

# Metrics Master Income Trust (ASX: MXT)

Review

31 January 2024

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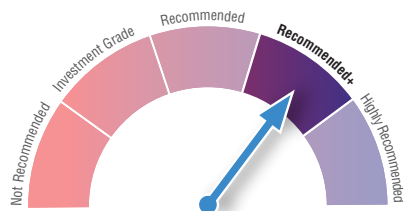
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Note: This report is based on information provided by Metrics Credit Partners Pty Ltd as at 31 August 2023.

### Rating



### Key Investment Information (as at 31 December 2023)

ASX Code	MXT
Unit Price (\$)	\$2.05
NAV per unit (\$)	\$2.00
Units on Issue (m)	981.5m
Market Cap (\$m)	\$2,012.2m
Trailing 12-month Distribution Yield	8.79%
Listing Date	October 2017
Responsible Entity	The Trust Company (RE Services) Limited
Investment Manager	Metrics Credit Partners Pty Ltd
Structure	Listed Investment Trust (LIT)
IIR Investment Classification	Fixed Income
Target Distribution	RBA Cash Rate + 3.25%
Distribution Frequency	Monthly
Fees:	
Management Fee (p.a.)*	0.60%
Performance Fee**	na

\*The Manager does not receive fees from the Trust. The Manager receives fees from the underlying wholesale funds.

\*\* SPDF and REDF charge performance fees for the outperformance of the relevant hurdle rates.

### Key Exposure

Underlying Exposure	Portfolio of direct loans to Australian corporates through an investment in three wholesale funds managed by Metrics Credit Partners Pty Ltd.
FX Exposure	At least 80% of the portfolio is required to be invested in Australian domiciled corporates, therefore there is little to no direct FX 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 Master Income Trust (ASX: MXT) ("MXT" or the "Trust") provides exposure to a portfolio of loans to Australian companies diversified by borrower, industry and credit quality. The Trust is managed by Metrics Credit Partners ("Metrics" or the "Manager"), an Australian private debt-specialist asset manager founded in 2011 and with significant expertise in the Australian corporate loan market. MXT invests in the MCP Wholesale Investment Trust ("MCP WIT"), which in turn invests in three wholesale funds managed by Metrics: (i) Metrics Credit Partners Diversified Australian Senior Loan Fund (DASLF) (60%); (ii) MCP Secured Private Debt Fund II (SPDF II) (20%); and (iii) MCP Real Estate Debt Fund (REDF) (20%). The wholesale funds provide exposure to the Australian corporate loan market but with differing risk-return investment profiles and target loan investments. 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. 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 with returns reflecting the income generated by the portfolio in any given month. Fees are paid at the wholesale level with no fees charged by the Manager at the Trust level. Fees are highly competitive with a look through management fee of 0.60%p.a. DASLF, the largest allocation of the Trust, does not charge performance fees, however SPDF II and REDF charge a performance fee for the outperformance of the relevant hurdles.

## INVESTOR SUITABILITY

The Trust provides investors exposure to a highly diversified actively managed portfolio of direct loans to Australian corporates. The Trust is suitable for investors that are seeking a regular monthly income stream with the potential to generate attractive risk-adjusted returns when compared to traditional fixed income investments such as term deposits and government and corporate bonds. Private credit 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.

## RECOMMENDATION

Independent Investment Research (IIR) has maintained a **Recommended Plus** rating for the Metrics Master Income Fund (ASX: MXT). MXT's portfolio has delivered attractive risk-adjusted returns when compared to the domestic equity market and fixed rate Australian Investment Grade and High Yield Bonds, with the portfolio benefiting from the predominantly floating rate exposure of its loans and low capital volatility. The Trust has provided a regular monthly distribution to investors with no correlation to the domestic equity market over the five years to 31 August 2023, providing diversification to an investors broader portfolio. The Trust provides retail investors access to the private credit market, in which investment options are limited, with the benefit of secondary market liquidity and a highly diversified portfolio. The Manager has grown significantly in recent years with investors benefiting from the scale achieved by the Manager. The Manager has seen very few default events and no loss of capital in any of the funds issued by the Manager to date, however we note that the credit risks in the current environment are elevated with corporate loan defaults likely to rise as the impact of the increase in interest rates continues to filter through the economy and a slowing growth backdrop, which may result in an increase in the number of workouts required within the portfolio. While credit risks are elevated we note the vast majority of loans the Trust is exposed to are senior ranking and secured.

## SWOT

### Strengths

- ◆ Unitholders have benefited from the increasing interest rate environment with the distributions for the FY23 period increasing 77.9% on the prior year to 15.48 cents per unit.
- ◆ 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 20 years relevant experience. The four-member IC also mitigates key person risk.
- ◆ The Trust has competitive and well-structured fees, with retail investors benefiting from wholesale rates. Further to this there is no double layer of fees with fees charged at the wholesale level only. We note that the Manager may receive fees, brokerage and commissions from the investments made by the underlying wholesale funds
- ◆ 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 and no default events that have adversely impacted investor returns.
- ◆ The portfolio is highly diversified with the over 300 investments in the portfolio as at 31 August 2023 reducing the risk associated with an individual loan exposure.
- ◆ MXT is the largest fixed income listed investment trust on the ASX providing high levels of liquidity for investors.
- ◆ Loans in the portfolio are largely senior in the capital structure and secured with 98% of the portfolio invested in senior loans at 31 August 2023 and 92.8% of loans secured.

### Weaknesses

- ◆ The Manager's business has grown considerably in recent years with the Manager continuing to expand with the introduction of new funds. The increased AUM has resulted in a significant increase in the number of loans made. While the Manager has invested in additional resources as AUM has grown, the capacity of the four members of the IC signing off on all loans will likely to begin to be stretched with further growth and may require a change to the investment committee process.

### Opportunities

- ◆ With uncertainty in equity markets as a result of a softening growth outlook and geopolitical tensions, MXT provides an opportunity to realise a regular income that will increase with further interest rate increases and offers low capital volatility, subject to the portfolio not experiencing any default events in which the Trust cannot recoup the full loan amount.
- ◆ The listed closed-ended structure provides investors secondary market liquidity to assets with limited liquidity. This is a positive for both the Manager as it provides a fixed pool of capital for investment in the underlying wholesale funds and investors as they get daily market liquidity which is not available from the underlying wholesale funds.

### Threats

- ◆ Two of the three wholesale trusts in which MXT invests have a borrowing facility. The borrowing facility provides the ability for the Manager to manage any mismatches with regards to the timing of investments, negate foreign exchange risk through match funding arrangements for non-Australian loans and cash flow requirements of the fund. The facility for DASLF is at the upper end of the limit with the facility being 30% of GAV as at 31 August 2023, with drawn debt representing 15.7% of GAV. The borrowing facilities provides the ability to increase returns for investors however the use of debt can also magnify losses.
- ◆ Unlike a publicly traded bond, where the value of the asset is determined by its traded price, MXT's 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 monthly independent 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.

- ◆ A prolonged economic downturn could result in increased borrower stress which could result in an inability of borrowers to meet their contractual obligations. This may have an adverse impact on the cash flows and value of the portfolio. The Manager has a number of protections and mechanisms in place to reduce the risk of loss, however in the event the Manager cannot recoup the full amount borrowed the value of investor's capital will be impaired. The high level of diversification in the portfolio reduces the risk associated to an individual loan exposure.

## MXT OVERVIEW & UPDATE

Metrics Master Income Trust (ASX: MXT) 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 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 ("Metrics" or the "Manager"), an Australian debt-specialist asset manager founded in 2011 and with significant expertise in the Australian corporate loan market.

MXT invests in the MCP Wholesale Investment Trust ("MCP WIT"), which in turn invests in three wholesale trusts managed by Metrics 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 \$6.7b AUM (includes debt facility). A summary of the underlying wholesale funds is provided below.

The Trust completed a Placement to wholesale and sophisticated investors in early December 2023, raising \$196 million. New units were issued at \$2.00 per unit. The Trust is currently undertaking a Unit Purchase Plan (UPP) which is scheduled to close on 30 January 2024. Under the UPP, unitholders can apply for up to \$30,000 worth of units at \$2.00 per unit. The issue price represented the NAV of the Trust and was at a marginal discount to the market price at the time of the announcement.

MXT is the largest investor in MCP WIT with MXT having a 48.3% interest in the trust at 31 August 2023. MXT represents a fixed capital source for MCP WIT and the underlying wholesale funds. The portfolio is predominantly exposed to loans made to Australian corporates with MCP WIT required to have greater than 80% of capital invested in Australian domiciled corporates.

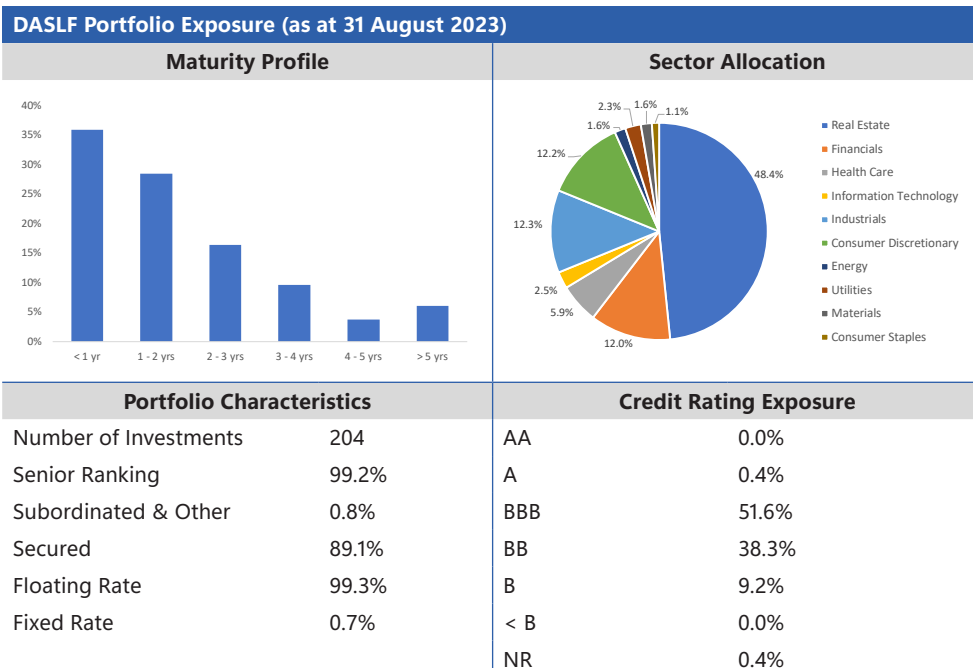
The portfolio is highly diversified with exposure to over 300 investments at 31 August 2023 with the Trust having a maximum exposure limit to a single borrower of 5%. The average issuer exposure at 31 August 2023 was less than 0.5%. There is little duration risk associated with the loans in the portfolio with 98.5% of the portfolio exposed to floating rate loans.

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

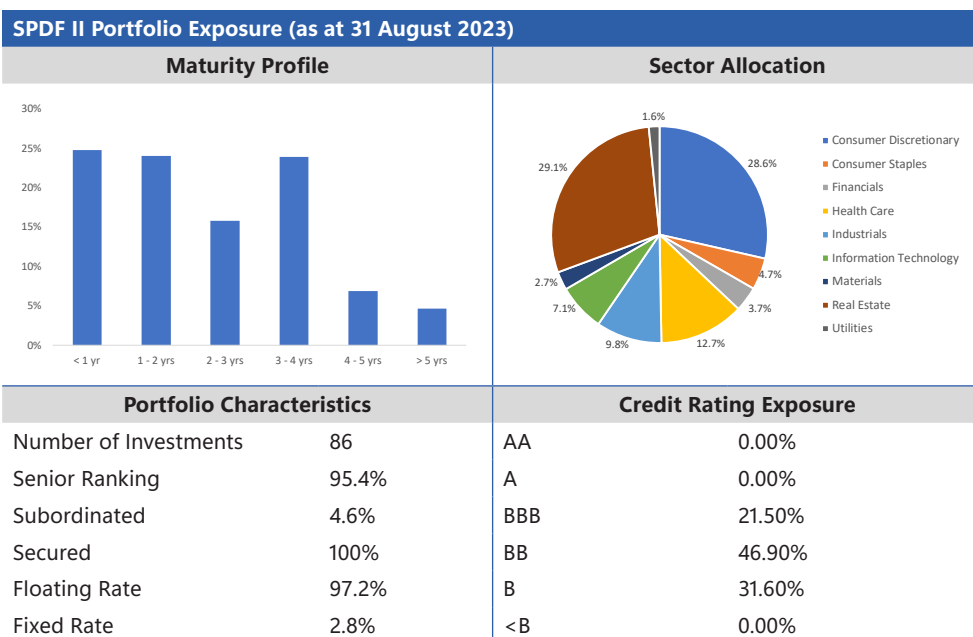
\*The wholesale fund allocation has remained at the stated levels for the life of the Trust.

### Underlying Wholesale Funds

**1) Metrics Credit Partners Diversified Australian Senior Loan Fund (DASLF)** - provides exposure to a diversified portfolio of corporate loans. As at 31 August 2023, DASLF had 204 investments. At least 90% of loans must be senior ranking. It is designed to have exposure predominantly to the BBB to BB credit rating category with a lower risk and lower return profile. The fund has a target return of 90-day BBSW + 2.75%-3.25% p.a. (net of fees and expenses). The Manager has typically generated returns within or exceeding the target return range since inception. The Fund continues to have an issuer rating of A- from Standard and Poors.

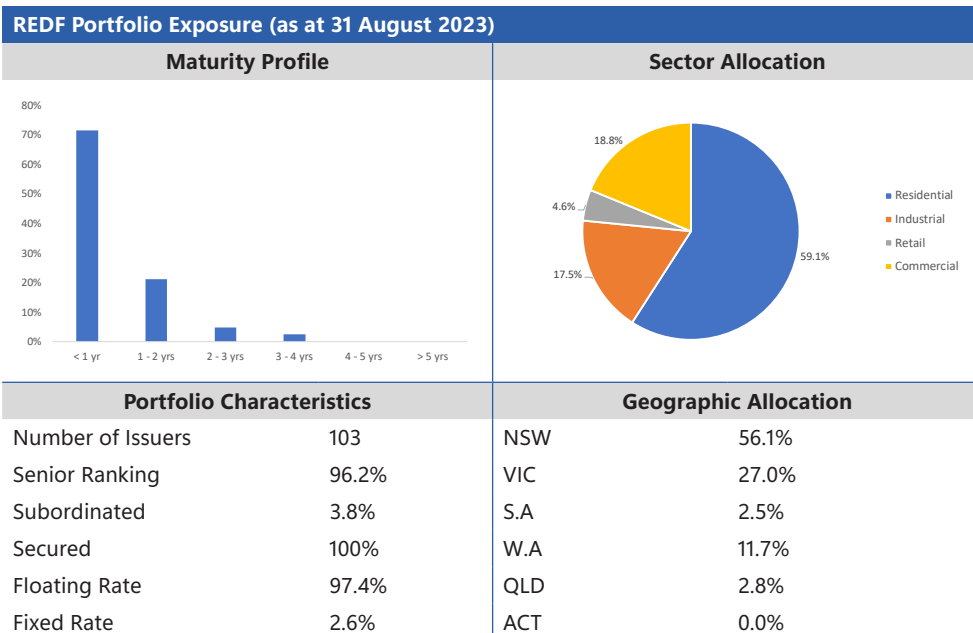


**2) MCP Secured Private Debt Fund II (SPDF II)** - SPDF II was established in October 2017 and as the name suggests is the second iteration of the strategy, which commenced in 2015. The Fund provides exposure to predominantly sub-investment grade corporate loans across mid-market borrowers. The Fund has a target return of 90-day BBSW + 4.0% p.a. (net of fees and expenses). At 31 August 2023, the Fund comprised 86 loans, 95.4% of which were senior ranking with all loans secured. The Fund has consistently generated net returns in excess of the target return to date with the monthly annualised returns exceeding the target return in all but one month since inception to 31 August 2023.

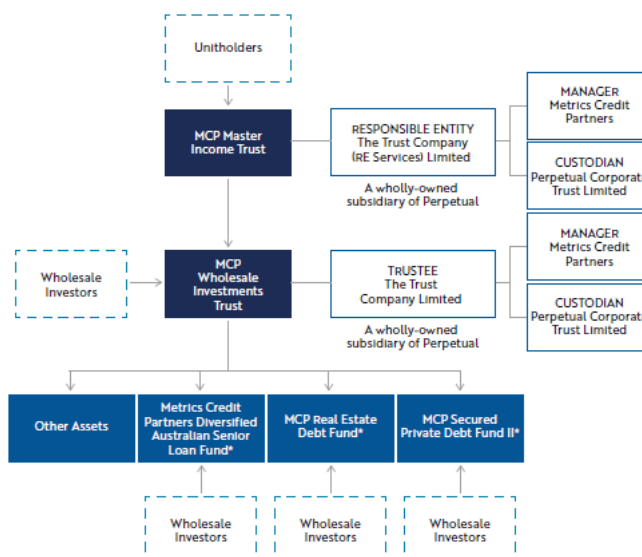


**3) MCP Real Estate Debt Fund (REDF)** - REDF was also established in October 2017 and provides exposure to a portfolio of commercial real estate (CRE) debt. The Fund has a target return of 90-day BBSW + 5.0% p.a. (net of fees and expenses), which the Fund has consistently exceeded since inception. The Fund has grown from \$140 million at inception to \$2.9 billion (includes borrowing facility) as at 31 August 2023. At 31 August 2023, the Fund had 103 loans, all secured, 96% of which were senior ranking. The portfolio is predominantly exposed to residential property with 61.0% of the portfolio allocated to residential property at 31 August 2023 with the portfolio concentrated to properties in NSW and VIC. 38.7% of the portfolio was exposed to construction loans as at 31 August 2023. The additional target returns of the Fund reflects the increased risk associated with CRE debt. REDF has an issuer rating of A- from Standard & Pools.



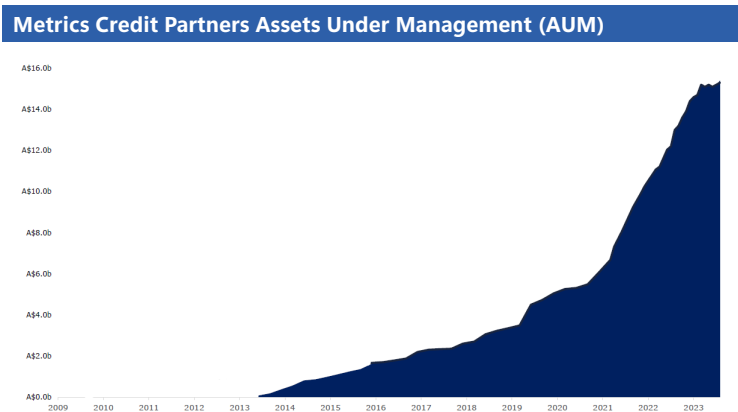


### MXT Structure



### Investment Manager Update

Since being founded in 2011, the AUM of the Manager has grown significantly with assets under management (AUM) of ~\$15.4 billion as at 31 August 2023. As shown in the below chart, AUM accelerated significantly from mid 2020 to 31 August 2023. The flagship fund, DASLF, is the largest fund for the Manager with 38% of AUM invested in DASLF. The percentage of DASLF as a percentage of AUM has been declining since the introduction of new funds which commenced in 2015.



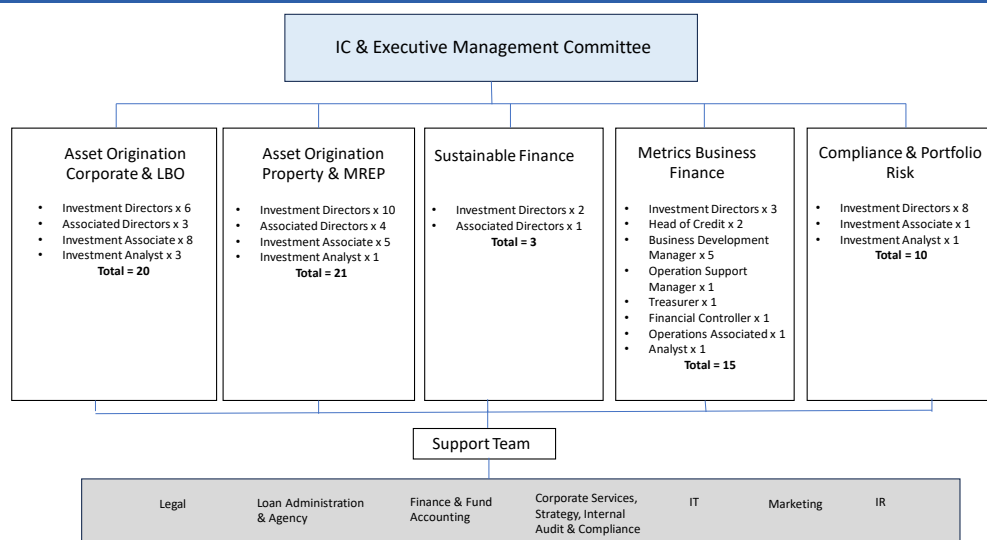


The Manager has increased its resources as the business has grown. At 31 August 2023, the Manager had 125 employees, 73 of which are part of the investment team and 44 of which are support staff including loan administration, finance and accounting, corporate services and compliance, IT, marketing and investor relations.

The investment team makes up the bulk of the team with 73 employees making up the investment team. There has been some turnover in the investment team over the two years to 31 August 2023, however the Manager has been a net hirer with 40 new additions to the team and 15 departures. The majority of departures have been junior ranking team members with just three Investment Directors departing in the last two years.

The four Managing Partners remain the members of the Investment Committee and are involved in the decision making for all transactions. The investment process has not changed in that regard with the four Managing Directors required to reach a consensus view on loans made. The Managing Partners are supported by the investment team which can be broken down into five groups: (1) New Asset Origination & LBO; (2) New Asset Origination Property/MREP; (3) Sustainable Finance; (4) Metrics Business Finance; and (5) Compliance & Portfolio Risk. An overview of the investment team structure is provided below. The senior investment team members, including the Managing Partners, are highly experienced with an average experience of 22.3 years for senior team members. The expansion of the team and the departure of some senior team members has resulted in an average tenure with the Manager of just over 3 years, excluding the Managing Partners.

### Investment Team Structure



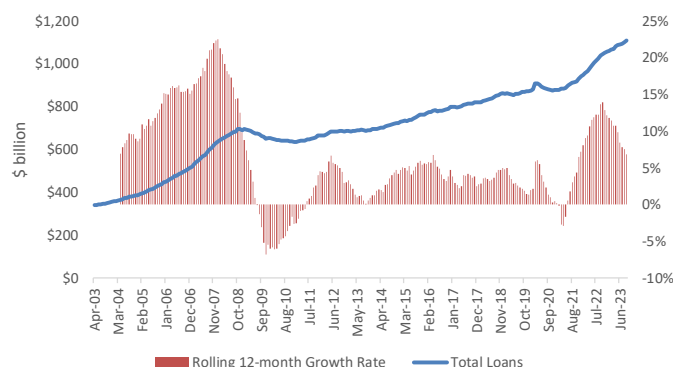
Note: Metrics Business Finance was launched in late 2021 after the Manager acquired Bigstone Finance. Metrics Business Finance is focused on providing commercial property loans and equipment finance to SMEs.

## CORPORATE LOAN MARKET UPDATE

Corporate loans in Australia continue to be predominantly serviced by the major banks in Australia. However, a reduction of the risk appetite by the banks in certain sectors, in particular small and medium enterprises (SMEs) has seen the loans provided by non-bank lenders begin to increase again, albeit still remaining less than 10% of the total loan market.

Business loans, excluding loans to financial businesses, continues to grow with over \$1.1 trillion in total business loans as at 30 September 2023.

### Business Loans (excluding loans to financial businesses)

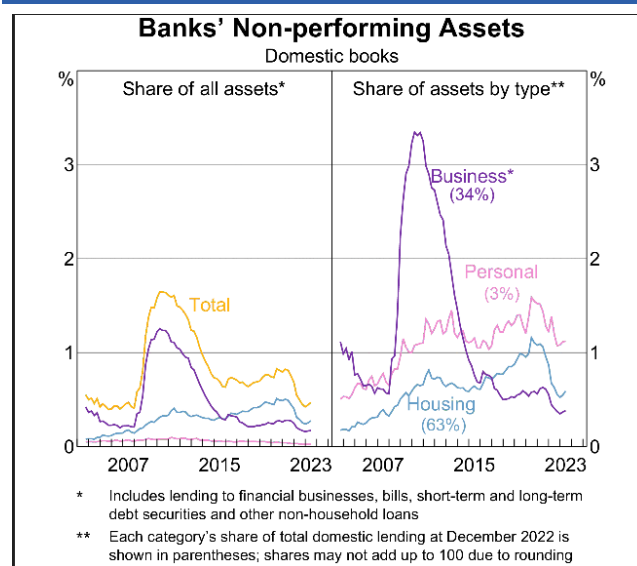


Source: RBA

The below chart shows the non-performing assets of the banks. The chart highlights that non-performing loans across residential housing and business remain low with business non-performing loans coming off lows. This is a result of many businesses being able to pass on increased costs to consumers. Non-performing business loans increased during 2008 and 2009 on the back of the GFC. This highlights the fact that increases to non-performing loans tend to cluster around times of significant economic weakness.

We note the below chart represents the assets of the banks and not the portfolio of loans of MXT. The Manager has advised that they have no loans with arrears in their loan book and no impaired loans. Given the current economic environment, the risks associated with loans are elevated, however investors are getting an increased return which compensates for the additional risk.

### Banks Non-Performing Loans



Source: RBA Chart Pack, 8 November 2023.

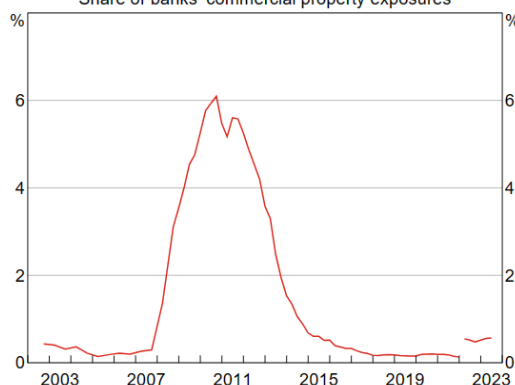
The MXT portfolio is exposed to CRE debt with REDF focused on providing CRE loans and the other wholesale funds also participating in commercial property loans. With regards to the broader CRE loan market, non-performing loans remain low. Similar to the business loans shown in the above chart, non-performing loans peaks in 2008 and 2009 in the GFC. Either side of this period, non-performing loans have been low. Banks exposure to commercial property loans has declined since the GFC, representing around 6% of total assets, which has presented an opportunity for non-bank lenders to service this market.

We note the below only represents the banks exposure to commercial property loans and not the non-bank lenders exposure. Bank loans in this sector of the market tend to be skewed towards investment loans. This compares to non-bank lenders whose loan books tend to be skewed to pre-development and construction loans. With regards to construction loans, banks tend to have a high pre-sales threshold which developers are required to meet in order to finance a project, while non-bank lenders will provide financing with a materially lower pre-sales threshold than banks.

## CRE Non-Performing Loans

### Commercial Property Non-performing Rate\*

Share of banks' commercial property exposures



\* Excludes overseas exposures. Prior to 2022, data reported as impairment rates.

Source: RBA Financial Stability Review, October 2023.

There has been an uptick in the number of insolvencies with insolvencies now around pre-pandemic levels. The construction industry in particular has experienced rising insolvencies with the construction industry accounting for one-third of the increase in insolvencies according to the RBA. The RBA noted that this increase was coming off very low levels recorded during the pandemic as is highlighted in the below chart. Rising costs, supply chain issues and workforce supply has all contributed to the increased number of insolvencies in the construction industry. The risks of the transmission of financial stress from builders to contractors is elevated, however many sub contractors have been able to pass on cost increases. According to the RBA, profit margins among construction services companies have improved but remain below pre-pandemic levels. While most sub-contractors appear to be managing these challenges, some have been impacted by builders defaulting on outstanding invoices.

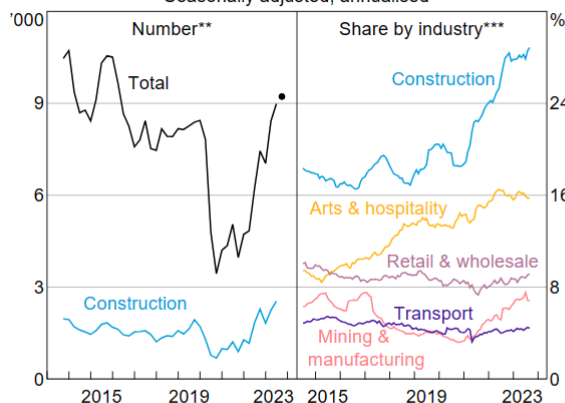
According to the RBA, signs of severe financial stress among households owning and operating small construction businesses also remain low, with personal insolvencies related to business failures near historical lows. However, new residential construction activity is slowing, which will put further pressure on builders and construction services firms, particularly those relying on cash flows from new projects to offset losses on others. Increased levels of insolvencies may make it difficult to attract labour which may result in project delays.

The Manager actively manages the risks associated with CRE loans, with the Manager focused on providing loans to developers that have a strong track record of delivering projects. While the risks are elevated, the under supply of housing in Australia and population growth will continue to be a tailwind for the residential construction sector.

## Company Insolvencies

### Company Insolvencies\*

Seasonally adjusted, annualised



\* New external administrations and controller appointments.

\*\* The dot is a September quarter estimate based on monthly observations for July and August 2023.

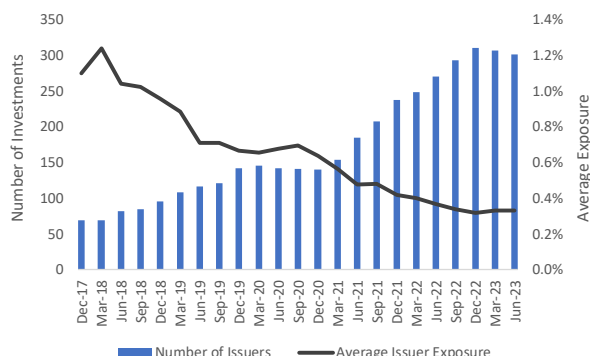
\*\*\* 12-month rolling basis; selected industries.

Source: RBA Financial Stability Review, October 2023.

## PORTFOLIO POSITIONING

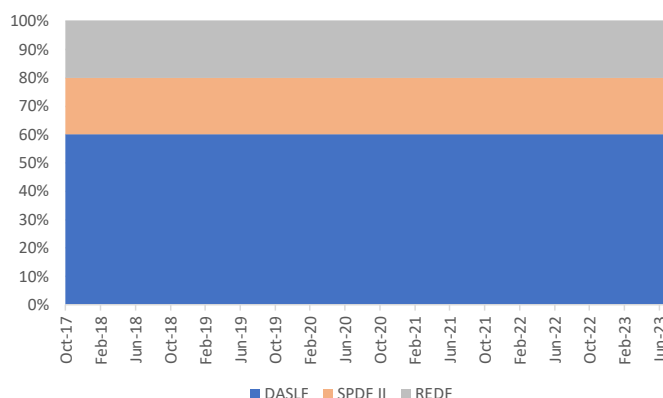
The portfolio is highly diversified with the portfolio exposed to over 300 investments. The portfolio has increased the level of diversification as the Trust has grown with the Trust benefiting from the growth in the underlying wholesale funds.

### Number of Issuers & Average Issuer Exposure



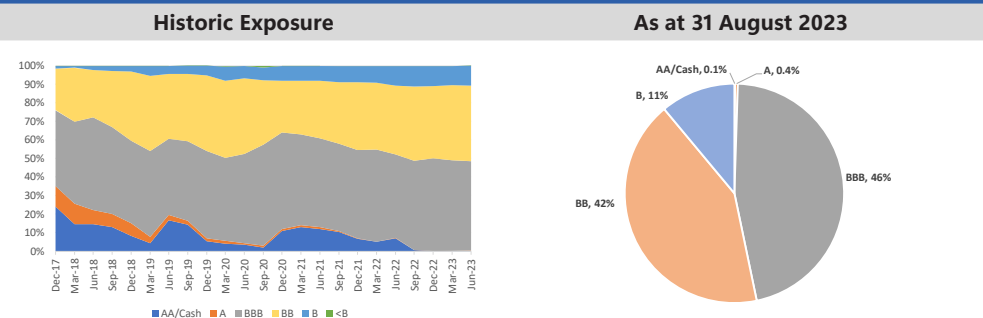
The allocation to the three wholesale funds has remained steady since listing, as shown by the below chart, with 60% of capital allocated to the Metrics Partners Diversified Australian Senior Loan Fund (DASLF), 20% to the MCP Secured Private Debt Fund II (SPDF II) and 20% to the MCP Real Estate Debt Fund (REDF). This allocation is within the target ranges with the allocation to DASLF and SPDF II at the lower end of the target allocation ranges and REDF at the upper-end of the target range.

### Wholesale Fund Allocation



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 August 2023, 88% of the portfolio was exposed to loans rated BBB and BB. Exposure to B rated loans has typically been a relatively small exposure of the portfolio, however has been slowly increasing in recent years. The portfolio is fully invested with very small levels of cash at 31 August 2023.

### Credit Rating Exposure

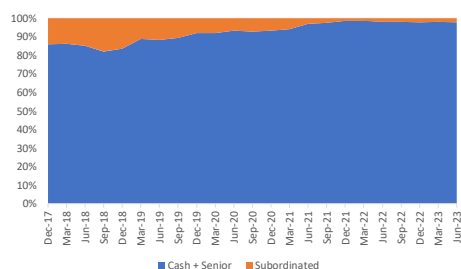


The portfolio is predominantly exposed to senior ranking loans with MCP WIT required to have more than 90% exposure to senior loans. In the early years the portfolio had a greater than 10% exposure to subordinated loans, however as the portfolio has grown the exposure to subordinated loans has declined to be just 2.0% as at 31 August 2023. Loans will typically

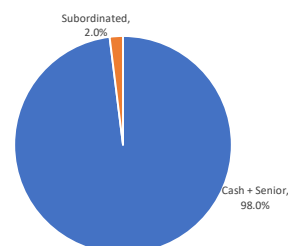
be secured with less than 10% of the portfolio exposed to unsecured loans as at 31 August 2023.

### Capital Structure Exposure

#### Historic Exposure

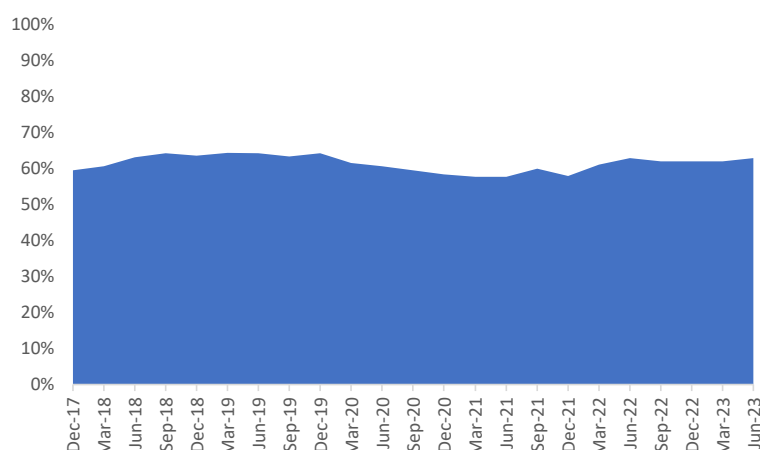


#### As at 31 August 2023



The portfolio has historically had a conservative weighted average LVR with regards to CRE loans with a weighted average LVR of less than 65% throughout its history. This means that in the event of a default, asset values would have to fall by 35%+ for the capital of the Trust to be impaired.

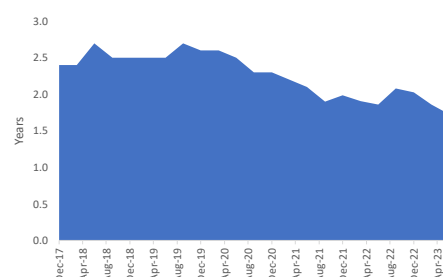
### Weighted Average LVR for CRE Loans



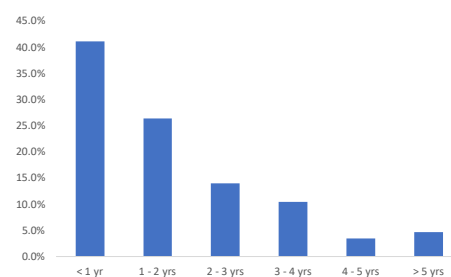
Loan terms will range from 6 months to 10 years with DASLF having a target weighted average loan term of 3 to 5 years. Loans made by REDF tend to have a shorter maturity (less than 2 years) given the nature of CRE loans. The weighted average term to maturity for the MXT portfolio has been declining with the weighted average loan term falling below two years in 2023. As at 31 August 2023, over 40% of the loans in the portfolio had a loan term of less than 1 year remaining with over 80% of the portfolio having a remaining term of less than 3 years. The short duration nature of the loans reduces the term risk associated with loans in the portfolio and suggests there will be a significant amount of turnover in the portfolio over the next 12 months.

### Weighted Average Loan Term (years)

#### Historic Weighted Average Loan Term (years)



#### Term to Maturity Spread\*



\*As at 31 August 2023.

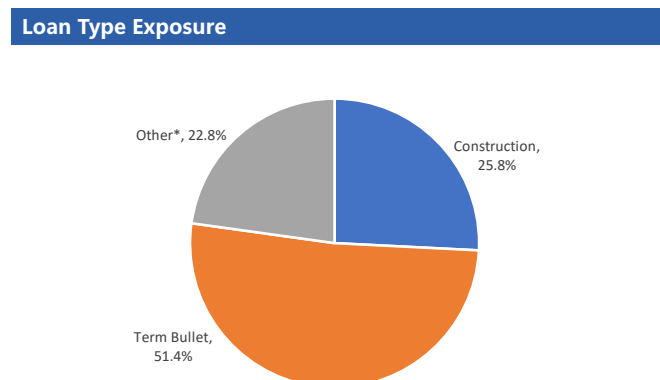
## Sector & Loan Type Allocation

The portfolio is diversified by sector as well as individual loan as highlighted by the below table. Real Estate Management and REITs are the largest sector allocation with these two sectors making up over 50% of the portfolio. We note REITs includes commercial property loans, excluding construction loans. The portfolio will always have a significant weighting to this sector given 20% of the Trust is allocated to REDF and the other two wholesale funds also have exposure to commercial property loans.

Hotels, Restaurants and Leisure are the next biggest sector exposure with exposure to this sector increasing to 11% at 31 August 2023, from 7% the year prior.

Sector Allocation (as at 31 August 2023)	
Sector	Weighting
Real Estate Investment Trusts	37.0%
Real Estate Mgt & Development	18.0%
Hotels, Restaurants & Leisure	11.0%
Capital Markets	5.0%
Health Care Providers & Services	5.0%
Diversified Financial Services	3.0%
Transportation Infrastructure	3.0%
Commercial Services & Supplies	2.0%
Cash & Other	16.0%

The portfolio is predominantly exposed to term bullet loans which refers to loans in which interest is paid on a regular basis and the loan amount is repaid at maturity. At 31 August 2023, 25.8% of the portfolio was allocated to construction loans. REDF has the highest level of construction loans, which is to be expected given the focus on CRE debt, however both DASLF and SPDFII also include construction loans.



\*Other includes capex loans, revolving facilities, amortising loans and other structures.

## PERFORMANCE ANALYTICS

The below looks at the performance of MXT's NAV and unit price. The Trust provides exposure to a portfolio of direct loans and therefore the return will be predominantly income based with the monthly distribution reflecting the interest income generated by the portfolio of loans for the month.

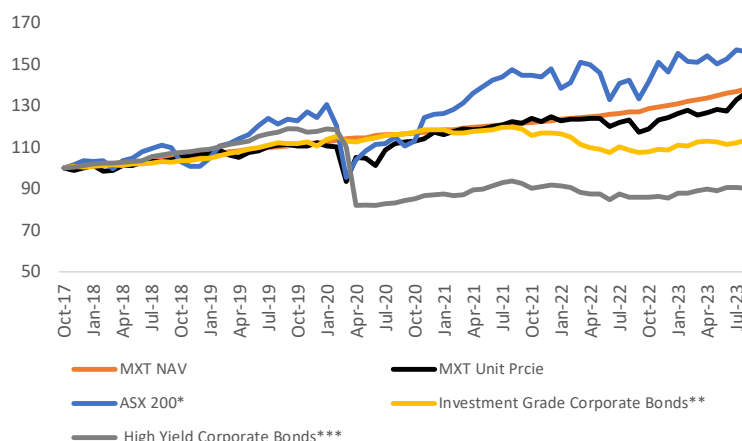
We have provided the MXT returns combined with the returns of the S&P/ASX 200 Accumulation Index and the S&P Australia Investment Grade and High Yield Corporate Bond Indexes. We note that the market indices are provided for illustrative purposes only to highlight how an investment in MXT differs from equities and fixed rate corporate bond indices.

The below chart shows the total cumulative returns of the MXT NAV and unit price as well as the returns of the above-mentioned market indices from 31 October 2017 to 31 August 2023. The chart highlights the low levels of volatility of the MXT NAV when compared to the market indices over this period. MXT's NAV has varied very little since listing with the loans in the MXT portfolio not publicly traded. This compares to the S&P/ASX 200 Accumulation Index and the Investment Grade and High Yield Corporate Bonds which are traded on

the public market and therefore marked-to-market on a daily basis. Corporate bonds are typically fixed rate bonds and therefore the price of the bonds are heavily influenced by movements in interest rates. The total return of Investment Grade and High Yield Bonds has been negatively impacted by the decline in prices which has been a result of the increasing interest rate environment.

We note the performance of corporate bonds during this period reflects a period in which the Australian cash rate has increased at the fastest pace in history. As such historic returns may not reflect future returns.

#### Total Cumulative Return



\*S&P/ASX 200 Accumulation Index.

\*\*S&P/ASX Australia Investment Grade Corporate Bond Index

\*\*\*S&P/ASX Australia High Yield Corporate Bond Index

Source: MXT, Iress, S&P Global.

The below table provides the performance metrics of MXT's NAV and unit price and the above-mentioned market indices over varying periods to 31 August 2023. MXT's portfolio has delivered a return that is slightly below the S&P/ASX 200 Accumulation Index over the 12-months to 31 August 2023. The increasing interest rate environment and the floating rate nature of the loans in the MXT portfolio has resulted in an increase to the distributions paid by the Trust. The increased interest rates have impacted negatively on the total return of the Investment Grade and High Yield Corporate Bond Indices with the bond prices falling as interest rates have increased. This has seen MXT deliver a superior return to the corporate bond indices over the 1, 3 and 5 year periods to 31 August 2023.

#### Performance Analytics (to 31 August 2023)

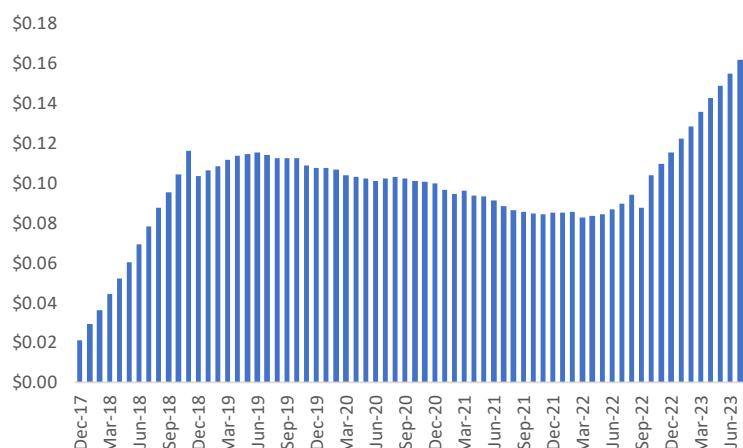
	NAV	Unit Price	S&P/ASX 200 Accumulation Index	S&P Australia Investment Grade Corporate Bond Index	S&P Australia High Yield Corporate Bond Index
<b>Cumulative Total Return:</b>					
1 year	8.7%	10.6%	9.6%	4.5%	4.7%
3 year (p.a.)	6.0%	6.9%	10.7%	-0.7%	2.8%
5 year (p.a.)	5.8%	5.7%	7.0%	1.9%	-3.2%
<b>Standard Deviation:</b>					
1 year	0.9%	8.4%	14.3%	3.9%	3.5%
3 year (p.a.)	0.8%	6.0%	13.7%	4.3%	5.0%
5 year (p.a.)	0.7%	10.8%	16.4%	4.0%	12.6%
<b>Correlation to S&amp;P ASX 200 Acc. Index</b>					
1 year	0.61	0.59	na	0.63	0.49
3 year (p.a.)	0.22	0.55	na	0.35	0.42
5 year (p.a.)	-0.06	0.63	na	0.36	0.04



## Distributions

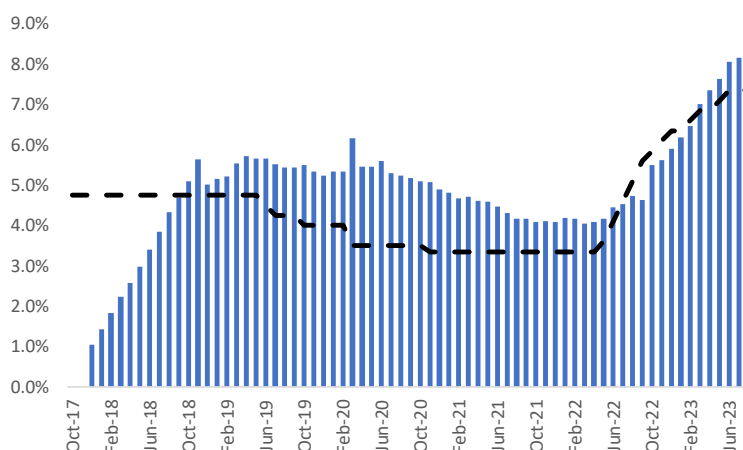
The portfolio is exposed to predominantly floating rate loans and therefore the distributions will ebb and flow with movements in interest rates. The increasing interest rate environment has seen an increased distribution amount as the Trust has realised increased interest income from the portfolio of loans.

### Rolling 12-month Distributions



The Trust has consistently delivered a yield above the target distribution yield of RBA Cash Rate + 3.25% p.a. (net of fees and expenses). The below chart shows the trailing 12-month distribution yield of the Trust since listing. In the initial period the distributions were ramping up and since this time the Trust has delivered a distribution yield above the target yield with a slight lag in the trailing distribution yield during the interest rate rises as the rises flow through to the loans in the portfolio. The distribution yield was elevated in 2020 due to the discount that the Trust was trading throughout the year.

### Trailing 12-month Distribution Yield

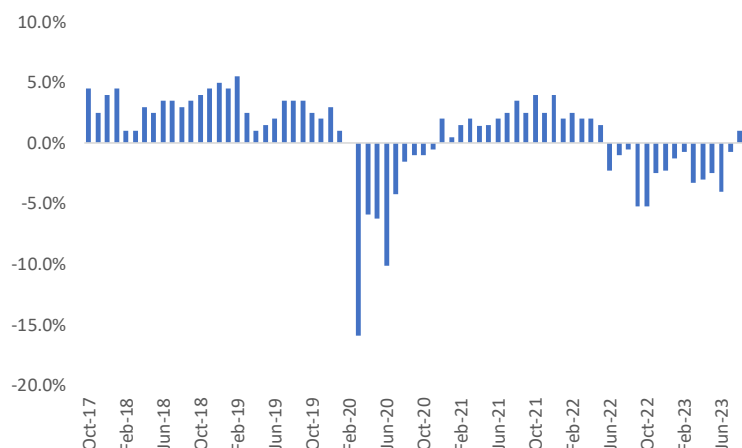


## Premium/Discount

The Trust has traded within a relatively tight band around the NAV for the most part with the exception being the dislocation that occurred during the COVID-19 market declines. The Trust tends to trade at a discount as the market gets nervous regarding the economic outlook with the market seemingly preempting potential defaults, however the NAV has remained steadfast since listing with no capital impairments in the portfolio to date. In recent months the Trust has been trading at a slight premium as investors seek alternative investments given uncertainty in equity markets and the attractive yield offered from private credit in the current interest rate environment.

In July 2020, the Manager established an unlisted version of MXT, the Metrics Direct Income Fund (MDIF). MDIF has the ability to invest in MXT units and was established in part as a discount management mechanism for MXT.

## Historical Premium/Discount (month-end)



Source: ASX, Iress, IIR

## PEER COMPARISON

The below provides a comparison of the key features and performance of the fixed income LITs on the domestic market. With Partners Group Global Income Fund (ASX: PGG) delisting in November 2023, there remains 7 fixed income LITs on the ASX, all of which provide a different investment offering to investors. We note Neuberger Berman Global Income Trust (ASX: NBI) has announced its intention to delist with approval being sought by the ASX and unitholders.

MXT is the largest fixed income LIT on the ASX and has the longest track record with MXT being one of only two fixed income LITs with a track record of more than five years. From a risk perspective, MXT is considered at the lower-end of the risk spectrum when compared to the peer group which is reflected in the target distribution, which is at the low-end of the scale compared to its peers.

ASX Fixed Income LITs						
LIT Name	ASX Ticker	Market Cap (\$m) *	Underlying Investments	Credit Quality	Distribution Frequency	Target Distribution (p.a)
MCP Master Income Trust	MXT	\$1,783.08	Corporate Loans	Investment Grade & Sub-Investment Grade	Monthly	RBA Cash Rate + 3.25%
KKR Credit Income Fund	KKC	\$657.97	Corporate High Yield Bonds, traded loans and Private Credit	Sub-Investment Grade	Monthly	8.50%**
NB Global Corporate Income Trust	NBI	\$606.26	Corporate High Yield Bonds	Sub-Investment Grade	Monthly	na
Qualitas Real Estate Income Fund	QRI	\$604.73	CRE debt	Senior & Mezz debt	Monthly	RBA Cash Rate + 5.0%-6.5%
MCP Income Opportunities Trust	MOT	\$553.67	Corporate Loans	Sub-Investment Grade	Monthly	7.00%
Gryphon Capital Income Trust	GCI	\$486.32	RMBS & ABS	Investment Grade & Sub-Investment Grade	Monthly	RBA Cash Rate + 3.5%
Perpetual Credit Income Trust	PCI	\$417.01	Diversified	Investment Grade & Sub-Investment Grade	Monthly	RBA Cash Rate + 3.25%

\*As at 30 September 2023.

\*\*Target Yield is determined at the beginning of each financial year and is based on the NAV as at the end of each financial year.

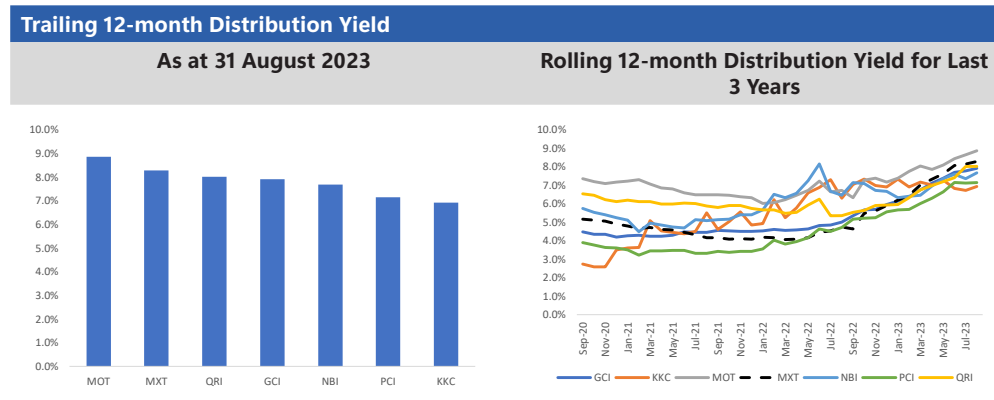
MXT's fees are competitive compared to its peers with investors getting access to wholesale fund style fees. We note that the Manager may receive fees, brokerage and commissions from the investments made by the underlying wholesale funds.

ASX Fixed Income LIT Fee Comparison				
LIT Name	ASX Ticker	Management Fee	Performance Fee	Performance Fee Hurdle
Metrics Master Income Trust	MXT	0.60%	na*	na*
KKR Credit Income Fund	KKC	0.90%	5.13%	RBA Cash Rate +4% p.a subject to High Water Mark
NB Global Corporate Income Trust	NBI	0.85%	na	na
Qualitas Real Estate Income Fund	QRI	1.54%	20.50%	8.0% p.a
MCP Income Opportunities Trust	MOT	1.03%	15.38%	RBA Cash Rate +6% p.a
Gryphon Capital Income Trust	GCI	0.72%	na	na
Perpetual Credit Income Trust	PCI	0.72%	na	na

\*SPDF II and REDF are eligible for performance fees of 15% of the outperformance of the target returns for the respective funds.

Fixed income products are by their nature focused on providing a regular income stream to investors with some products offering the opportunity for capital appreciation depending on the underlying investment. The below chart shows the trailing 12-month distribution yield for the LITs in the peer group. As at 31 August 2023, MOT and MXT provided the highest trailing 12-month distribution yield of the peer group with unitholders benefiting from the predominantly floating interest rate exposure. Some of the other direct loan vehicles have lagged due to the exposure to fixed rate loans with the transition to floating rate loans taking time. We also note that NBI's distribution yield is not solely representative of the income from the portfolio with the distributions including a capital return component.

Over the three years to 31 August 2023, the trailing distribution yields have typically increased for LITs in the peer group, with those predominantly exposed to floating rate loans benefiting the most from the inflationary environment. The distribution yield is calculated using the market price of the LICs and therefore the distribution yield is impacted by the discount or premium at which the vehicles trade.



Source: ASX, Iress, IIR

MXT has delivered strong risk-adjusted returns when compared to the peer group with the NAV remaining largely stable since inception resulting in low levels of capital volatility. Those LITs that invest in loans that are not publicly traded have had lower levels of NAV volatility than those LITs that invest in publicly traded fixed income securities. NBI and KKC have experienced higher levels of NAV volatility since listing due to the movements in the bond prices in the increasing interest rate environment. Particularly NBI, which is focused on global high yield bonds which predominantly have fixed interest rates.

NAV Risk & Returns (as at 31 August 2023)							
	MXT	KKC	NBI	QRI	MOT	GCI	PCI
<b>Total Cumulative Returns</b>							
1 year	8.7%	10.8%	3.8%	8.3%	9.4%	8.1%	7.8%
3 year (p.a.)	6.0%	6.3%	-0.4%	6.6%	9.7%	6.1%	5.3%
5 year (p.a.)	5.8%	na	na	na	na	5.7%	na
<b>Standard Deviation</b>							
1 year	0.9%	5.7%	8.3%	0.3%	1.1%	0.3%	1.2%
3 year (p.a.)	0.8%	5.5%	8.5%	0.7%	2.4%	0.8%	1.5%
5 year (p.a.)	0.7%	na	na	na	na	0.9%	na

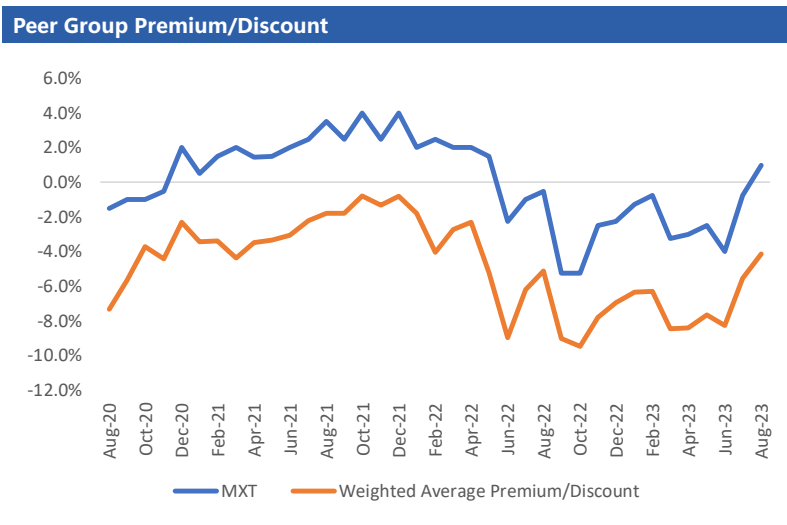
There has been high levels of volatility in the market price of the LITs compared to the NAVs with the LITs trading on the secondary market. This volatility has provided opportunities for investors to acquire positions at a discount to NAV, providing some additional capital returns for those that vehicles where the discount has narrowed.

Unitholder Risk & Returns (as at 31 August 2023)							
	MXT	KKC	NBI	QRI	MOT	GCI	PCI
<b>Total Cumulative Returns</b>							
1 year	<b>10.6%</b>	9.9%	2.9%	16.2%	7.7%	7.8%	13.3%
3 year (p.a.)	<b>6.9%</b>	8.0%	-0.4%	9.1%	11.6%	7.5%	6.5%
5 year (p.a.)	<b>5.7%</b>	na	na	na	na	5.6%	na
<b>Standard Deviation</b>							
1 year	<b>8.4%</b>	16.1%	14.7%	8.5%	5.0%	6.4%	10.5%
3 year (p.a.)	<b>6.0%</b>	16.1%	15.8%	9.0%	11.0%	5.6%	9.5%
5 year (p.a.)	<b>10.8%</b>	na	na	na	na	10.8%	na

### Premium/Discount

The below chart shows the premium/discount of MXT to the NAV over the three years to 31 August 2023 compared to the weighted average premium/discount of the fixed income LITs. MXT has traded in a tight band around the NAV with MXT trading at a reduced discount to the peer group as a whole. The LITs that invest in publicly traded fixed income securities and that have experienced high levels of NAV volatility have typically traded at expanded discounts. The discounts at which some of the vehicles have traded has resulted in a restructure of some vehicles.

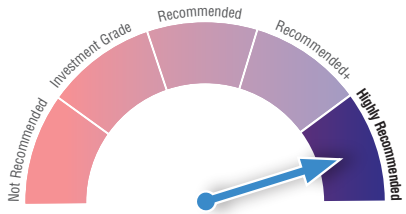
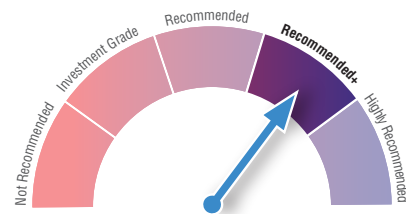
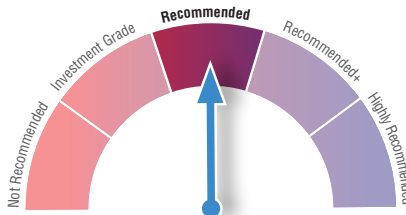
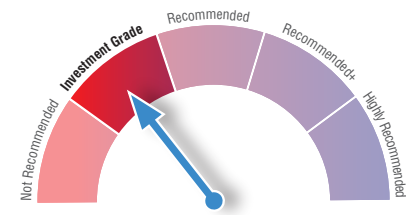
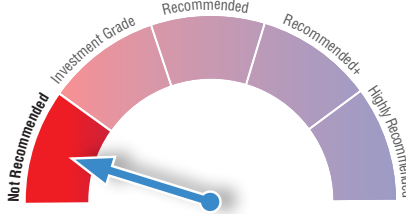
While there have been periods of dislocation between the market price and the NAV for MXT, which have typically been driven by concerns about the macroeconomic environment, the stable NAV has resulted in the discount narrowing back to NAV with the Trust trading at small premiums at times.



## APPENDIX A – RATINGS PROCESS

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

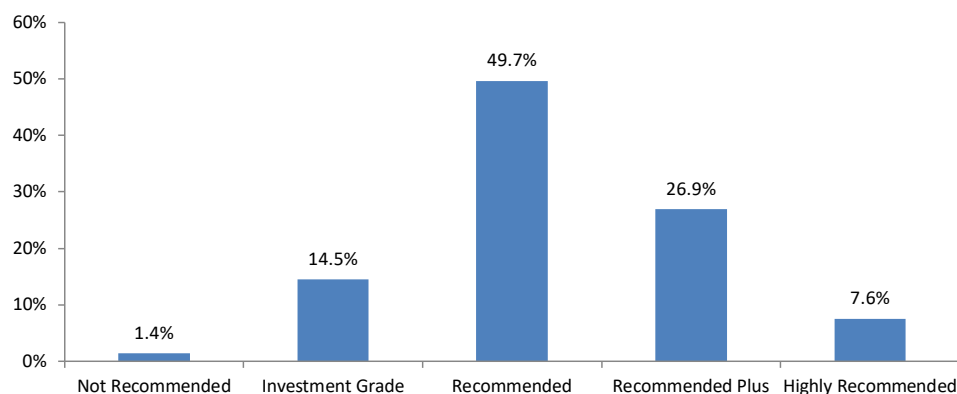
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction;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

LMI Ratings	SCORE
Highly Recommended	83 and above
 <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>	
Recommended +	79–83
 <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>	
Recommended	70–79
 <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>	
Investment Grade	60–70
 <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>	
Not Recommended	<60
 <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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