BondAdviser

Research Report

Report Created on 1 August 2017

Issuer Name

MCP Master Income Trust

Security Name

MCP Master Income Trust

Security Recommendation

Subscribe

Security Risk

Upper Medium

Issuer Outlook

Improving | Stable | Deteriorating

Key Characteristics

Product Type	Listed Investment Trust	**Asset Class**	Fixed Income
Issue Size	$100,000,000.00	**Sub-Asset Class**	Credit
Net Asset Value**	$2.00	**Investment Manager**	Metrics Credit Partners Pty Ltd
Fixed/Floating	Floating	**Responsible Entity**	The Trust Company (RE)
Payment Frequency	Monthly	**Custodian**	Perpetual Corporate Trust
Target Return***	RBA Cash Rate plus 3.25% p.a.	**Administrator/ Unit Registrar**	FundBPO Pty Ltd
First Coupon***	4.75%	**Offer Opens**	10 August 2017
Franking Credits Incl.	No	**Offer Closes**	19 September 2017
ASX Listed	Yes (ASX Code: MXT)	**Allotment Date**	26 September 2017
Convertible	No	**Commences Trading on ASX**	9 October 2017
GICS Sector	Investment Companies	**First Payment Date**	Early January 2018

*Issue size subject to change. ** Pro-Forma Net Asset Value (NAV) back per unit subject to change. ***First and ongoing distributions are targeted at 3.25% over the RBA Cash Rate but subject to change.

Summary

The MCP Master Income Trust (MCP MIT) is a listed income trust designed to provide investors with access or exposure to the Australian corporate loan market (Prospective ASX Code: MXT). 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, MCP MIT offers a unique investment opportunity and exposure to a market typically not accessible by retail investors. Specialist expertise is required to operate in this market and the Metrics Credit Partners' (MCP) investment team comprises highly skilled debt-specialists with seasoned expertise in originating, structuring, arranging and managing corporate loans to Australian companies alongside banks and institutional 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 4.75%) after fees payable monthly. The trust will initially invest in the MCP Wholesale Investments Trust which will in turn invest in three wholesale diversified corporate loan funds managed by MCP across the credit risk spectrum. The trust is expected to list and commence trading on the 9th of October 2017 at an indicative Net Asset Value (NAV) of $2.00 (equal to the issue price of $2.00 per unit). The Trust Company (RE Services) Limited will serve as the Responsible Entity.

The key difference between corporate loans and bonds is the ability and control a lender has over the borrower to influence the recovery of capital when the corporate counterparty experiences financial distress and take advantage of this flexibility requirement by charging various fees.

Figure 1: 10Y Risk and Return

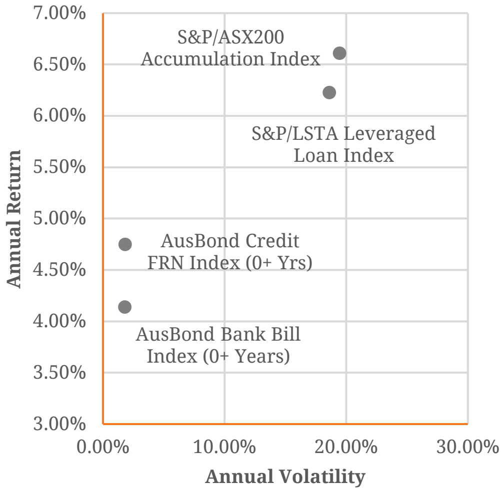
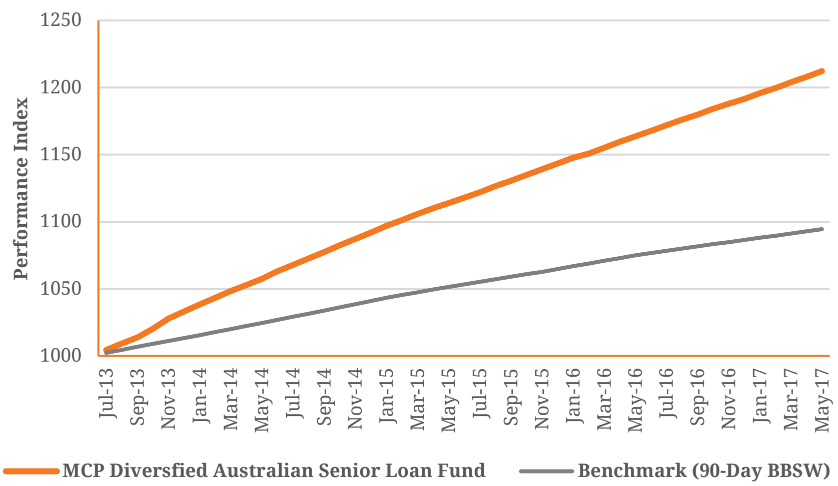


Figure 2: Historical Fund Performance (DASLF)



Source: Bloomberg, Metrics Credit Partners, S&P

Security Recommendation - Subscribe *as at 1 August 2017*

This product is recommended for investors looking for diversified exposure to corporate loans with returns that are not correlated to equity markets. Our basis for recommendation on the MCP MIT is a blend of both subjective and objective analysis of the underlying portfolio. Based on our analysis, we believe this product offers investors a stable source of income with the margin being offered over the RBA Cash Rate considered fair and commensurate with its risk.

A Listed Investment Trust (LIT) structure derives unit holder returns from two sources: distributions and capital movements in the underlying portfolio and share price movements which drive the prevailing premium/discount to Net Asset Value (NAV). The latter is a function of market and manager sentiment but also liquidity and structural features of the trust. The manager has established multiple mechanisms to ensure stability of NAV and trading price. Price movements away from NAV are in our opinion speculative and not a function of fundamentals or financial risk management. The former is subject to risks and the investment manager's successful implementation of its portfolio strategy and risk framework.

The asymmetric return profile of all credit fund managers means that success of the LIT will be achieved through active risk management at a portfolio level (i.e. diversification) and at an asset level (i.e. loan structuring, covenants). Asset managers who can consistently produce alpha and/or can contribute meaningfully to risk adjusted returns can only do so by either having a superior investment strategy, access to specialist product and/or have a competitive advantage. While MCP has a relatively short history of fund performance (5 years) they have all the key traits of a successful asset manager which is unlikely to change due to their unique investment opportunity set and highly specialised team.

For this reason, we recommend investors to subscribe to the MCP Master Income Trust.

Positive / Negative Risk Factors

What factors would change the Recommendation UP

- Corporate loans are often secured by assets and rank ahead of other capital investors in an event of default.
- Loans remain the primary funding source for Australian companies resulting in a diverse investment universe across different industries and across the credit risk spectrum.
- Specialist expertise is required to operate in this market which is encompassed in MCP's seasoned investment team.
- MCP has a competitive advantage over banks who have to comply with stringent capital regulation. For this reason, MCP is able to be more flexible in its investment approach. Further regulatory pressure for banks would result in new investment opportunities for the MCP MIT. We acknowledge APRA has taken a recent interest into shadow banks but this focus has been in the residential mortgage segment rather than the corporate loan market.
- A rising interest rate environment would result in higher loan yields and improve underlying fund performance.
- Losses in the Australian corporate loan market have historically been very low.

What factors would change the Recommendation DOWN

- The corporate loan market is an interbank market which may be viewed as being less transparent than the corporate bond market.
- The underlying funds have a limited track record in fairly benign economic conditions and are yet to be tested in a period of economic distress.
- Given the unit price of the LIT is determined in a public market (ASX), the value of the product will be more sensitive to news flow and other announcements relative to MCP's wholesale offerings.
- Reputational Risk: Loss of key relationships with clients which may compromise future business.
- Credit Migration Risk: Credit quality deterioration (or in a worst-case scenario, loan defaults) in the loan portfolio could result in asset write-downs.
- Lower interest rate environment due to additional rate cuts by the RBA would dampen loan yields.
- Competition for corporate loans increasing. The penetration of international banks could crowd out smaller participants and result in loan margin compression.

Issuer Outlook - Stable *as at 1 August 2017*

Performance

Similar to other debt instruments, loan performance is dependent on income and capital valuation. The capital value of loan assets will typically remain anchored around par value (see Valuation section) and because they are not actively traded, performance is predominantly driven by fees and income derived from origination and participating in underlying corporate loans.

In most cases, corporate loans are priced at an interest rate spread above a floating rate reference rate (BBSY in Australia). The spread will be contingent on many factors such as size, term, credit risk (and associated covenant package), purpose, the demand/supply dynamics of the market (i.e. business credit availability, alternative funding sources) and can be linked to conditions outlined in the agreement with the lender (i.e. credit deterioration, prepayment triggers). With the interest rate representing the ongoing cost of the loan, the lender can also receive various other fees which will result in incremental return including up-front fees, establishment fees and commitment fees. While effectively trying to achieve the same purpose for the issuer, the risks and sources of return are different to the traditional bond market.

The MIT is designed to distribute funds across MCP's Diversified Senior Australia Senior Fund (DASLF - the only existing fund to have a material trailing history) and two new funds which will replicate existing investment strategies. DASLF represents MCP's core investment offering (~60% indicative weighting in MIT) and has consistently beaten its benchmark (90-Day BBSW) since inception (5.47% p.a.). It is arguable that the 90-Day BBSW does not serve as an appropriate benchmark in the traditional sense but rather provides investors a clear indication of a risk free floating rate benchmark. On a monthly annualised basis, this excess return has tracked ~2.50 – 3.50% above the benchmark (net of fees) and supports MIT's projected yield target (4.75%). The trust's stakes in its higher yielding funds (See Portfolio Construction & Strategy section) will be a contributor to future returns but as these are new funds no performance has been recorded to date. However, we note that the investment strategy of the SPDF II is consistent with the initial closed end SPDF which has a track record since its inception in November 2015 (8.12% p.a.).

Risk Framework

Unlike bonds, capital price appreciation for loan assets is rare which emphasises the natural skew in credit investing (i.e. limited upside). It also makes risk management (or price downside) more important. While each loan asset has its own unique risk profile, scale and diversification is required to isolate and control credit risk at a portfolio level. At a loan level, extensive due diligence at all stages of the loan cycle is required and seasoned expertise in loan structuring (i.e. covenants, seniority, collateral) ensures loan level risk is managed. Similar to the Major Banks (the dominant players in the market), MCP employs a rigorous risk framework to ensure portfolio quality is maintained and scheduled income is received in a timely manner.

While risk is monitored by the investment team on daily basis, structural risk mitigants at both an individual asset level and aggregate portfolio level underpin MCP's investment philosophy. Asset selection involves a stringent set of criteria in which potential candidates are reviewed at multiple levels and ultimately decided upon by the investment committee. If eligible for the fund, loan agreements will often be secured by assets and will be subject to a custom covenant package tailored to the individual borrower. Risk limits are then set during the portfolio construction phase to ensure sectoral and counterparty diversification is achieved ensuring the portfolio's credit exposure generates a superior risk-adjusted return. The MIT will target 75-100 investments with no asset comprising more than 5% of gross asset value. Furthermore, the majority of the loan book will be collateralised under senior ranking arrangements ensuring recovery rates remain high if faced with non-performing assets. Historically, in excess of 90% of Gross Asset Value (GAV) has been structured under senior ranking arrangements in the core DALSF. Additional risk limits have been set at an individual fund level in relation to leverage as well as counterparty and sector exposure.

Management

One of the key elements to this offering is access to an investment manager who operates very differently to traditional investment managers in actively traded assets. The MCP Investment Team has a long and successful history of providing and managing corporate debt (i.e. loans, bonds and associated products) for corporate borrowers. While many investment managers have access to corporate bonds, the vast majority of corporate debt in Australia is provided in the loan market and more specifically by local and offshore banks. In Australia, the market has almost exclusively been dominated by the major banks (in the past) whereas internationally this is not the case.

High barriers to entry in the domestic loan market are one the key impediments to external investment. A significant and sophisticated asset base is required to even start. It also requires specialist operations, legal and negotiating teams who have sufficient experience to get invited to the table by an arranging party (i.e. corporate adviser, bank etc). The final element is having sufficient knowledge of the market as well as contract and insolvency law to ensure they can recover invested capital prior to default. This is the primary advantage over corporate bonds in which the structural terms provided are generally in favour of the lender (investor in this case) rather than the borrower.

While we acknowledge this will not always be the case, MCP has the advantage of building favourable terms and conditions into loan assets which illustrates management's clear expertise and focus on risk mitigation.

Market Outlook

From a lender's perspective, corporate bonds and loans differ by the cost and flexibility of funding models. Bond issuance typically entails higher transaction costs and a higher cost of funding than what would be expected to be incurred for a loan. For this reason, it usually suits large corporations with strong public investment grade credit ratings. Due to the relatively complex funding profiles of these companies, bonds will usually coexist with loans to provide diversification in funding sources. Smaller corporations will not have this flexibility and will naturally be more reliant on loan funding for operational and/or growth initiatives. Private companies are even more limited as they are unable to access public equity markets. Consequently, loans are the dominant debt funding source for Australian companies' due to relative accessibility and cost. As a result, the opportunity set within the Australian corporate loan market is vast leaving MCP in an enviable position to capitalise on opportunities and offer investors credit exposure historically non-existent outside the walls of a bank.

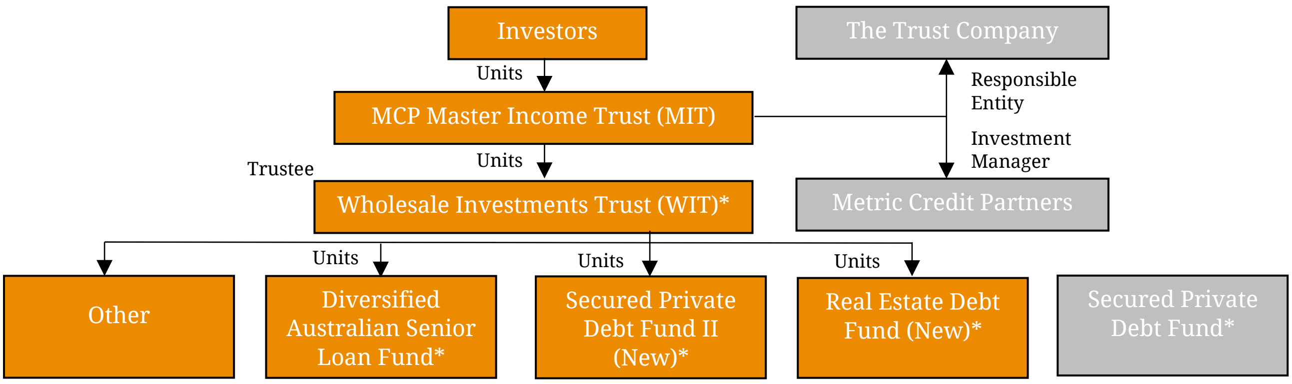
From a fundamental perspective, we see minimal stress across the corporate credit spectrum with systemic risk largely muted in fairly benign economic conditions. There are some pockets of financial distress (i.e. mining services) but this is typically well understood by lenders (including MCP). Corporate credit strategy remains anchored to corporate activity (i.e. merger and acquisitions), restructuring and cost initiatives which has resulted in typically healthy balance sheets with low leverage and high liquidity. Systemic market-wide shocks (tail risks) are the primary risk to our thesis for corporates but due to structural features (i.e. covenants, capital structure) and significant lender protection inherent in loan funding, we remain comfortable with the credit risk of the market.

Asset Allocation and Legal Structure

The legal structure of the MCP MIT is reasonably complex from a high level but protects the unitholder by engaging a separate independent Responsible Entity to act in the best interest of holders. The MIT is a passive trust which will fully invest any funds raised into the MCP Wholesale Investments Trust (WIT) which in itself has an independent trustee. The WIT controls the allocation into the underlying funds and assets (see Figure 3).

The MCP Master Income Trust (MCP MIT) aims to generate a minimum return of the RBA Cash Rate plus 3.25% net of all costs and fees (currently 4.75%) by investing in MCP's wholesale funds. This includes MCP's core Diversified Australian Senior Loan Fund (DASLF), Secured Private Debt Fund II (SPDF2) and Real Estate Debt Fund (REDF). Actual allocation is expected to be 60-70% for DASLF, 20-30% for SPDF II and 10-20% for REDF with no less than 60% of MIT proceeds going into the DASLF on day one. Importantly, the portfolio is diversified across borrowers, industries, credit quality and loan products. This DASLF delivers the majority of the MIT's investment grade exposure while the SPDF II and REDF provide the bulk of the high- yielding exposures. WIT retains the flexibility to alter the allocation mix to best deliver on the Investment Objective but any changes to allocation of underlying wholesale funds would require Responsible Entity approval. Unitholders will receive advice of any material changes via MCP's website and the ASX.

Figure 3. MIT Structure



Source: Company Reports, *MCP is the manager of each of the DASLF, SPDF, SPDFII, REDF and WIT

Investment Strategy

MIT's investment strategy is focused on the success of the investment strategies of the underlying funds.

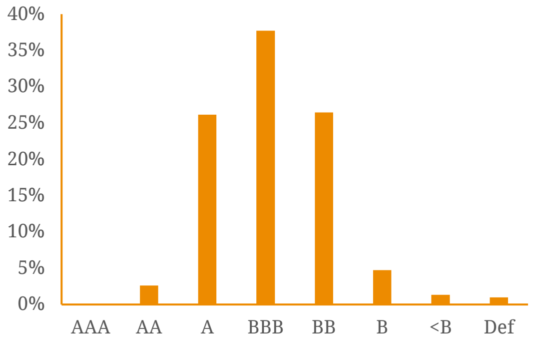
- The underlying investment universe will target 75-100 primarily floating rate corporate loan investments promoting diversification and protecting investors against a rising interest rate environment.
- The portfolio will be diversified across industries and the credit quality risk spectrum with limited exposure to the government sector and no exposure to the Australian banking sector.
- Each individual asset is expected to be no greater than 5% of total funds under management.
- On a consolidated basis, the investment universe is expected to comprise ~85% of Australian domiciled borrowers.

The DASLF represents MCP's core investment fund focusing on large scale corporate loan assets across a diverse range of industries. The fund comprises ~50 investments and has an external credit rating of BBB+ by Standard & Poor's (S&P). The DASLF is the longest serving MCP fund and hence, has the most extensive trailing performance history (~5.5% p.a. since inception). In contrast, the SPDF II and REDF are relatively new MCP funds and yet to develop a track record. However, the underlying fund investment mandates and types of loan transactions are consistent with the existing SPDF mandate and transactions/loans originated are managed by the MCP investment team. The SPDF2 will aim to invest in Australia's mid-market corporate loan market with a diversified portfolio of sub-investment grade loans targeting an annual return equal to 4.00% over the 90-Day Bank Bill Swap Rate (BBSW) while the REDF will invest in a portfolio of Australian Commercial Real Estate (CRE) debt assets targeting an annual return of 5.00% over the 90-Day BBSW. On this basis and given the indicative weightings, we believe the underlying funds should comfortably meet the MIT target yield (4.75%).

Risk/Return Analysis

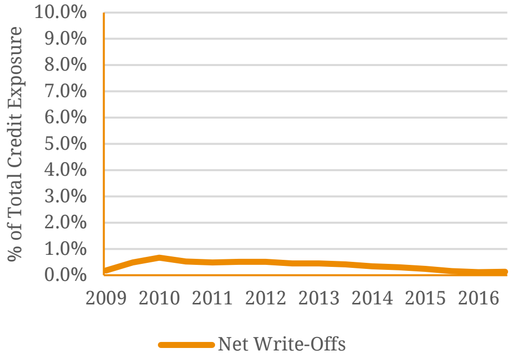
There is no broad market index for the Australia corporate loan market which makes it difficult to analyse the sub-asset class on a risk/return basis. The most useful gauge of market characteristics is the four major Australian banks who dominant corporate lending with a market share of 75%. Public corporate loan return data from the banks is limited but historical risk metrics can be derived from regulatory disclosures. While credit quality across the major banks' aggregate corporate loan book is diverse and ~30-35% non-investment grade on average, loss rates have been muted throughout the economic cycle which differentiates corporate loans from other corporate debt instruments.

Figure 4. Major Bank Corporate Loan Book Credit Profile



Source: Major Banks' APS 330

Figure 5. Major Bank Historical Loss Rates

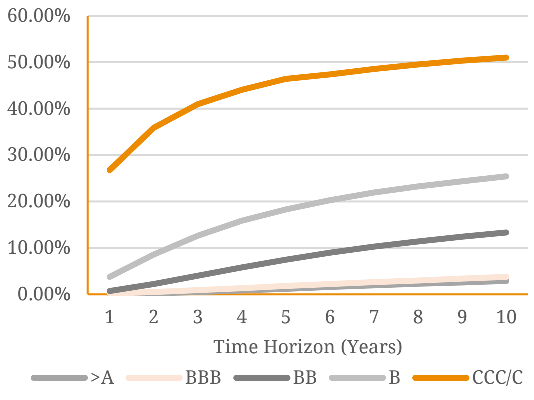


Source: Major Banks' APS 330

Given loans are generally held to maturity by the lender, they are not typically marked-to-market for profit purposes as would otherwise occur with other fixed income instruments. For this reason, credit migration risk (i.e. deterioration in the credit quality of an asset) will typically not impact loan profitability in the absence of default. While loan margins are usually fixed and the lender may not be adequately compensated for the increase in credit risk, this is typically mitigated by the margin being linked to credit quality by way of public credit rating, financial covenants and other structural features.

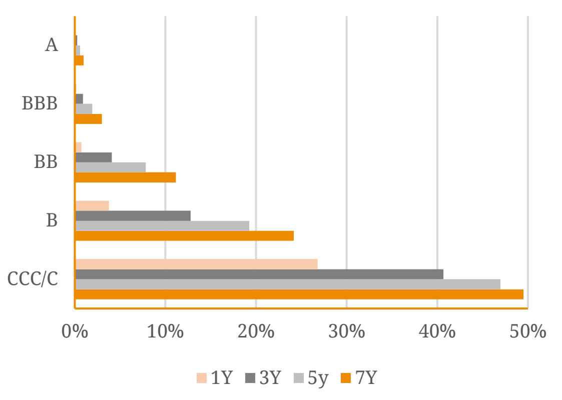
For bank lending, negative credit migration will increase the probability of default and hence, the bank will be required to hold more capital against that asset (decreasing its return on capital) but this is irrelevant for equity-funded non-bank lenders such as MCP. As a result, the primary downside risk to a corporate loan portfolio is the risk of default (i.e. non-payment of interest and/or principal at maturity). Although counterparty and sector default risk can be diluted across a portfolio of many assets, systemic risk (market risk) will always persist. Mitigation will depend on the effectiveness of individual loan structures (i.e. covenant package, tenor, seniority) to ensure recovery rates remain high in the event of default. Unsurprisingly there is strong positive relationship between credit quality, term and the probability of default (Figure 7). For this reason, credit risk migration is closely monitored by lenders and is a key input into loan valuation.

Figure 6. Global Corporate Average Cumulative Default Rates (1981 – 2016)



Source: S&P

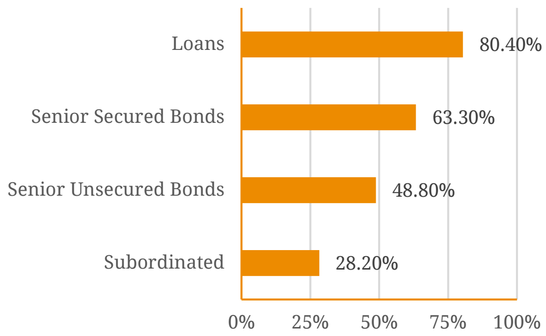
Figure 7. Global Corporate Average Transition Rates to Default by Time Period (1981 – 2016)



Source: S&P

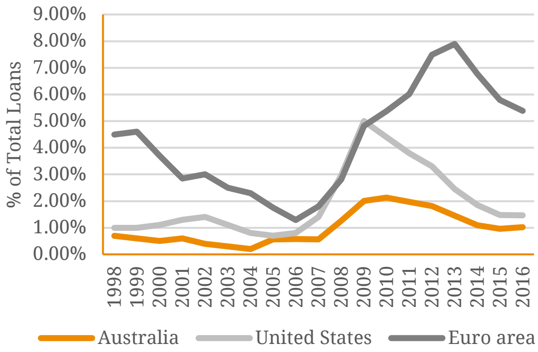
There is also a positive relationship between seniority (in context of the capital structure) and recovery rates. According to Moody's Investor Services, corporate loans have demonstrated a global recovery rate of ~80% behind senior secured bonds (~60%), senior unsecured bonds (~50%) and subordinated bonds (~30%). There is a lack of publicly available data to deduce empirical recovery rates for Australian corporate loans but given the domestic regulatory and legal framework (significant lender protection) and the historical loss rates of the major banks, it is reasonable to assume Australian corporate loan recovery to be closer to 95%.

Figure 8. Corporate Debt Recovery Rates (1987-2015)



Source: Moody's

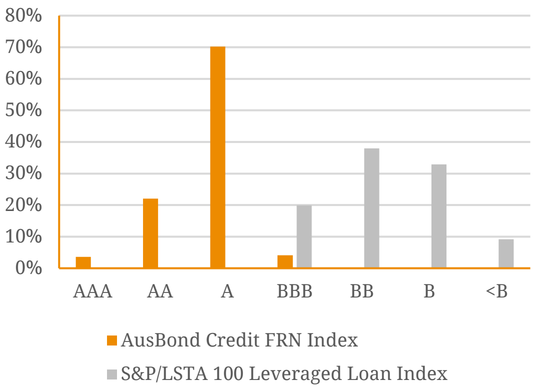
Figure 9. Bank Non-Performing Loans



Source: World Bank

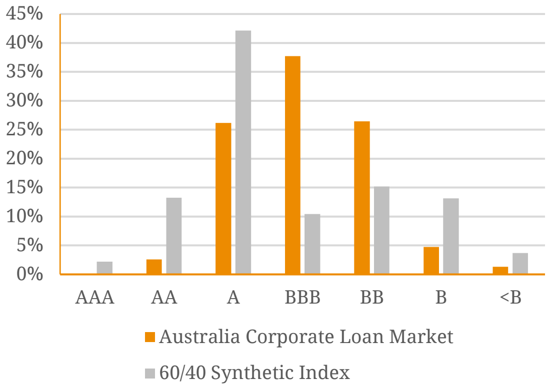
As Australian corporate loans exhibit unique characterises it is difficult to objectively assess expected return. The two comparable indices used in our analysis are the S&P/LSTA 100 Leveraged Loan Index and the AusBond Credit Floating Rate Note Index (0+ Years). The former is designed to reflect the performance of the 100 largest facilities in the US leveraged loan market (high risk corporate loans) while the latter tracks the performance of Australian floating rate notes (primarily banks and other financial institutions). While neither of these indices represent the domestic corporate loan market, our analysis suggests that a 60/40 blend is a reasonable proxy based on individual rating distributions on underlying assets.

Figure 10. Individual Index Rating Distributions



Source: S&P, Bloomberg

Figure 11. 60/40 Rating Distribution vs Market



Source: BondAdviser Estimates

While this proxy of credit rating distribution may be close there are too many independent variables to have confidence in its historical returns. For this reason, the most appropriate indicator of performance (albeit limited) is the trailing history of MCP's core Diversified Australian Senior Loan Fund which represents the majority allocation under the MIT. The DALSF has returned a strong risk-adjusted performance but we concede this has achieved in fairly benign economic conditions.

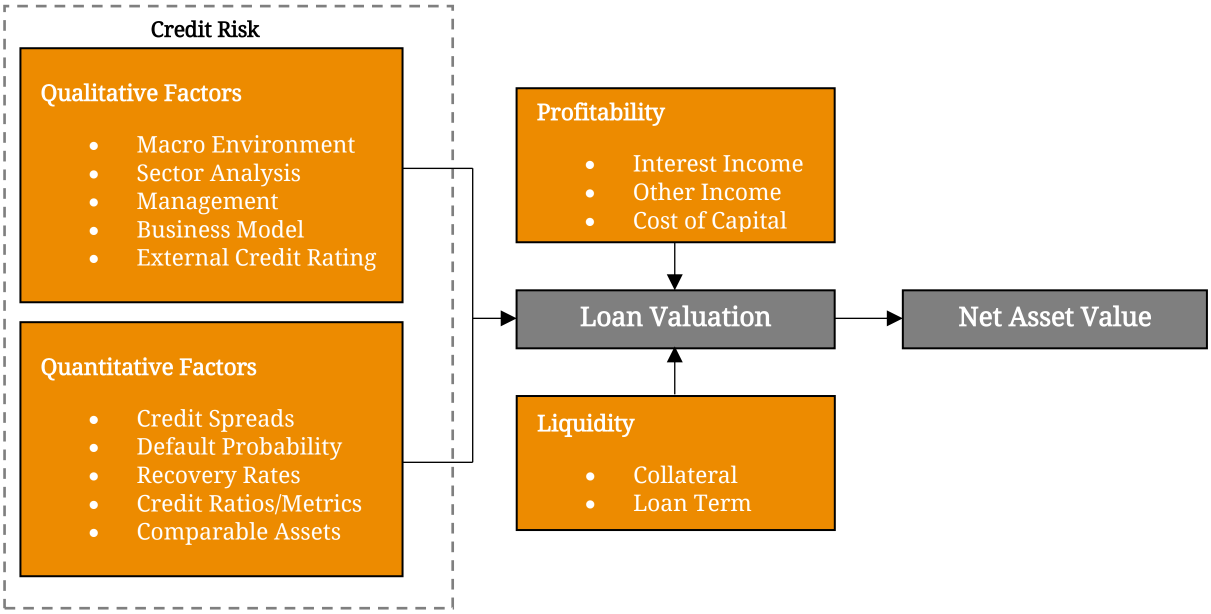
Nonetheless, historical data from the major banks' corporate loan books gives us confidence in the resilience of Australian corporate loans through the economic cycle which is ultimately a testament to the expertise required to operate in this segment of the corporate debt market. As a result, we believe the MIT will be able to achieve the return similar to the DALSF (5.04% p.a. since inception). This is also comparable to the blended proxy (5.34% average annual return over 10 years) but at a much lower volatility (8.30% standard deviation in annual returns for the proxy over the same period). Considering the MIT's target yield of the RBA Cash Rate plus 3.25% p.a. (net of all costs and fees) and the RBA's estimate of the long-term cash rate of 3.50% (implying a range of 4.75 – 6.75%), we believe this observable performance is a reasonable estimate of expected return. Due to the valuation techniques used for loans, it is challenging to objectively estimate expected volatility but based on readily available data we approximate a long-term annual standard deviation of 2.00 - 3.00%.

Valuation Considerations

In an active market (i.e. equity and bonds), the value of an asset for the purposes of calculating Net Asset Value (NAV) is its traded price (fair value hierarchy Level 1). However, where an asset is less actively traded or a traded price does not exist, the value of an asset for the purposes of calculating Net Asset Value (NAV) is determined in accordance with applicable accounting standards (fair value hierarchy Levels 2 or 3). Due to the relative illiquidity and private nature of the interbank Australian corporate loan market, credit risk is a key input the asset valuation. Credit risk is assessed in terms of probability that a borrower may default, estimated level of utilisation of a loan at default and the anticipated loss given a default has occurred. As such, loans are typically categorised as fair value hierarchy Level 2 assets and include a subjective element in the valuation process. As there is limited transactional data, MCP utilises multiple channels to compile as much valuation sources as possible to deduce capital value.

While assets will typically always be priced around par value, potential valuation write-downs will be dependent on underlying probability of default as well as recovery rates at the point of default. Credit spreads are also a useful market-based indicator of default (credit) risk which can be used on a relative basis against peers to identify fair asset value. These quantitative measures will typically warrant a case-by-case approach with company, sector and macroeconomic factors all coming into play. For each of the underlying funds, if loan assets are held below par losses will be charged directly against the profit or loss statement which will ultimately impact the NAV of the MIT. However, unlike bonds, a default on a corporate loan by no means results in capital loss which is supported by MCP's extensive experience in workout and corporate recovery situations. In fact, loan structures are manufactured to ensure experienced lenders such as MCP can participate and act long before an event of default materialises. We acknowledge MCP can hold equity interests in work-out scenarios but we believe this is flexibility is necessary to ensure the investment manager can expertly recover distressed debts.

Figure 12. The Loan Valuation Process



Source: BondAdviser

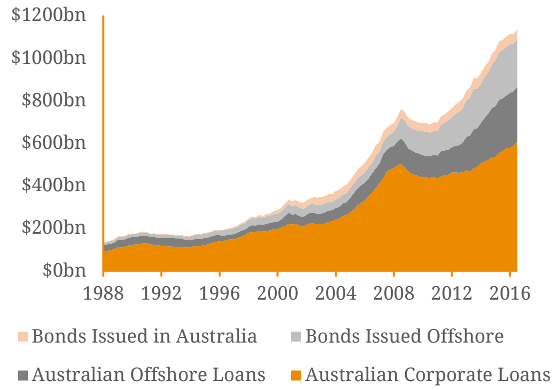
The NAV per Unit of the Trust is expected to be published daily on the website of the Manager and lodged with the ASX (under prudent listing and disclosure rules). Nonetheless, the price of MIT will be subject to market forces and may deviate from the NAV.

Perpetual Trust Services through its wholly-owned subsidiary The Trust Company (RE Services) Limited will act as the Responsible Entity of the MCP LIT and is responsible in determining the issue, application price and withdrawal price for a unit in the LIT. Perpetual is also responsible for the pricing policies for each of the underlying funds in which MCP works in conjunction to outlook any risks associated with the underlying assets. In addition to the Fund's own Asset Valuation policies and procedures, the Trustee has appointed a major international accounting firm to conduct an Independent Credit Portfolio and Market Price Review providing an independent overlay to asset valuation on an ongoing basis.

Industry Background: Australian Corporate Loans

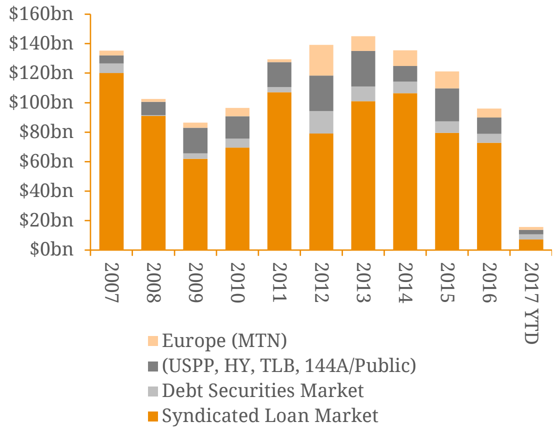
Although the corporate loan market receives relatively little attention in the financial media, it represents the largest component of the corporate debt capital market. As suspected, the market has been historically dominated by the major banks and barriers to entry are high due to the scale, expertise and capital required to ensure portfolio quality and diversification. Nonetheless, the Australian loan markets has remained the primary funding source for Australian corporations and represents ~65% of all Australian corporate debt. In contrast, the domestic corporate bond market represents just ~4% as many issuers prefer to issue debt securities in international bond markets for its cost-effectiveness and exposure to a broader range of investors or source debt capital via the domestic loan market. Overall, the corporate loan market presents an untapped income opportunity for Australian investors.

Figure 13. Australian Corporate Debt Market Composition



Source: ABS

Figure 14. Corporate Debt Security Issuance

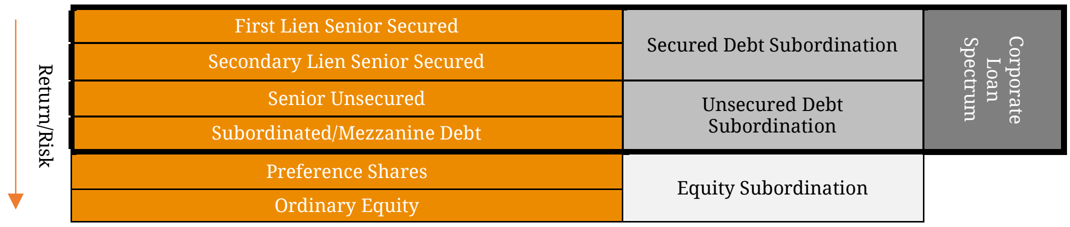


Source: Reuters

In its simplest form, a corporate loan is a debt funding arrangement between a company and a lender. The lender typically provides the company with a borrowing facility in which management can choose to draw-down from and repay as it deems fit. Similar to other loans, the company will pay interest on drawn debt and the facility will be subject to a maturity date where renegotiation will generally take place with the lender or the company will look to refinance from other funding sources. While the general concept is the same, Australian corporate loans typically fit into Bilateral Loan, Club-Style Loan and Syndicated Loan and are one of many funding sources available to companies in the capital market.

To fulfill funding requirements, businesses can either choose to raise debt or equity capital which is further segmented into options of varying tenors and structures. Dependent on the arrangement with the lender, loans can be secured against certain assets (i.e. collateral) or unsecured. These obligations can be further classified into different levels of subordination on both a secured and unsecured basis which in turn forms the company's capital structure. Contingent on the funding requirements of the company, loans can be structured customarily but due to regulatory constraints and internal risk management frameworks, lenders primarily loan funds under senior secured rankings arrangements.

Figure 15. Corporate Capital Structure Example



Source: BondAdviser

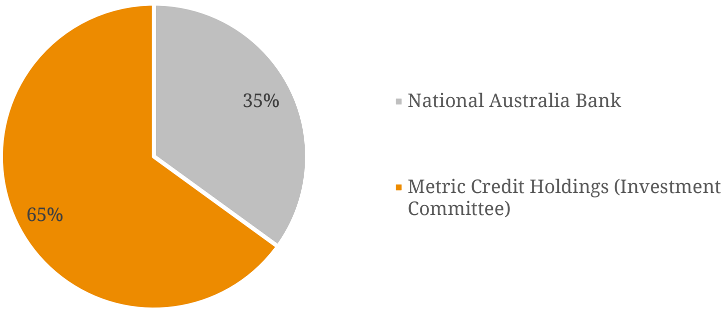
As a result, corporate loans almost always rank ahead of other investors in the capital structure making the sub-asset class to be one of more low-risk investments in the fixed income universe. However, the corporate loan market has lower liquidity relative to other fixed income instruments and valuation is less transparent. For this reason, seasoned expertise is required to operate in this specialist market which, among other things (i.e. capital requirements, regulation), has historically hindered external investment.

About Metrics Credit Partners

Metrics Credit Partners (MCP) is a specialist fixed income and credit fund manager providing expertise to investors seeking opportunities in global debt (credit and fixed income) markets. MCP's Investment Team is comprised of senior and experienced market specialists with on average 30 years' experience investing in and managing corporate debt assets (loans, bonds and associated products). MCP has the capability to support investors looking to access corporate debt including listed and unlisted corporates, infrastructure, leveraged & acquisition and property debt, across the entire credit risk spectrum.

The team responsible for managing the investments of the MCP Master Income Trust will be led by the Investment Committee which consists of four seasoned professionals who are highly experienced. The investment committee is responsible for portfolio construction, investment decisions, borrower engagement, investment monitoring and cash flow management. The four managers on the investment committee collectively own 65% of Metrics Credit Partners Pty Ltd with the remaining 35% being own by National Australia Bank (ASX: NAB). The summary biographies for each member for the investment committee are below.

Figure 16. Metric Credit Partners Ownership Percentage



Source: Company Reports

Investment Committee

Justin Hynes – Justin has considerable loan origination, structuring and portfolio management experience, including workout and restructuring experience. Justin has extensive acquisition and corporate finance experience in both an advisory and principal capacity in Australia and South-East Asia. Justin has approximately 20 years' financial markets experience, and previously specialised in leveraged and acquisition finance as well as corporate finance. Justin holds a Bachelor of Commerce and Bachelor of Japanese Studies from the Australian National University.

Andrew Lockhart – Andrew has considerable loan origination, structuring and portfolio risk management experience and has been responsible for the management of large, diversified and complex loan portfolios including considerable corporate restructuring experience. Andrew has approximately 30 years' banking, funds management and financial markets experience and previously specialised in leverage and acquisition finance as well as corporate and institutional lending. Andrew holds a Bachelor of Business and Masters of Business Administration from the Queensland University of Technology.

Graham McNamara – Graham has considerable commercial banking experience covering portfolio risk management, debt origination and distribution, agency management and corporate banking. Graham has approximately 37 years' experience in banking, funds management and financial markets and has established the loan syndications and agency businesses at major Australian banks. Graham served as a director of the Asia Pacific Loan Market Association and was the founding chairman of the Association's Australian Branch. Graham is a Member of the Australian Institute of Company Directors.

Andrew Tremain – Andrew has considerable Australian, European and Asian banking experience covering corporate, structured, leverage and acquisition finance, portfolio management and relationship management. Andrew has approximately 30 years' experience and previously specialised in leveraged and acquisition finance as well as loan syndications. Andrew holds a Bachelor of Commerce from Macquarie University.

Appendix 1: MCP Diversified Australian Senior Loan Fund Profile

The MCP Diversified Australian Senior Loan Fund (DASLF) actively invests and manages a large, diversified portfolio of primarily Australian Corporate loans.

The size of the fund stands in excess of $2 billion as of March 31, 2017, with 51 diversified investments across transportation (24%), consumer services (17%), oil & gas (9%) and no other industry representing more than 12% of the portfolio. The largest single exposure is 9% of Gross Asset Value (GAV) and the 10 largest investments represented 37%.

A number of significant external events affecting the banking industry in recent years have opened a window of market opportunity for MCP as a non-bank investor to exploit this lucrative market segment previously dominated by banks. Firstly, the Global Financial Crisis (GFC) resulted in a material change in the composition and cost of Australian banks' funding mix, raising the price threshold below which it is uneconomic to lend. Secondly, banks are faced with increasingly stringent regulation which add to their operating costs. The combined result is an overall increase in banks' costs of funds and reduced lending volume on less favourable terms to senior corporate loan borrowers.

The MCP Diversified Australian Senior Loan Fund is an accessible and scalable means for non-bank investors to capitalise on this market opportunity and enable investment in a tightly held market. As a low-cost aggregator of investor capital, the fund has overcome market barriers to entry and offers the economies of scale, diversity and risk adjusted returns historically only available to banks.

Summary			
Structure	Open Ended Unit Trust	Investment Parameters	Limits
MIT Weighting	60-70%	Leverage Limit	<30% of GAV
Benchmark	90-Day BBSW	Senior Ranking Limit	>90%
Target Return	Benchmark + Margin	Australian Dollars	>80%
No of Assets	51	Australia Domicile Limit	>80%
Asset Duration	3 Years	Investment Grade Assets	<80%
Senior Ranking	97%	Sub-Investment Grade Assets	<50%

Figure 17. DASLF Historical Returns

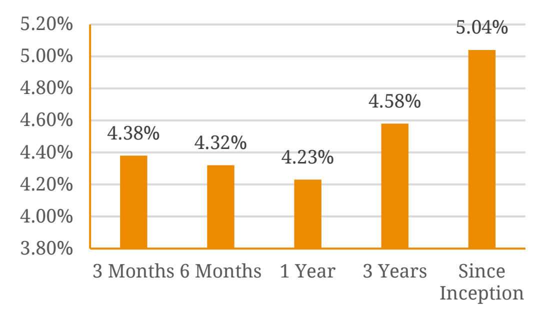


Figure 18. DASLF Credit Rating Distribution

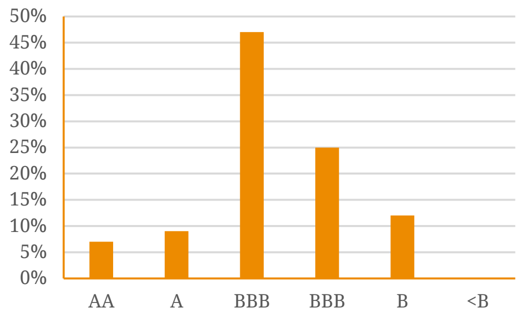


Figure 19. DASLF Maturity Profile

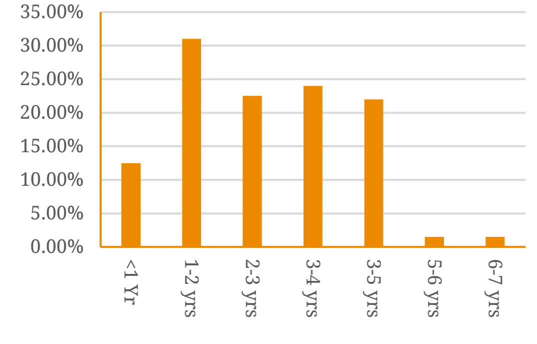
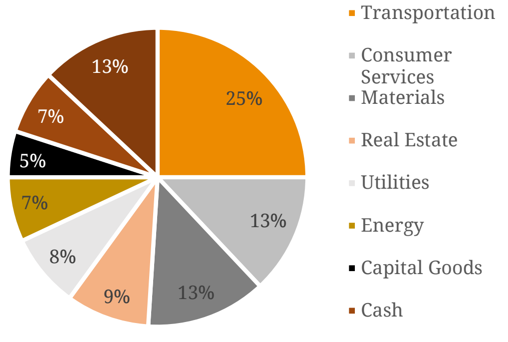


Figure 20. Sector Distribution



Appendix 2: MCP Real Estate Debt Fund Profile

The MCP Real Estate Debt Fund (REDF) invests in and manages a diversified portfolio of Australian Commercial Real Estate (CRE) debt loans. The fund holds Australian domiciled, diversified investments broadly reflecting the types of lending activities in Australia's CRE debt market. The portfolio is diversified by sector (industrial, retail, residential development and office), geography (across states in both metropolitan and regional corridors), stage of development (development, brownfield and REIT) and position in the capital structure (senior and junior).

Australia's banks are currently under increasing regulatory pressure to restrict capital to the real estate sector resulting in opportunities to lend beside and at levels previously provided by banks at attractive margins. Beyond consumer mortgage and investment lending (which is the focus of the current regulatory attention), real estate still represents the largest sector loan exposure for Australia's domestic banks (industrial, retail, residential development and office). Most investors have limited means of accessing this market and lack the scale to achieve a beneficial level of diversification. This MCP Real Estate Debt Fund is designed to address this issue and allow eligible wholesale and retail (through the MIT) investors access to a diversified portfolio of CRE debt assets.

Summary			
Structure	Open Ended Unit Trust	Investment Parameters	Limits
MIT Weighting	10-20%	Leverage Limit	<50% of GAV
Benchmark	90-Day BBSW	Senior Ranking Limit	>60%
Hurdle Return	Benchmark + 5.00% net of fees	Australian Dollars	100%
No of Assets	N/A	Australia Domicile Limit	100%
Asset Duration	0.5 – 10 Years	Sector Diversification	<30% per Sector
Senior Ranking	N/A	Geographic Diversification	<35% per State

Appendix 3: MCP Secured Private Debt Fund II Profile

The MCP Secured Private Debt Fund II (SPDF II) actively invests in and manages a portfolio of Australian mid-market corporate loans. The portfolio will consist of directly originated loans to borrowers diversified across industries and capital structure positioning. Investments will be sub-investment grade and will include senior and subordinated loan assets, reflecting activity in Australia's mid-market corporate loan market.

In addition to Australia's $200 - 250 billion Syndicated & Club-Style Corporate Loan Market, there is a further $200 – 250 billion of less liquid corporate loans provided by banks. Comprising a variety of mid-market corporate, project and asset backed facilities, this market attracts an illiquidity premium currently only available to Australia's major banks.

Summary			
Structure	Open Ended Unit Trust	Investment Parameters	Limits
MIT Weighting	20-30%	Leverage Limit	<50% of GAV
Benchmark	90-Day BBSW	Senior Ranking Limit	>70%
Hurdle Return	Benchmark + 4.00% net of fees	Australian Dollars	100%
No of Assets	N/A	Australia Domicile Limit	100%
Asset Duration	0.5 – 10 Years	Investment Grade Assets	Minority
Senior Ranking	N/A	Sub-Investment Grade Assets	Majority

Research Methodology

Every research report prepared by BondAdviser includes a clear recommendation - **Buy**, **Hold** or **Sell** - on the security. This recommendation framework is designed to help investors navigate different investment opportunities by identifying the market price, yield, term to maturity, liquidity, volatility and risk.

The guide below may help you understand our research opinions. For further information on our research approach, you can refer to our RG79 statement by **clicking here**.

Research Opinions key

- **Buy** - Over the next 12 months, the analyst expects the security to outperform the current yield due to credit spread tightening or favourable movements in the underlying yield curve.
- **Hold** - Over the next 12 months, the analyst expects the security to provide stable returns broadly inline with the current yield but with little credit spread tightening.
- **Sell** - Over the next 12 months, the analyst expects the security to underperform the current yield due to credit spread widening or adverse movements in the underlying yield curve.
- **Suspended** - The recommendation has been suspended temporarily due to the disclosure of new information or market events that may have a significant impact on our recommendation. This also includes situations where we have been given non-public information and we need to temporarily suspend our coverage in order to comply with applicable regulations and/or internal policies.
- **Not Rated** - A security that has not been assigned a formal recommendation.

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Important Information