

# MCP Master Income Trust (MXT)

Date: 26 June 2020



## Investment Rating Report

Investment Rating: **SUPERIOR**

Product Complexity: **BLUE - Relatively Simple Product**

### Fund Details

**Investment Manager:**

Metrics Credit Partners Pty Ltd

**Investment Structure:** Listed Australian Unit Trust

**Wholesale/Retail:** ASX listed – Wholesale & Retail

**Category:** Australian Credit

**Investment Style:** Diversified Australian private corporate credit

**Inception:** 9 October 2017

**Management Fee:** 0.61%.

**Performance Fee:** May be payable by sub funds, or waived if target return not achieved.

**Responsible Manager/Entity:** The Trust Company (RE Services) Ltd

**Investment Objective**

The objective of the Trust is to generate monthly cash income (minimum target rate is RBA Cash plus 3.25% p.a. net of fees), low risk of capital loss and portfolio diversification by actively managing a well-diversified portfolio of Australian corporate loans.

### Review Summary

The MCP Master Income Trust (MXT or the Trust) is an ASX listed investment trust investing in the Australian corporate loan market. The characteristics of the investment are very low capital volatility, regular monthly income flow, and a significant return margin compared with cash and short-term cash securities.

The experienced management team at Metrics Credit Partners has grown its capability steadily, increasing team size, fund size, and diversification of the funds underlying MXT. The market capitalisation of MXT has grown from \$537m (Oct 2017) to \$1.28billion (May 2020) and the Trust has outperformed its target income distributions.

This is an attractive investment on a risk-return basis offering well-managed, well-diversified investment in a sub-asset class that would otherwise be difficult to access for non-bank investors.

As the investments of MXT are untraded, the liquidity of the Trust may be affected by the performance of the underlying loans. In addition, ASX listed MXT may, at any time, trade above or below the net asset value of the underlying securities.

### Investment Rating & Product Complexity Indicator

A SUPERIOR rating indicates the highest level of confidence that the Trust can deliver a risk-adjusted return in line with its investment objectives. The Investment Manager support for this strategy is very experienced and well resourced, with a solid track record.

Designation as a Relatively Simple Product indicates that the Investment Manager will seek to outperform their chosen market sector, in this case the Australian corporate loan market. The investment, equity funded corporate loans, currently has no core leverage.

The strategies used to outperform, while requiring a depth of market experience and due diligence, are completely compatible with normal market practice. This includes the potential conversion of debt to equity in a restructuring, where the strategy is designed to limit capital loss/preserve investor capital.

### Performance & Return to May 2020

%	1mth	1yr	Inception (%pa)
<b>Net Return</b>	0.39	5.09	5.42
<b>RBA Cash Rate</b>	0.02	0.75	1.22
<b>Distribution</b>	0.39	5.25	5.41
<b>Spread to RBA</b>	0.38	4.51	4.19

Source: Metrics (assumes participation in re-investment plan)

Price / NAV (share)	\$1.88 / \$2.00
Market Cap / NAV	\$1.20b / \$1.28b

Source: Metrics

## Fund Details

<b>Fund Name</b>	<b>MCP Master Income Trust (MXT)</b>
<b>Dominant Strategy</b>	Income generation through diversified investment in Australian corporate credit
<b>Investment Structure</b>	Listed Australian unit trust
<b>Responsible Entity</b>	The Trust Company (RE Services) Ltd; ACN 003 278 831, AFSL 235150
<b>Investment Manager</b>	Metrics Credit Partners Pty Ltd; ACN 150 646 996, AFSL 416146
<b>Custodian</b>	Perpetual Corporate Trust Ltd; ACN 000 341 533, AFSL 236643
<b>Administrator &amp; Unit Registrar</b>	MCH Fund Administration Services Pty Ltd ACN 636 286 970. The Administrator is a wholly owned subsidiary of Metrics Credit Holdings Pty Ltd.
<b>KEY FEATURES</b>	<b>DESCRIPTION</b>
<b>Inception</b>	MXT was listed on the ASX 9 October 2017
<b>Geographic Mandate</b>	Australia
<b>Market Cap</b>	A\$ 1.20b as at end May 2020
<b>Net Asset Value</b>	A\$ 1.28b as at end May 2020
<b>NAV Pricing</b>	Daily
<b>Asset Class</b>	Fixed Interest
<b>Asset Sector</b>	Australian corporate loans and debt
<b>Investment Management Fee</b>	Nil, the Manager receives fees from the Wholesale Funds of 0.21% p.a.
<b>Performance Fee</b>	May be payable by sub-wholesale funds, waived if target return of the Trust not achieved.
<b>Offer Establishment Costs</b>	Currently 0.29% p.a. (see Fee section under 'Investor Equalisation Expense')
<b>Responsible Entity Fee</b>	0.025%
<b>Distributions</b>	Monthly
<b>PRIMARY CONTACT</b>	
<b>Email Address</b>	invest@metrics.com.au
<b>Telephone Number</b>	1300 010 311
<b>Address</b>	2 Ridge Street, North Sydney
<b>Website</b>	www.metrics.com.au

## MCP Master Income Trust (MXT)

### Investment Profile

#### HISTORY/BACKGROUND

Sydney-based Metrics Credit Partners (Metrics), the Investment Manager of the MCP Master Income Trust, was formed in 2011 as a specialist corporate lending manager. Metrics is 100% owned by Metrics Credit Holdings Pty Ltd, 65% of which is controlled by the four managing partners; Justin Hynes, Andrew Lockhart, Graham McNamara, and Andrew Tremain. The 35% equity interest in Metrics that was originally owned by NAB, was bought back and the remaining 35% equity in Metrics Credit Holdings Pty Ltd was acquired Pinnacle Investment Management in August 2018.

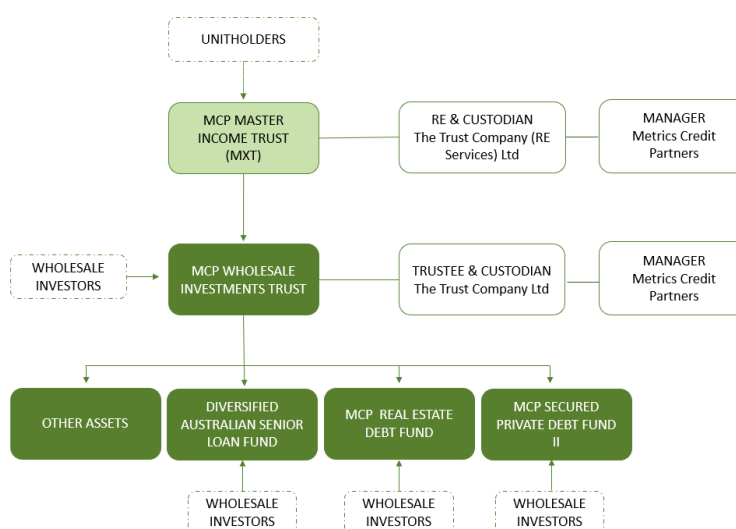
Prior to forming Metrics, the partners collectively had extensive experience within banking environments in loan origination, corporate finance, credit analysis, credit portfolio management, leveraged and acquisition finance, syndicated loan transactions, distressed assets, and distribution.

Since inception, Metrics has launched several funds across the credit spectrum. Additionally, Metrics has provided different structures for accessing the funds.

Metrics currently manages in excess of AUD 5 billion (end of May 2020) in Australian private debt. Investors in the wholesale funds comprise superannuation funds (35%), fund of funds (33%), and a mix of insurance companies, high net worth individuals, family offices, charities, and two ASX-listed investment trusts, MXT and the MCP Income Opportunities Trust (ASX: MOT).

#### TRUST STRUCTURE

The ASX listed entity, the MCP Master Income Trust (MXT), was formed specifically for the purposes of raising capital through an IPO and providing increased liquidity to investors. The MCP Master Income Trust is a registered managed investment scheme that invests 100% into the MCP Wholesale Investments Trust, which in turn invests in several underlying MCP managed wholesale corporate loan funds.



The MCP Wholesale Investment Trust invests approximately 60-70% into the Metrics Credit Partners Diversified Australian Senior Loan Fund (DASLF), 20-30% into the MCP Secured Private Debt Fund II (SPDF II) and 10-20% into the MCP Real Estate Debt Fund (REDF). The three sub-trusts, DASLF, SPDF II and REDF are each open-ended, unlisted, wholesale trusts offering investors direct access to the various lending strategies.

#### OBJECTIVE

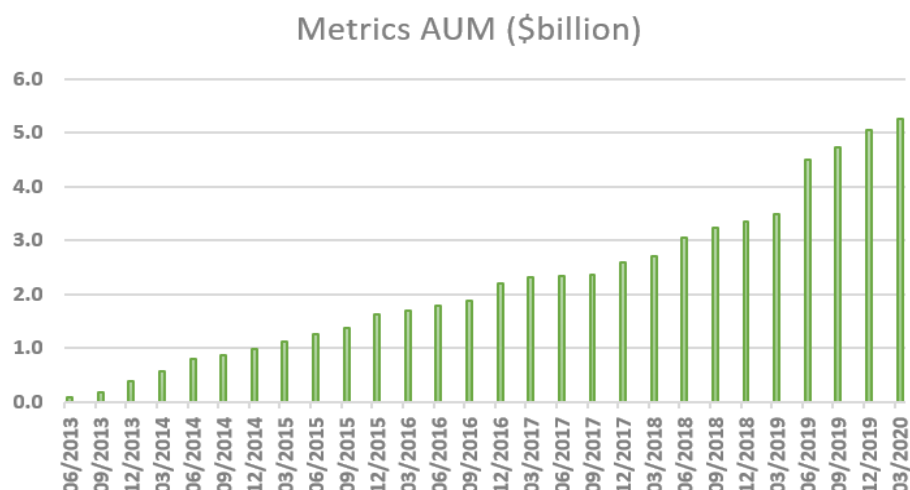
The objectives of the Trust are to generate monthly cash income (minimum target rate is RBA Cash Rate plus 3.25% p.a. net of fees), maintain a low risk of capital loss, and achieve portfolio diversification by actively managing portfolios and participating in Australia's bank-dominated corporate bi-lateral and syndicated loan markets. The Manager seeks to implement active strategies designed to balance delivery of the target return, while seeking to preserve investor capital, from an actively managed loan portfolio, with a low risk of capital loss. The Manager seeks to achieve this objective by investing in a well-diversified directly originated portfolio of loans to Australian companies. In Australia, investment in this asset sector is dominated by banks. The Manager seeks to implement active strategies to achieve these objectives.

## MCP Master Income Trust (MXT)

### FUNDS UNDER MANAGEMENT

The market capitalisation of the MCP Master Income Trust (MXT) was \$1.20 billion, with a Net Asset Value of \$1.28 billion as at end May 2020. The fund manager, Metrics, has Assets under Management in excess of AUD 5 billion as at May 2020, all of which is equity funded, across 8 wholesale funds.

Growth in Assets Under Management (Metrics)



### FEES

#### Management Fees

MXT itself does not charge ongoing management fees. However, as it invests in the MCP Wholesale Investments Trust, which in turn invests in other wholesale funds, management fees are incurred for the underlying wholesale funds. The fees payable on this investment are effectively wholesale management fees, with a sliding scale for which MXT investors have benefitted from the growth in net asset value.

The main sub-trusts are:

	Management Fee	Performance Fee	Allocation
Metrics Credit Partners Diversified Australian Senior Loan Fund (sliding scale based on size of unit holding)	<ul style="list-style-type: none"> <li>&lt; A\$100m 0.30%</li> <li>A\$100–200m 0.25%</li> <li>A\$200–500m 0.20%</li> <li>&gt; A\$500m 0.175%</li> </ul>	nil	60%
MCP Real Estate Debt Fund	0.20%	15% above target BBSW +500bps p.a. capped at total IMF of 0.75%	20%
MCP Secured Private Debt Fund II	0.20%	15% above target BBSW +400bps p.a. capped at total IMF of 0.75%	20%

### Costs to Unitholders

The costs are comprised of:

- Management fee (from sub-trusts);
- Responsible Entity fee;
- Expenses and Manager Investment Equalisation Expense (IEE);
- Indirect costs; and
- Performance Fees.

## MCP Master Income Trust (MXT)

	Current
Management and Responsible Entity fees	0.21% p.a.
Expenses and Manager Investor Equalisation Expense (IEE) <sup>(1)</sup>	0.29% p.a.
Indirect Costs	0.11% p.a.
<b>Management Costs</b>	<b>0.61% p.a.</b>
Estimated Performance Fees (contingent)	0.09% p.a.
<b>Total Forecast Management Costs <sup>(2)</sup></b>	<b>0.70% p.a.</b>

The current fees above are estimated for a net asset value of ~\$1.28b.

(1) The Investor Equalisation Expense (IEE) – Expenses relating to the establishment of the Trust were met through a loan, in order to avoid penalising establishment unitholders. The costs associated with this loan are spread across the term of the Investment Management Agreement (10 years). When the loan is repaid, the expense recover via the IEE terminates.

(2) Total Forecast Management Costs are an estimate only and will vary on factors such as performance fees and NAV.

### INVESTMENT UNIVERSE

The Trust invests in a portfolio of direct credit; that is untraded corporate loans which broadly reflect activity in Australia's corporate loan market, diversified by borrower, industry and credit quality. Borrowers will be Australian domiciled (>80%), while the loans may be secured, unsecured, senior or sub-ordinated, investment grade or sub-investment grade.

Although the investments will typically be direct loans to Australian companies, the investment mandate of the sub-trusts gives the Trust the ability to use other financial instruments in certain situations. These are listed in the table below. In a workout, the Trust may hold options, equity, and warrants, which carry a greater risk of loss than debt securities should the borrower become insolvent.

### Other Allowable Investments

The mandates of the funds in which MXT invests also allow the Trust to acquire the following physical and derivative instruments:

Instrument	How the instrument might be used/acquired
Cash and commercial paper	– part of portfolio cash management
Revolving line of credit	– while the loans to counterparties are not leveraged, Metrics has access to a line of credit to assist with cash flow management
Bonds, convertible notes and hybrids	– to assist with portfolio diversification
Options, equity, and warrants	– risk management – where required in a workout scenario
Credit default swaps	– sold where the underlying asset is held by an investment grade counterparty, or – bought as part of risk management strategies
Credit linked notes	– to assist with portfolio diversification
Foreign exchange and interest rate swaps or options	– risk management

While the derivatives above are allowed in the sub-trust mandates, Metrics has not entered into any derivative transaction since inception and is not expected to enter into such transactions based on current portfolio settings.

## MCP Master Income Trust (MXT)

### Comparison of Australian Bonds vs Australian Floating Rate Direct Credit

MXT is differentiated from other Australian fixed interest funds, both listed and unlisted, through its investment in direct corporate lending rather than publicly traded bonds and cash securities. The corporate bond market is not well developed in Australia, due to the size of the market, cost of issuance for corporates, and uncertainty in the amount that can be raised through a bond issue. While the corporate loan market has historically been dominated by the four major Australian banks, regulatory restrictions over the last few years have provided greater opportunities for non-bank lenders. The size of the untraded corporate loan market in Australia is estimated to be approximately \$1 trillion.

MXT, being 100% equity funded, is well placed to compete against banks for direct corporate lending deal flow and is more agile in the selection of the borrowers it will lend to. Deal flow has increased significantly in the period since the launch of the fund, with Metrics now receiving a greater number of deal opportunities directly from borrowers and from banks. In addition, there has been an increase in invitations to participate in syndicated loans.

For investors, the two sub-asset classes have the following respective advantages:

Corporate Bonds	Direct Corporate Credit
<ul style="list-style-type: none"> <li>▪ Liquidity <sup>(1)</sup></li> <li>▪ Price Transparency <sup>(2)</sup></li> <li>▪ Potential capital gains</li> </ul>	<ul style="list-style-type: none"> <li>▪ Diversification – better spread of industry sectors and borrowers.</li> <li>▪ Lower price volatility – direct credit is normally priced relatively close to par.</li> <li>▪ Capital recovery in the event of default can be significantly enhanced through: <ul style="list-style-type: none"> <li>– specific debt covenants;</li> <li>– seniority;</li> <li>– collateral; and</li> <li>– experience of the lender in workout and recovery situations.</li> </ul> </li> <li>▪ Potentially higher margins over floating rate due to illiquidity, complexity of loan offer, and reduced accessibility of debt providers.</li> </ul>

- (1) **Liquidity** – The structure of MXT, a listed trust, gives investors significantly enhanced liquidity for the investment in direct corporate credit.
- (2) **Price transparency** – MXT publishes Net Asset Value (NAV) on a daily basis. The process for calculation of NAV is detailed in the “Investment Process” section of this report.

### Investment Objective

To provide **monthly cash income** with low risk of capital loss and portfolio diversification by actively managing diversified loan portfolios and participating in Australia’s bank-dominated corporate loan market. The Manager seeks to implement active strategies designed to balance delivery of the target return, while seeking to preserve investor capital.

### Investment Strategy

The Trust’s investment strategy is to create a diversified exposure to Australian corporate loans, generally reflecting activity in the corporate loan market and with the resultant diversity by borrower, industry and credit quality. Through active portfolio risk management, Metrics will seek to preserve investor capital.

The strategic objectives in structuring the wholesale fund-of-fund, MCP Wholesale Investments Trust, and listed vehicle, MXT, include:

- Increased scale of portfolio(s) to provide meaningful market/investor liquidity.
- Use of scale to offer retail investors a wholesale fee structure.
- Reduction of borrower risk. Currently more than 150 loans, with no more than 5% of trust assets going to a single borrower. The Trust does not intend to invest in the banking sector.
- Lower capital and income volatility.
- Enhanced liquidity, enabling portfolio adjustment.
- Leveraging off the increase in access to deal flow and industry reputation by increasing market size in this sector.

## Investment Process

The process undergone by the investment team can be classified into the following areas:

- Portfolio construction
- Asset origination
- Due diligence
- Investment decisions
- Ongoing portfolio risk management

The Investment Committee, comprising the four Managing Partners, meets daily to oversee all aspects of the process. It is responsible for investment decisions, portfolio and industry monitoring and ensuring compliance with mandates.

Portfolio construction	Portfolio construction considers the relevant target portfolio settings, and Metrics' view on the broader economy, relative industry value and preferred risk setting. Potential new loans are assessed for the impact on the portfolio. Considerations include the type of investment, the target fund returns, the desired mix of tenor to maturity, aggregated exposure by industry group, credit quality, and portfolio liquidity.
Asset origination	Metrics maintains a transaction/investment pipeline, monitoring opportunities as well as the fund's maturity profiles. The time from identification of a potential transaction to successful conclusion can be anything from three months to 18 months. Once identified, a marketing strategy is devised for a target investment, well ahead of the borrower coming to market. As the potential for acquiring a loan asset becomes nearer, more detailed analysis is conducted. The secondary market is also constantly monitored for asset purchase opportunities. The three main sources of pipeline assets are via direct origination, the syndicated loan market and the secondary loan market.
Due diligence	<p>Metrics estimates that approximately 1 in 10 of the loan opportunities that it identifies proceed to full due diligence. Investment papers are prepared for consideration of new investments. These papers are rigorous and detailed. The key focus is the identification of risks and an analysis of how such risks are to be mitigated.</p> <p>External reviews and due diligence from acceptable independent consultants are also required by Metrics, at the borrower's cost. These cover risk areas such as tax and accounting, financial, technical, commercial, and legal issues relevant to the transaction.</p> <p>Restricted industries: Metrics will not invest where a business may impact reputational risk, including companies that are connected with coal, tar sands, pornography, tobacco, violation of labour laws, tax avoidance schemes, political organisations or weapons manufacture and distribution.</p>
Investment decisions	<p>Using the detailed due diligence/credit analysis investment papers, consideration is given to:</p> <ul style="list-style-type: none"> <li>■ portfolio limits – credit, maturity, senior debt minimums etc.</li> <li>■ portfolio liquidity</li> <li>■ industry limits including restricted industries</li> <li>■ foreign currency limits</li> <li>■ individual and aggregated exposure limits</li> </ul>
Ongoing portfolio risk management	<p>Loan assets and industries are continuously monitored to ensure the ongoing robustness of portfolio assets.</p> <p>The Metrics team's extensive history in loan portfolio risk management allows them work with borrowers to seek the best investor outcomes to mitigate the likelihood of default and to recover capital in the event of default.</p>



## MCP Master Income Trust (MXT)

### Asset Pricing

Metrics, Perpetual, and the external valuation consultant, a top 4 tier one international accounting firm, closely monitor the Australian credit market in calculating the Net Asset Value (NAV) of the Trust on a daily/monthly basis.

The primary valuation risk lies in either negative credit migration, i.e. an increased likelihood of default through either change in the borrower's ability to service the loan or in industry/sector macro-economic factors, and sector credit margin changes.

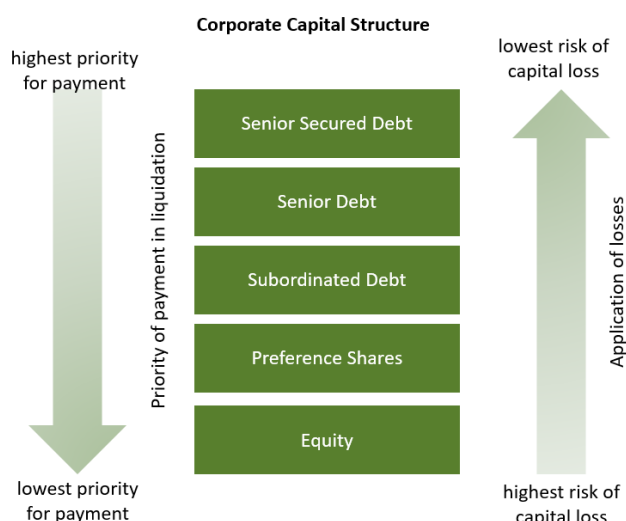
Potential reductions in loan valuation can be reduced substantially on loans that are structured effectively using loan covenants, tenor and seniority. Note that in Australia there is a high level of lender protection due to the regulatory and legal framework.

Taking the valuation factors of the portfolio of loans that MXT has exposure to – buy-to-hold, good use of covenants, seniority, and security together with the regulatory framework and the risk targeted due diligence by Metrics – the indication is that there will be a high level of capital stability, with the Trust assets being priced at close to par.

### Protection of Corporate Capital Structure

It is important to compare the risk of capital loss from a corporate debt portfolio with the potential loss from investing in an equity portfolio. In Australia, corporate loans are normally ranked as senior secured, senior unsecured, or subordinate/mezzanine debt. In the event of a corporate default scenario, all debt must be paid before there is any return to equity holders.

This is a simple example of the relative risk of each asset class:



### Portfolio Construction

The MCP Master Income Trust, via the MCP Wholesale Investments Trust, invests in three underlying wholesale trusts in varying proportions at the discretion of the Manager. The three funds, key characteristics, and expected investment in each are:

Fund	Key Objectives	Allocation Range
Metrics Credit Partners Diversified Australian Senior Loan Fund	<ul style="list-style-type: none"> <li>- target average credit BBB-/BB+</li> <li>- &gt;90% senior ranking loans</li> <li>- &gt;80% Australia domiciled</li> <li>- Indicative return 90day BBSW plus margin of 2.75% - 3.25% p.a. through the cycle</li> </ul>	60-70%
MCP Real Estate Debt Fund	<ul style="list-style-type: none"> <li>- &gt;50% senior ranking loans</li> <li>- Minimum target return 90day BBSW plus 5% p.a.</li> <li>- Diversified by sector and geography</li> </ul>	10-20%
MCP Secured Private Debt Fund II	<ul style="list-style-type: none"> <li>- 100% Australian domicile</li> <li>- Minimum target return 90day BBSW plus 4% p.a.</li> <li>- predominantly sub-investment grade assets</li> </ul>	20-30%

The three underlying portfolios each offer a diverse investment mix, with the differentiated credit, tenor and sector exposures giving the Investment Committee good flexibility in portfolio construction.



## MCP Master Income Trust (MXT)

### Investment Team

The depth of experience of the investment team, particularly the Managing Partners, is a key differentiator for this investment. Direct corporate credit is a private and confidential market and the skills needed to succeed differ from the skills needed for the management of a publicly traded bond portfolio. Depth of experience is essential to good risk management and directly affects the ability to achieve a well-diversified portfolio with a low risk of capital loss.

#### Investment Team Structure

### Managing Partners Investment Committee & Executive Management Committee

**Justin  
Hynes**

**Andrew  
Lockhart**

**Graham  
McNamara**

**Andrew  
Tremain**

#### Managing Partners are supported by:

- Investment Directors (16)
- Investment Associates (12)
- Investment Analysts (5)

- Legal (3)
- External Relations (4)
- Loan Administration (4)
- Accounting (4)
- Corporate Services (4)

#### Key Responsibilities of investment Team:

##### Investment Committee

- Portfolio construction
- Investment decisions
- Credit rating analysis
- Investor monitoring
- Borrower engagement
- Cash flow management
- ESG compliance
- Capital budgets

##### Asset Origination

- Credit risk due diligence
- Investment Submission
- Cash flow monitoring
- Credit Rating analysis
- Legal documentation
- Transaction execution
- ESG compliance

##### Portfolio Risk Management

- Mandate compliance
- Ongoing credit monitoring
- Ongoing portfolio management
- Ongoing credit analysis
- Stress test analysis
- Investor reporting
- ESG compliance

As at the date of this report Metrics has increased its employee numbers to 56. Metrics is continuing to recruit as Funds Under Management (FUM) increases.

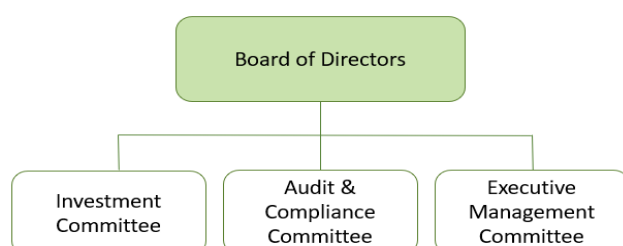
Metrics typically uses a deal team structure for potential transactions. This might comprise two Investment Directors, a Managing Partner, an Investment Associate, an Investment Analyst, and members of the Legal team.

## MCP Master Income Trust (MXT)

### Key Experience – Managing Partners / Investment Committee

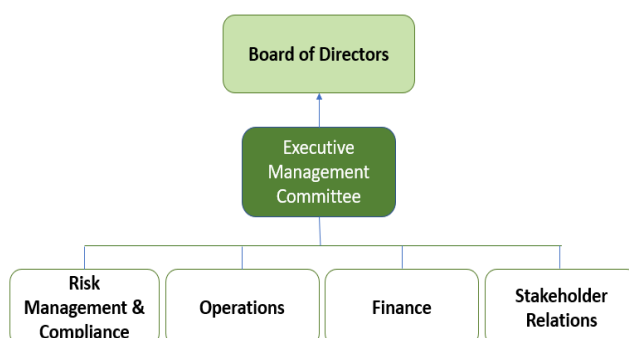
Andrew Lockhart	<ul style="list-style-type: none"> <li>Key responsibility is Metrics Finance and Stakeholder Relations activities.</li> <li>Andrew has approximately 33 years' banking, funds management, and financial markets experience.</li> <li>Andrew's specialist areas have included origination and portfolio risk management of large, diversified and complex loan portfolios, leverage and acquisition finance, corporate and institutional lending and corporate and workout corporate restructuring.</li> </ul>
Justin Hynes	<ul style="list-style-type: none"> <li>Key responsibility is Metrics' operational activities.</li> <li>Justin has approximately 23 years' financial market experience.</li> <li>Justin's specialist areas have included leverage and acquisition finance, corporate finance, loan origination, structuring and portfolio management, and corporate workout and restructuring.</li> </ul>
Graham McNamara	<ul style="list-style-type: none"> <li>Key responsibility is Metrics' Risk Management and Compliance function.</li> <li>Graham has approximately 40 years' experience in banking, funds management, and financial markets.</li> <li>Graham's specialist areas include portfolio risk management, debt origination and distribution, agency management corporate workout and recovery, and corporate banking. He has established the loan syndications and agency business at major Australian banks.</li> <li>Graham served as a director of the Asia Pacific Loan Market Association and was the founding chairman of the Association's Australian branch.</li> </ul>
Andrew Tremain	<ul style="list-style-type: none"> <li>Andrew has approximately 33 years' Australian, European, and Asian banking experience.</li> <li>Andrew's specialist areas include corporate, structured, leverage and acquisition finance, loan syndications, portfolio management, corporate workout and recovery, and relationship management.</li> </ul>

### Business Management



The Board comprises the Managing Partners as four directors, two from Pinnacle, and an independent Non-Executive Chairman.

The Board meets approximately six times a year. The Investment Committee is entirely independent in its decision making.



Metrics has distinct structures in place to separate the investment activities from operational aspects of the business, and all activities of Metrics are subject to Board oversight.

The Executive Committee meets weekly, with the Managing Partners delegated specific business line responsibilities.

The Executive is supported by external resources, organised along functional business lines.

## MCP Master Income Trust (MXT)

### Risk Management

**Metrics:** Metrics has detailed policies and procedures addressing operational risk articulated in its Operational and Investment Policy Manual. These policies and procedures are reviewed and updated on an annual basis and monitored and managed via the Executive Management Committee and the Audit and Compliance Committee.

**Metrics Funds:** Operational risks are identified, modified, and mitigated via RE/trustees fund compliance plans as well as through various policies and procedures MCH Fund Administration and PCTL have in place.

### Performance

The listed fund, MXT, has been subject to some COVID-related market volatility in March 2020 and the total return (listed price plus distributions) is negative on a calendar YTD basis to May 2020. The negative returns from the listed fund were entirely due to a sharp deviation of the listed fund ASX traded price to the net asset value of the underlying wholesale trust. That is, the listed fund MXT is currently trading at a discount to the net asset value of the unlisted MCP Wholesale Investments Trust (Fund of Fund). MXT invests solely into the underlying Wholesale Investments Trust. The discount has reduced significantly over the last 2 months.

As at May 31, 2020, the Trust reported a 1yr net return of 5.09%, with distributions of 5.25%. Net performance since inception is 5.42% p.a. The performance since inception has exceeded the current target return of 4.47% (RBA Cash +3.25%) by 0.95%.

#### Fund Performance as at 31 May 2020

	1mth	1 yr	Inception (annualized)
<b>Net Return (%)</b>	0.39	5.09	5.42
<b>RBA Cash Rate (%)</b>	0.02	0.75	1.22
<b>Distribution (%)</b>	0.39	5.25	5.41
<b>Spread to RBA (%)</b>	0.38	4.51	4.19

Source: Metrics (assumes participation in re-investment plan)

#### MONTHLY RETURNS (% net)

(%)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>2020</b>	0.45	0.41	0.43	0.43	0.39								2.12
<b>2019</b>	0.48	0.47	0.54	0.54	0.52	0.33	0.43	0.43	0.38	0.42	0.42	0.43	5.41
<b>2018</b>	0.38	0.32	0.43	0.38	0.38	0.45	0.50	0.49	0.45	0.49	0.47	0.52	5.40
<b>2017</b>										0.46	0.35	0.41	1.23

Source: Metrics

#### DISTRIBUTIONS

Cents/unit	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>2020</b>	1.05	0.85	0.86	0.89	0.79								4.44
<b>2019</b>	1.08	0.96	1.13	1.00	0.87	0.99	0.77	0.78	0.79	0.88	0.82	0.79	10.86
<b>2018</b>	0.81	0.73	0.81	0.78	0.81	0.93	0.91	0.96	0.79	0.90	1.20	0.89	10.52
<b>2017</b>												2.19	2.19

Source: Metrics

#### TOTAL RETURNS (Calculation of monthly change in unit price plus distributions)

(%)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>2020</b>	(1.42)	(0.57)	(15.07)	12.28	(0.40)								(5.17)
<b>2019</b>	0.06	1.44	(2.28)	(0.96)	0.93	0.99	1.86	0.39	0.39	(0.53)	(0.08)	1.38	3.59
<b>2018</b>	0.89	(2.98)	0.40	2.37	(0.08)	1.44	0.46	0.48	0.39	0.93	1.08	0.92	6.30
<b>2017</b>										5.00	(1.43)	1.58	5.15

Source: Metrics

## MCP Master Income Trust (MXT)

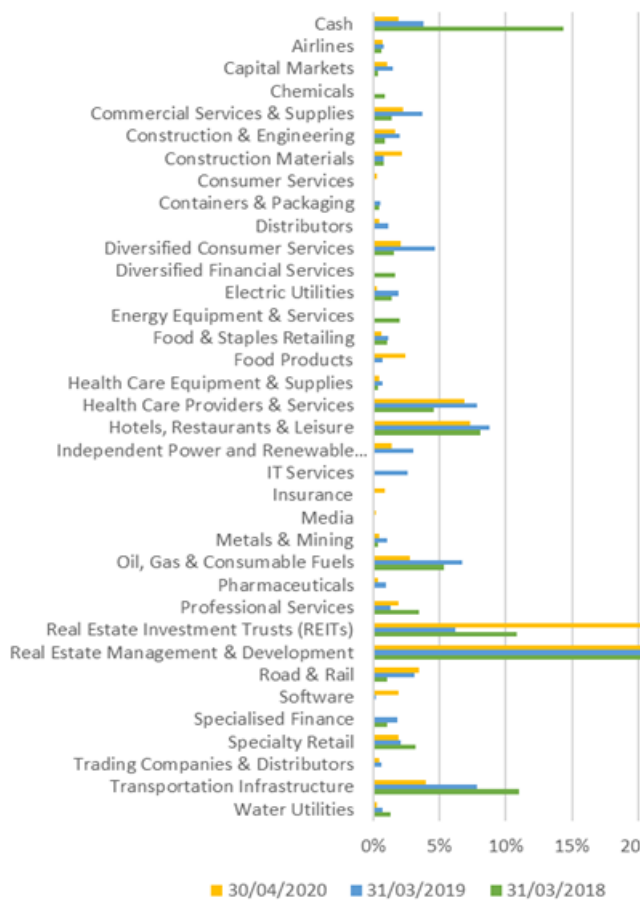
### FUND SETTINGS (as at end May 2020)

Number of individual investments	147
Investment Grade (%)	50%
Interest duration (days)	45
Credit duration (years)	2.5

Source: Metrics

### PORTFOLIO CHARACTERISTICS

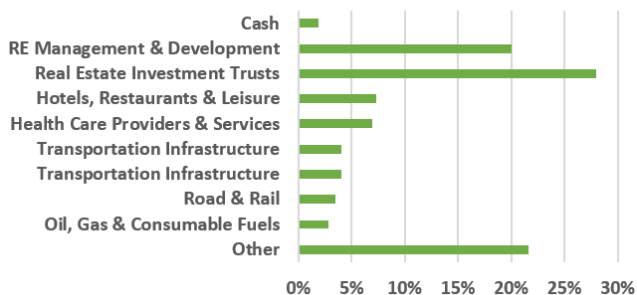
#### Diversification by Industry



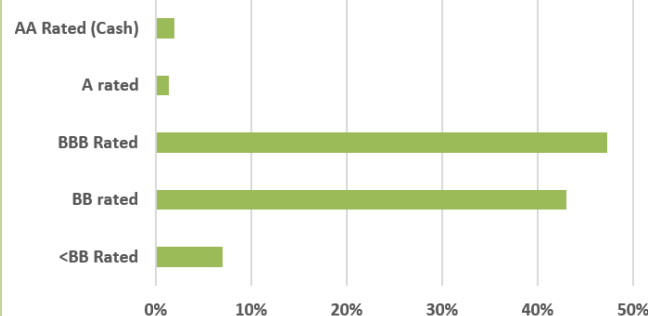
MXT continues to deliver a diversified mix of loans, both with respect to sector and borrowers. The chart to the left shows a wide diversification of sectors, with a growth in the relatively high exposures to Real Estate.

Source: Metrics

#### Sector Spread - May 2020



#### Credit Spread - May 2020



Source: Metrics

## MCP Master Income Trust (MXT)

### MXT FUND INVESTMENTS

#### 1. Metrics Credit Partners Diversified Australian Senior Loan Fund

The Metrics Credit Partners Diversified Australian Senior Loan Fund is the biggest contributor to the ongoing performance of MXT, with a 60% investment. The fund offers investors direct exposure to Australia's corporate loan market by investing in bilateral, club-style and syndicated loans and other debt assets provided to Australian public and private companies and projects. Net income is distributed monthly. The fund seeks to deliver a return of the benchmark (Bank Bills/BBSW 90 days) plus credit margin (+275-325 bps pa net) while adhering to fund parameters. The issuer rating of this Fund was recently upgraded (March 2020) to A- by Standard & Poors.

#### Net Returns (annualised) to end May 2020

	3 month	6 month	1 year	3 year	Since Inception
<b>Portfolio Return</b>	4.6%	4.4%	4.3%	4.7%	4.9%
<b>Excess Returns to:</b>					
<b>90-day BBSW</b>	4.1%	3.8%	3.5%	3.2%	2.9%
<b>RBA Cash Rate</b>	4.2%	3.9%	3.6%	3.4%	3.1%

Source: Metrics

As at 31 May 2020, this Fund has the following characteristics:

- 98% senior debt and 100% Australian assets
- Weighted average credit rating of BBB-
- 117 individual investments
- 59% investment grade

#### 2. MCP Secured Private Debt Fund II

MXT targets an investment of 20% of the portfolio in the MCP Secured Private Debt Fund II. The Fund invests in a portfolio of Australian corporate debt across mid-market corporate borrowers. The fund provides loans to predominantly sub-investment grade mid-market corporate borrowers. Net income is distributed monthly. The fund seeks to deliver the minimum hurdle return of the benchmark (Bank Bills/BBSW 90 days) plus credit margin (+400 bps pa net) while adhering to Fund parameters.

#### Net Returns (annualised) to end May 2020

	3 month	6 month	1 year	3 years	Since Inception
<b>Net Return</b>	7.2%	7.4%	7.1%		8.2%
<b>Excess Returns to:</b>					
<b>90-day BBSW</b>	6.8%	6.7%	6.2%		6.7%
<b>RBA Cash Rate</b>	6.9%	6.8%	6.3%		6.9%

Source: Metrics

As at 31 May 2020, this Fund has the following characteristics:

- 68% senior debt
- 100% Australian assets
- 37 individual investments

#### 3. MCP Real Estate Debt Fund

MXT targets an investment of 20% of the portfolio in the MCP Real Estate Debt Fund. The fund lends to Australian CRE borrowers and projects including office, retail, industrial, residential development and specialised real estate assets (hotels, healthcare, etc). Net income is distributed monthly. The fund seeks to deliver the minimum hurdle return of the benchmark (Bank Bills/BBSW 90 days) plus credit margin (+500 bps pa net) while adhering to Fund parameters.

## MCP Master Income Trust (MXT)

### Net Returns (annualised) to end May 2020

	3 month	6 month	1 year	Since Inception
<b>Net Return</b>	7.0%	7.4%	7.8%	8.2%
<b>Excess Returns to:</b>				
<b>90-day BBSW</b>	6.6%	6.8%	6.9%	6.7%
<b>RBA Cash Rate</b>	6.7%	6.9%	7.0%	7.0%

Source: Metrics

As at 31 May 2020, this Fund has the following characteristics:

- 86% senior debt
- 100% Australian assets
- 42 individual investments

## Transparency & Reporting

Metrics provides both standardised and bespoke reporting to its clients, depending on their individual reporting requirements. Metrics is committed to being transparent. Standardised reporting comprises:

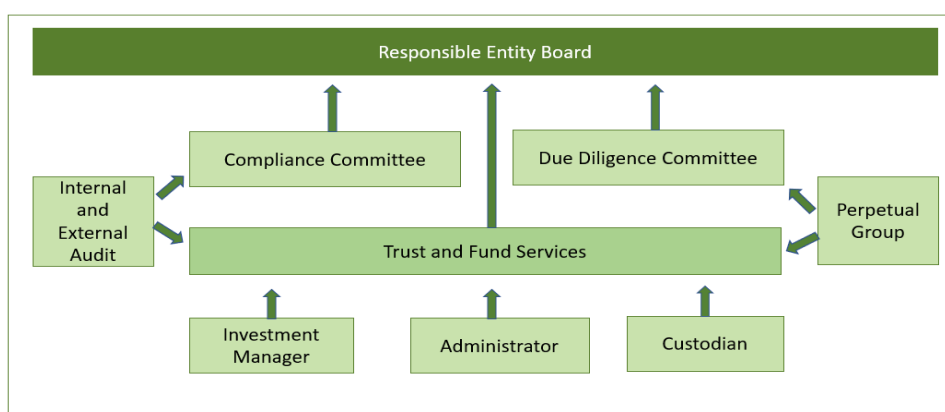
- Unit price published daily and distributed to investors.
- Monthly performance reporting.
- Quarterly performance reporting with commentary.
- Transaction confirmations and monthly holding statements (for wholesale investors in underlying funds).
- Audited annual accounts and regulatory reporting (including income tax and distribution statements).

## Compliance

The MCP Master Income Trust is subject to the governance and compliance structure designed, implemented and monitored by the RE/Trustee. Compliance plans are in place to ensure that:

- duties and obligations as RE/trustees are met;
- key control activities exist to ensure compliance; and
- monitoring activities exist which identify whether controls are operating effectively.

The Trust is subject to both internal and external audit. Metrics is externally audited by KPMG, including an audit of Metrics' adherence to its obligations under its AFS licence. Metrics has a Compliance Committee which reports to the RE/Trustee Board. This Committee comprises one internal member and two external members.



The RE/Trustees Audit & Compliance Committee meets quarterly. The Compliance Plan is audited by PwC.

## MCP Master Income Trust (MXT)

## Third Party &amp; Service Advisors

<b>Fund administrator</b>	MCH Fund Administration Services Pty Ltd
<b>Legal advisor</b>	Minter Ellison
<b>Custodian</b>	Perpetual Corporate Trust Ltd
<b>Auditor</b>	KPMG
<b>Insurance provider</b>	London Australia Underwriting P/L (on behalf of Lloyds of London)
<b>Independent valuation</b>	EY
<b>Distribution services</b>	Pinnacle Investment Management
<b>Firm Accounting</b>	Pitcher Partners
<b>IT network provider</b>	Telstra, cloud-based
<b>Portfolio software</b>	Proprietary systems
<b>Operational Risk Review</b>	Mercer Sentinel
<b>Registry</b>	Automic Group



## MCP Master Income Trust (MXT)

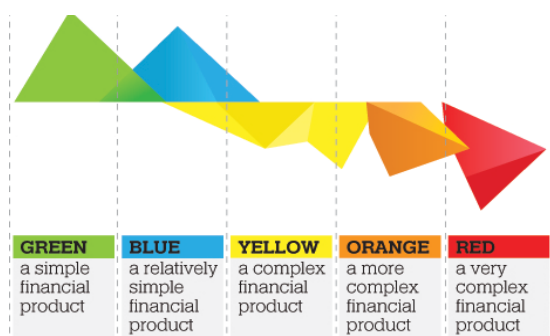
### Investment Rating Scale

The Australia Ratings Analytics' investment rating is an opinion on how well we believe a fund will perform against a range of risks.

Rating	Definition
Superior	Indicates the highest level of confidence that the fund can deliver a risk adjusted return in line with the investment objectives of the fund.
Very Strong	Indicates a very strong conviction that the fund can deliver a risk adjusted return in line with the investment objective of the fund.
Strong	Indicates a strong conviction that the fund can deliver a risk adjusted return in line with the investment objective of the fund.
Competent	Indicates that the fund may deliver a return in line with the funds relevant benchmark.
Weak	Indicates a view that the fund is unlikely to deliver a return in line with the investment objective of the fund and/or meet the returns of its benchmark.

### Product Complexity Indicator

A Product Complexity Indicator (PCI) highlights the complexity of an investment by its terms and conditions' structure and transparency that may affect the investor's return.



### Credit Rating & Product Complexity Methodology

Australia Ratings Analytics' methodology for its investment rating and research can be downloaded from its website.

### Contact details

#### Australia Ratings Analytics

Level 2, 420 Collins Street, Melbourne Vic. 3000

**Telephone:** (03) 8080 6684

**Web:** [www.australiaratings.com](http://www.australiaratings.com)

#### Maggie Callinan, Director

**Email:** [maggie.callinan@australiaratings.com.au](mailto:maggie.callinan@australiaratings.com.au)

### Disclaimer

This report has been prepared by Australia Ratings Analytics, Australian Financial Services Licence no.494552 (Licensee). Except to the extent that any liability under statute cannot be excluded, the Licensee, its employees and authorised representatives do not accept any liability for any error or omission in this report or for any resulting loss or damage suffered by the recipient or any other person. This report is for information purposes only. It is neither an offer to sell nor a solicitation of any offer to purchase any securities in any company, in particular the MCP Master Income Trust ARSN 620465090. Any investment involves a high degree of risk. All opinions and views expressed constitute judgment as of the date of writing and may change at any time without notice and without obligation. Such information may be based on certain assumptions and involve elements of subjective judgment and analysis. Actual results may differ.

This material is intended for information purposes only and does not constitute investment advice, or a recommendation or an offer or solicitation to purchase any fund or company securities, in particular those of the MCP Master Income Trust. There has been no independent review of the information presented in this report. This report is private and confidential and is intended exclusively for the use of the person to whom it has been delivered by Australia Ratings Analytics. This report does not constitute an offer to sell or a solicitation to invest in any jurisdiction where the offer or sale would be prohibited or to any person not possessing the appropriate qualifications.

This report is not to be reproduced or redistributed to any other person without the prior written consent of Australia Ratings Analytics. Australia Ratings Analytics receives payment consideration to undertake research reports. Australia Ratings Analytics does not have an interest in the securities of the MCP Master Income Trust discussed in this report.

### Financial Services Guide

A copy of the Australia Ratings Analytics' Financial Services Guide can be obtained at [www.australiaratings.com/fsg](http://www.australiaratings.com/fsg). A copy can also be provided by calling (03) 8080 6684.