had a 9% allocation to B rated loans at 31 March 2022 with no exposure to loans rated below B.

**Credit Rating Exposure**



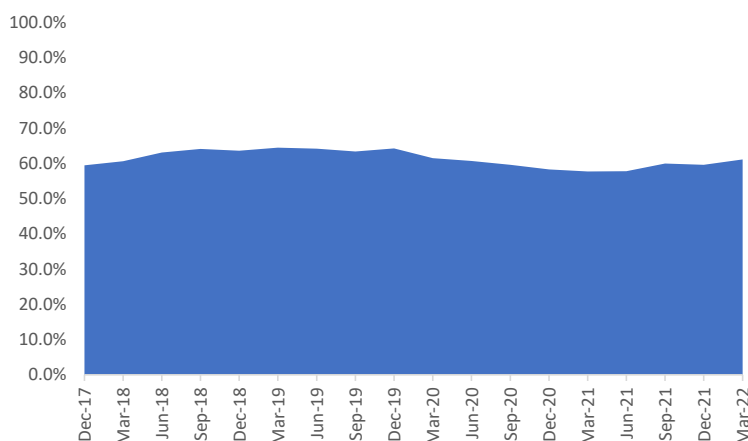
The Trust is predominantly exposed to senior secured loans as is highlighted by the below chart. The average exposure to senior secured loans and cash since inception of WIT to 31 March 2022 has been 91.2% with the remainder in subordinated loans.

**Capital Structure Exposure**



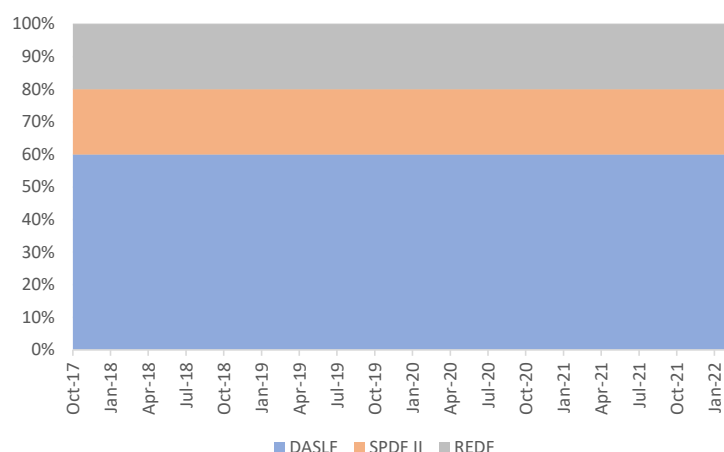
The weighted average LVR of the portfolio has remained at relatively conservative levels with the weighted average LVR ranging from 57.7% to 64.5%. The conservative LVRs provide considerable protection from valuation falls.

**Weighted Average LVR**



The allocation to the underlying wholesale funds has remained unchanged with an allocation of 60% to Metrics Partners Diversified Australian Senior Loan Fund (DASLF), 20% to MCP Secured Private Debt Fund II (SPDF II) and 20% to MCP Real Estate Debt Fund (REDF).

### Wholesale Fund Allocation



The portfolio is diversified by sector. As at 31 March 2022, Real Estate Management and Development and REITs were the largest sector allocations in the portfolio. This has been the case historically for the portfolio and is to be expected given 20% of the portfolio is allocated to the MCP Real Estate Debt Fund (RDEF), which invests in commercial real estate (CRE) debt.

Hotels, Restaurants and Leisure and Health Care Providers and Services have been the next largest exposures for the Trust. The portfolio is actively managed with loans typically being short-to-medium term. As such, the sector exposure will change. Initially the Trust had a relatively large exposure to the Transport sector, however these loans have been repaid and the portfolio currently has only a small exposure to this sector.

### Sector Allocation as at 31 March 2022

| Sector                                | Portfolio Weighting |
|---------------------------------------|---------------------|
| Real Estate, Management & Development | 24%                 |
| REITs                                 | 26%                 |
| Hotels, Restaurants & Leisure         | 7%                  |
| Health Care Providers & Services      | 7%                  |
| Professional Services                 | 3%                  |
| Capital Markets                       | 5%                  |
| Specialty Retail                      | 2%                  |
| Diversified Financial Services        | 2%                  |
| Oil, Gas & Consumable Fuels           | 1%                  |
| Commercial Services & Supplies        | 2%                  |
| Transportation                        | 1%                  |
| Road & Rail                           | 1%                  |
| Food Products                         | 2%                  |
| Construction Materials                | 2%                  |
| Construction & Engineering            | 1%                  |
| Diversified Consumer Services         | 2%                  |
| Other/Cash                            | 14%                 |

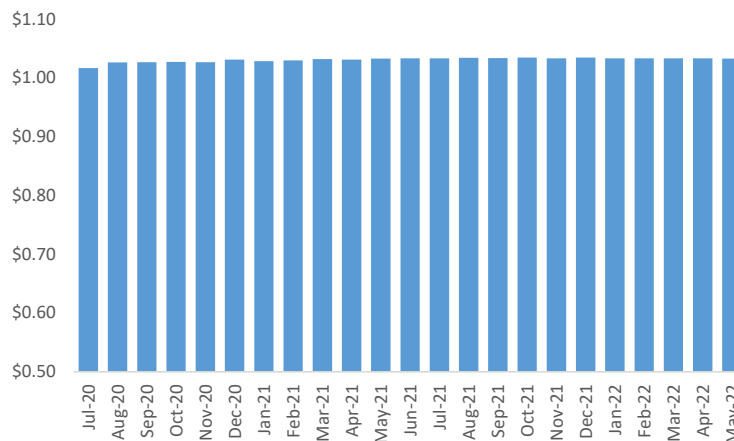
## PERFORMANCE ANALYTICS

The Trust provides exposure to direct loans to Australian corporates with returns comprising the interest payments made by the borrowers. Therefore the returns from the portfolio will be largely income in nature with the NAV expected to remain relatively stable in the absence of defaults whereby the face value of the loan is not fully recovered. We note that the Trust may invest in MXT units. In the event MXT trades above or below NAV this may result in an element of capital gain or loss.

As is highlighted by the below chart, the NAV has remained relatively stable since the Trust's establishment. There has been no impairment in the value of loans with the NAV remaining above \$1.00 per unit.



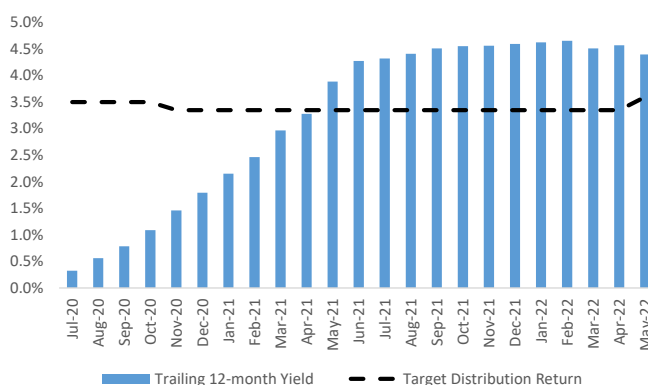
### Historical NAV



Source: Metrics Credit Partners Pty Limited/IIR

The Trust has a target return of RBA Cash Rate + 3.25%p.a. The below chart shows the trailing distribution yield over rolling 12-month periods. Over the first 12-months, the distribution yield only includes distributions for a partial year. The Trust has exceeded the target return when taking into account a full 12-months of distributions. The floating target return reflects the fact that the Trust is primarily exposed to floating rate loans.

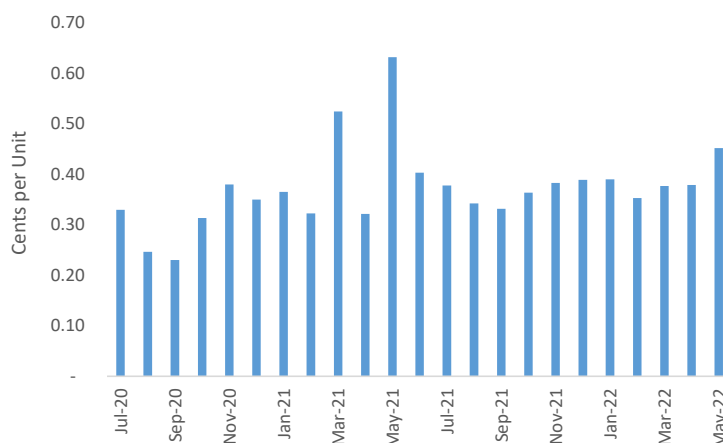
### Historical Distribution Yield



Source: Metrics Credit Partners Pty Limited/IIR

Distributions are a result of the monthly income generated from the underlying loans. Given the active management of the portfolio, the amount of distributions in any given month will vary, as is highlighted by the below chart.

### Monthly Distribution Amounts

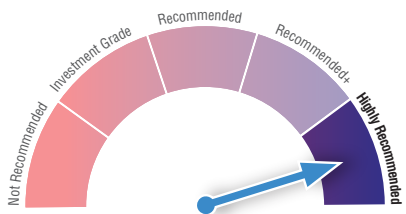
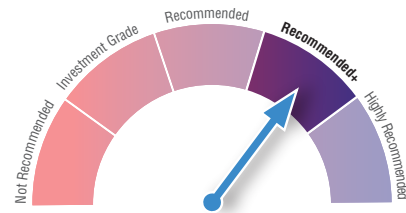
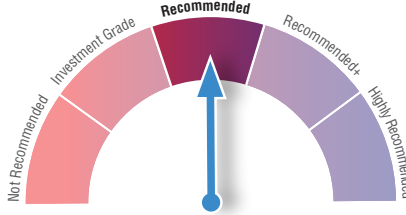
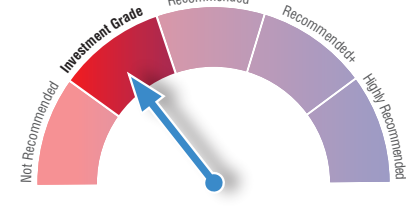
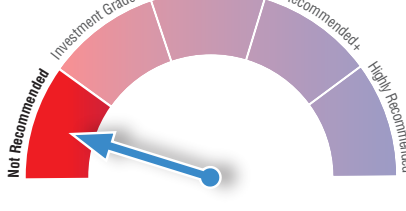


Source: Metrics Credit Partners Pty Limited/IIR

## APPENDIX A – RATINGS PROCESS

### Independent Investment Research Pty Ltd “IIR” rating system

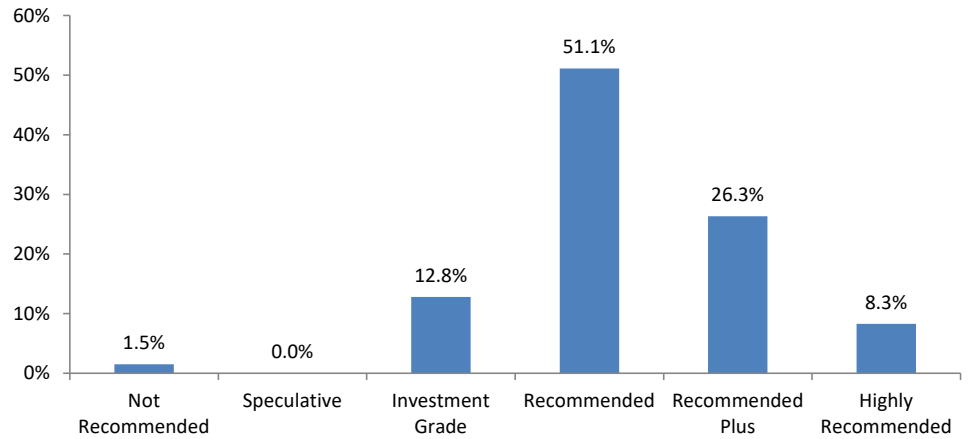
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction;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

| LMI Ratings  | SCORE   |
|--|---|
| <p><b>Highly Recommended</b></p>  | <p><b>83 and above</b></p> <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>  |
| <p><b>Recommended +</b></p>      | <p><b>79–83</b></p> <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> |
| <p><b>Recommended</b></p>       | <p><b>70–79</b></p> <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>   |
| <p><b>Investment Grade</b></p>  | <p><b>60–70</b></p> <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>   |
| <p><b>Not Recommended</b></p>   | <p><b>&lt;60</b></p> <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>   |

## 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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