

Fund Research

# Metrics Master Income Trust (ASX: MXT)



## Overview

The Metrics Master Income Trust (the "Trust" or "MXT") is a listed investment trust designed to provide investors with access and exposure to the Australian corporate loan market. As at 30 September 2021 the market capitalisation of the Fund was ~\$1.5 billion. On 4 November 2021 Metrics launched a Unit Purchase Plan which has the potential to raise up to \$442 million.

This sub asset-class is a major pillar of the Australian corporate debt market but has historically been restricted to major global banks and institutional investors. For this reason, MXT offers a unique investment opportunity and exposure to a market typically not accessible to retail investors.

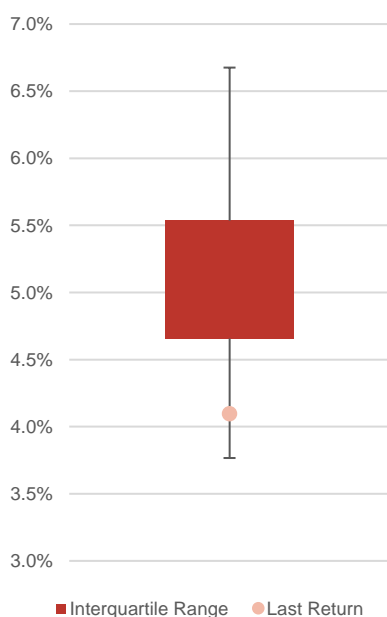
The investment objective of the Trust is to provide stable income with a target return of the **RBA cash rate plus 3.25% p.a.** (currently 3.35% p.a.) **after fees**, payable monthly. The Trust has invested in the MCP Wholesale Investments Trust (WIT), which, in turn, invests in Metrics wholesale institutional investor funds that participate across the credit risk spectrum and are managed by Metrics Credit Partners Pty Ltd (Metrics).

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

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	0.33	0.33	0.43	0.31	0.36	0.32	0.31	0.34	0.34				3.06
2020	0.45	0.41	0.43	0.43	0.39	0.40	0.50	0.44	0.38	0.38	0.40	0.40	5.03
2019	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
2018	0.38	0.32	0.43	0.38	0.38	0.45	0.50	0.49	0.45	0.49	0.47	0.52	5.27
2017										0.46	0.35	0.41	1.23

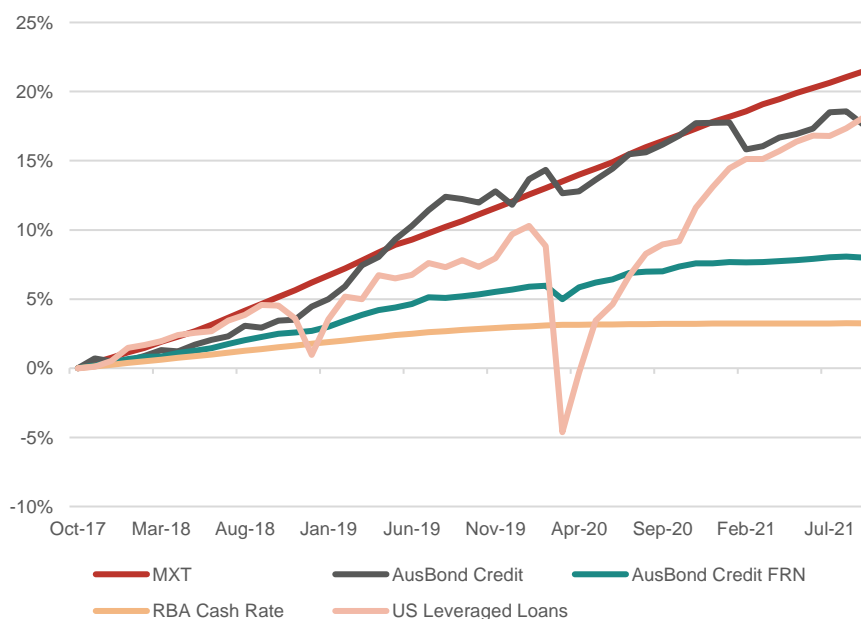
Source: BondAdviser, Metrics. As at 30 September 2021.  
\* Return is monthly net total return based on NTA plus dividends.

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



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

**Figure 3. Relative Cumulative Performance**



Source: BondAdviser, Metrics, Bloomberg. As at 30 September 2021. Calculated from cumulative net monthly returns of the Underlying Fund. Returns on NAV, not traded unit price, see Figure 9 for unit price variance.

## Product Assessment

### Highly Recommended

*MXT now has 200+ borrowers with no single borrower holding greater than 2.0% of the portfolio.*

*The Fund has consistently exceeded its net return target of the RBA Cash Rate + 3.25% p.a. with exposure to both investment and sub-investment grade Australian corporate credit opportunities.*

The Metrics Master Income Trust (ASX: MXT) provides investors with exposure to three of Metrics wholesale unlisted funds. All three funds offer diversified exposure to corporate loans where the returns are uncorrelated with equity markets. The majority (~60%) of the portfolio is weighted towards Metrics Credit Partners Diversified Australian Senior Loan Fund (DASLF), with ~20% allocated to the MCP Secured Private Debt Fund II (SPDF II) and the MCP Real Estate Debt Fund (REDF).

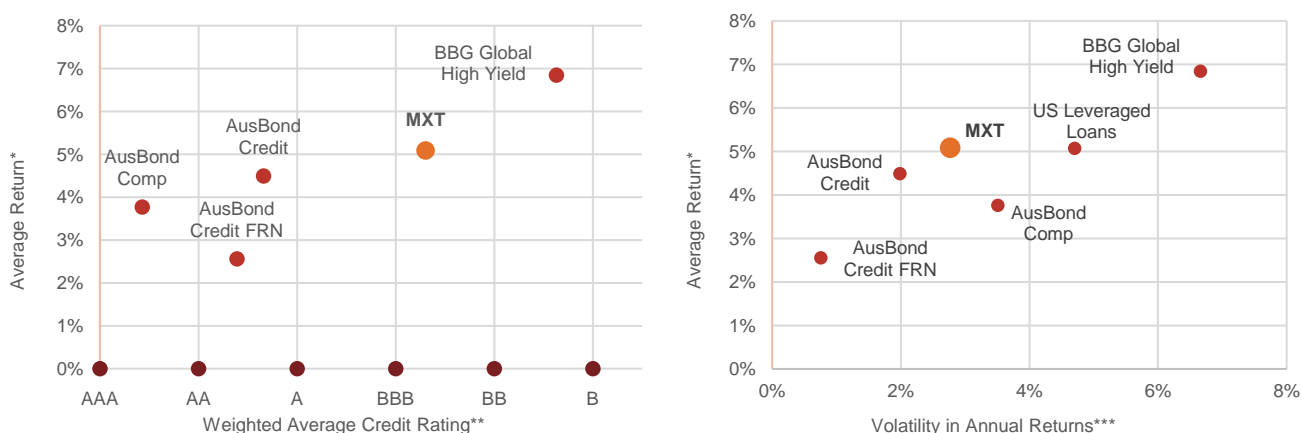
The Fund has consistently exceeded its net return target of the RBA Cash Rate + 3.25% p.a. with exposure to both investment and sub-investment grade Australian corporate credit opportunities. We retain our confidence in Metrics' ability to structure credit at origination and to meticulously monitor portfolio performance to mitigate risk.

This product is best suited for investors looking to generate an **attractive and steady return** from a **diversified portfolio of private loans**. As this asset class matures, we expect the product will exhibit a low long-term correlation to traditional asset classes, making it a suitable diversifier to investor income portfolios, which are typically biased towards domestically sourced, equity-based and/or hybrid income streams.

MXT has performed very well since inception in October 2017, on both a capital and income basis. Net returns have consistently outperformed the Fund's target and NAV has been impressively stable. Whilst COVID caused a dislocation in the ASX traded unit price, in line with other LITs and the market more broadly, this has been retraced. MXT is now consistently trading at a material premium to NAV.

In August, we upgraded our Risk Score to **Lower Medium**. This reflected a reduction in MXT's counterparty risk in line with an increase in borrowers from ~150 to 180+, with a maximum exposure of 2.5%. Positively, counterparty risk has continued to improve. MXT now has 200+ borrowers with no single borrower holding greater than 2.0% of the portfolio. In conjunction with a marginal decline in credit quality, attributable to a lower cash holding, we retain our Risk Score. Metrics has demonstrated market leading systems and processes over several years. Combined with a proven investment strategy, we expected MXT will continue to outperform on a risk-reward basis. We maintain our rare **Highly Recommended** product assessment.

Figure 4. Estimated Risk-Adjusted Return Comparison



\*All returns for indices calculated using annualised monthly returns for the past five years. Average return for MXT calculated since inception in October 2017.

\*\* Credit Ratings based on BondAdviser estimates. \*\*\* Calculated based on annualised monthly returns data for past five years for indices and since inception for MXT. Source: BondAdviser Estimates, Metrics, Bloomberg. As at 30 September 2021.

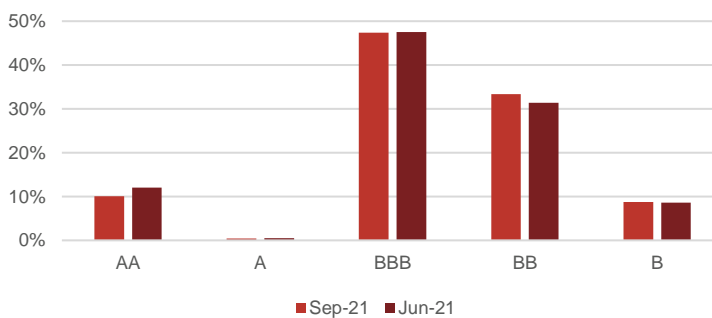
## Construction and Investment Process

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

## Portfolio Risk Management

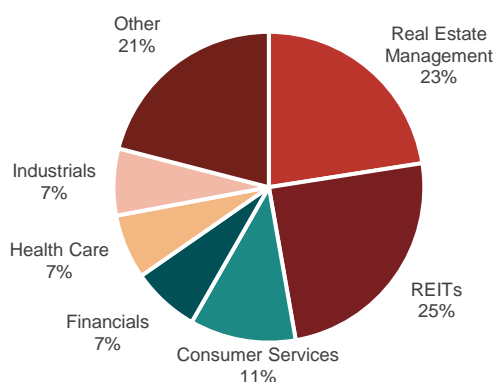
There have been **no material changes** to MXT's portfolio risk management.

**Figure 5. Portfolio Credit Rating Mix\***



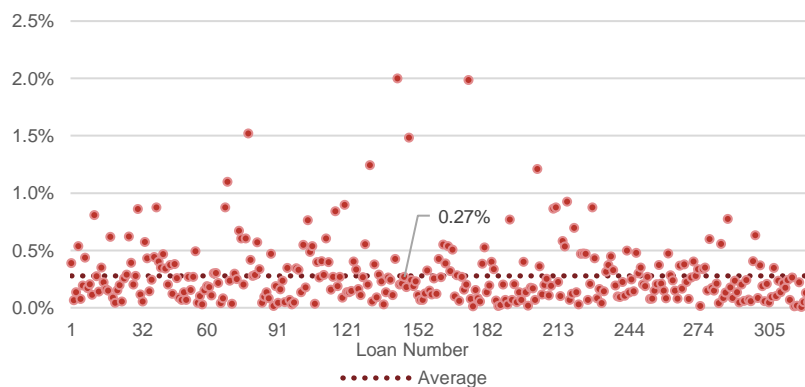
Source: BondAdviser, Metrics. As at 30 September 2021. \* Including cash which is rated AA.

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



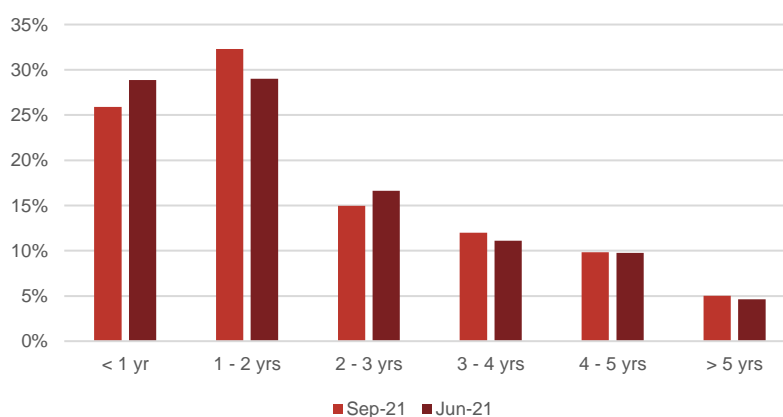
Source: BondAdviser, Metrics. As at 30 September 2021. \*\* Excluding cash.

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



Source: BondAdviser, Metrics. As at 30 September 2021. \*\*\* Based on Metrics' underlying portfolio (WIT) not MXT and including cash for weighting purposes.

Figure 8. Portfolio Loan Tenor Mix\*

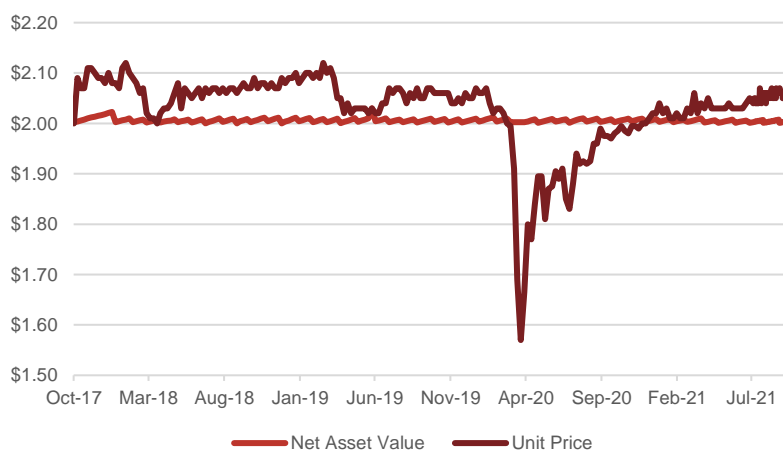


Source: BondAdviser, Metrics. As at 30 September 2021. \* Excluding cash.

## Fund Governance

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

Figure 9. Net Asset Value Against Unit Price

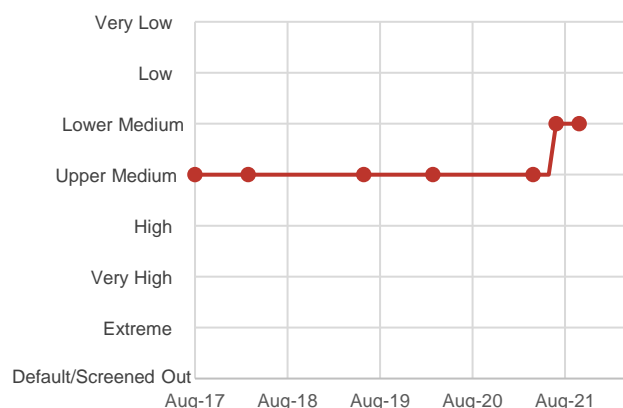


Source: BondAdviser, Metrics, Bloomberg. As at 30 September 2021.

Metrics provide daily updates on the NAV and monthly reports on the portfolio performance with insights into the portfolio composition. The structure of the Trust is detailed and has not changed and is outlined in prior reports (see page 4 of [MXT Update Report – 21 April 2021](#)).

## Quantitative Analysis

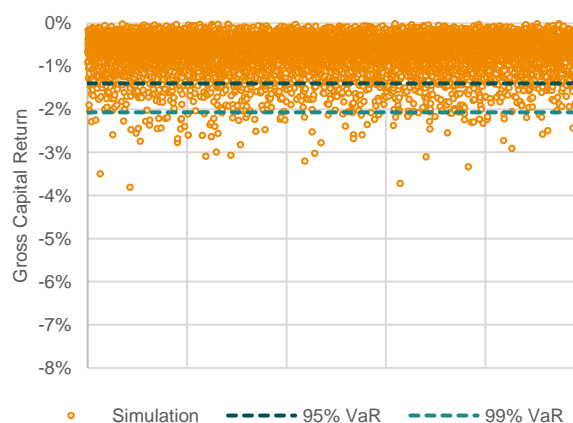
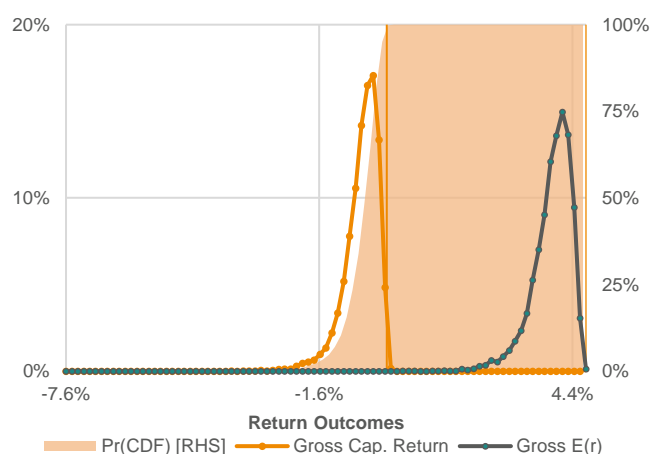
Figure 10. Risk Score



The **portfolio performs exceptionally well in our stress testing**. This is materially influenced by diversification of underlying borrowers, seniority of the assets (driving stronger LGD outcomes) and a short average remaining term of securities (quantum of cashflows revalued on impairment is less).

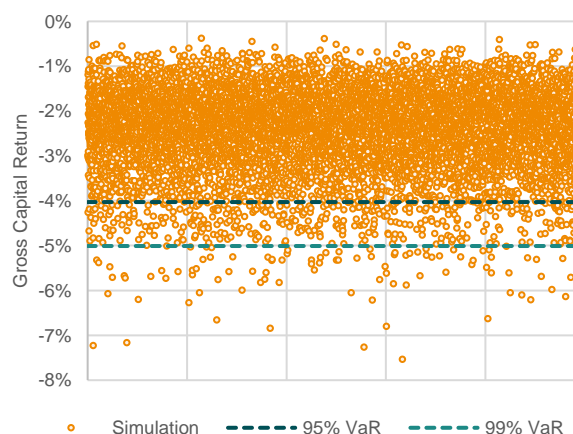
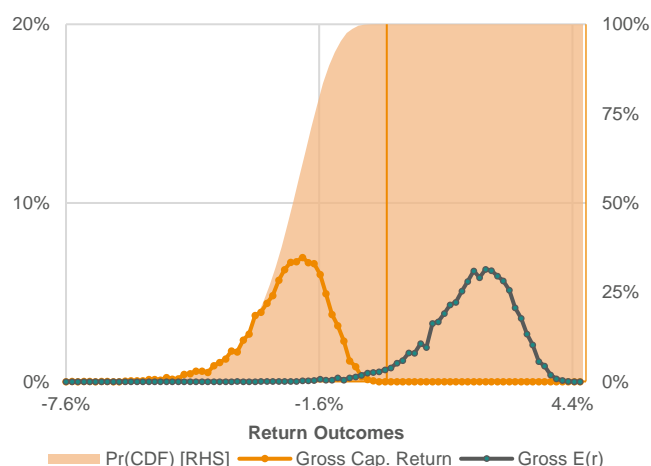
**Our risk score has remained stable at “Lower Medium”**, which is superior to the weighted average credit profile. This reflects the portfolio maintaining sound credit quality over the period, and exceptional counterparty diversification which warrants an upward notching.

### Scenario 1. Baseline Underlying Asset Assessment



Source: BondAdviser Estimates based on March 2021 portfolio. Excludes impact of management and origination fees. Gross capital returns excludes the value of coupons/income and is only modelling impairment or loss given default, based on historical credit data from Moody's. Impact of traded price is not simulated. For a more detailed explanation of the methodology, please [contact](#) BondAdviser.

### Scenario 2. Stressed Underlying Asset Assessment



Source: BondAdviser Estimates based on March 2021 portfolio. Excludes impact of management and origination fees. Gross capital returns excludes the value of coupons/income and is only modelling impairment or loss given default, based on historical credit data from Moody's. Impact of traded price is not simulated.

## Reporting History

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

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

[MXT Update Report – 27 February 2020](#)

[MXT Update Report - 8 May 2019](#)

[MXT Entitlement Offer Report - 26 February 2018](#)

[MXT IPO Report – 1 August 2017](#)

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**Report created on 5 November 2021.**