

# METRICS CREDIT PARTNERS

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September 2022

Metrics. A new measure.



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# INVESTING IN PRIVATE DEBT



## PRIVATE DEBT DELIVERS CONSISTENT AND DIVERSIFIED INCOME

- As a **private market**, income is less exposed to public market volatility
- Portfolios are typically **diversified** across industries, sectors and credit quality
- Regular income is received from **floating rate interest** payments of borrowers
- Borrower diversification increases **stability of returns** and reduces concentration risk
- Loans are **short-dated, secured financial contracts** which enhances return stability

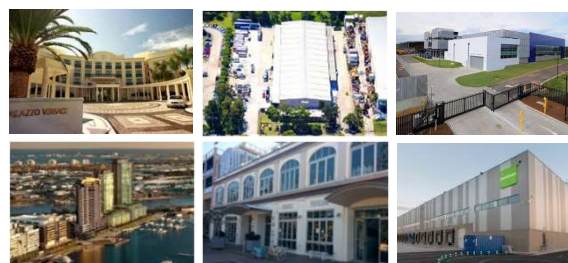
### CORPORATE



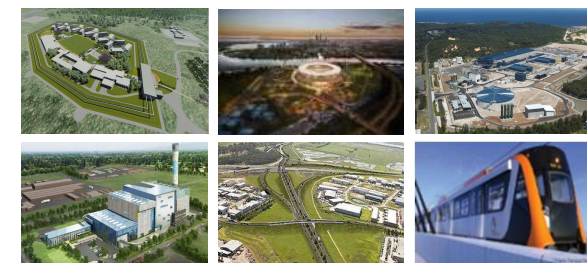
### LEVERAGED FINANCE



### COMMERCIAL REAL ESTATE



### PROJECT FINANCE



# KEY FEATURES OF AUSTRALIAN PRIVATE DEBT



## CAPITAL STABILITY



### Structural Protections in Australia

Benefits of Australian corporate insolvency regime gives lenders protections to guard capital



### Relationships with Borrowers

Regular communication with borrowers ensures the private debt manager can more effectively manage risk



### Financial Contracts

Covenants are negotiated & documented in loan agreements to control risk. These include Controls, Security, Pricing & Reporting obligations

## ATTRACTIVE INCOME



### Inflation Hedge

Corporate loans are typically floating rate, unlike the largely fixed corporate bond market



### Income Generating Assets

Regular income received from interest payments made by borrowers



### Opportunity and Diversity

Australian private loan market is diversified over industries, sectors and credit quality

## PROTECTING INVESTOR CAPITAL IS PARAMOUNT IN ANY ECONOMIC ENVIRONMENT

	WHAT GOES UP?	WHAT STAYS THE SAME?	WHAT GOES DOWN?
RECESSION	CREDIT SPREADS	TERMS, CONDITIONS, COVENANTS & CONTROLS	LENDING VOLUMES
NON-RECESSION	LENDING VOLUMES	TERMS, CONDITIONS, COVENANTS & CONTROLS	CREDIT SPREADS

FLOATING RATE PRIVATE DEBT INSULATES CAPITAL VALUE AGAINST INTEREST RATE MOVEMENTS

# HOW TO ACTIVELY GENERATE INCOME THROUGH PRIVATE DEBT?



## 3 STEPS TO ACHIEVE ATTRACTIVE RISK-ADJUSTED RETURNS



### THE PRIVATE DEBT ADVANTAGE

- ✓ Co-operative relationship between lender and borrower
- ✓ Direct origination capability enhances returns for investors
- ✓ Regular communication enables private debt manager to more effectively manage risk

# KEY RISK FACTORS



## RISKS CAN BE MITIGATED BY TAKING AN INFORMED, CAREFUL APPROACH

RISKS		RISK MITIGATION
<b>CREDIT/ DEFAULT RISK</b>	<ul style="list-style-type: none"><li>&gt; Credit risk: Borrower's financial status declines</li><li>&gt; Default risk: Borrower defaults on obligation to pay interest or principal</li></ul>	Select high quality borrowers and perform detailed credit risk analysis on an ongoing basis
<b>DOMESTIC/ INTERNATIONAL</b>	<ul style="list-style-type: none"><li>&gt; Australia has a robust, lender friendly corporate insolvency regime</li><li>&gt; International loans introduce foreign exchange risk</li></ul>	Australia has a robust, lender friendly corporate insolvency regime compared to U.S and Europe
<b>LIQUIDITY</b>	<ul style="list-style-type: none"><li>&gt; Loans are illiquid assets with tenors of 1-7+ years</li></ul>	Select shorter-dated loans of 3-5 years
<b>LEVERAGE</b>	<ul style="list-style-type: none"><li>&gt; Some asset class managers may introduce a higher level of leverage to boost returns while taking on additional risk</li></ul>	Conservative levels of portfolio leverage (<30%) may be considered to assist with liquidity needs
<b>PORTFOLIO MANAGEMENT</b>	<ul style="list-style-type: none"><li>&gt; Portfolio construction can have an impact on capital preservation, e.g. concentration risk with large exposures to single borrower/sponsor</li><li>&gt; Maturity/duration can be an issue given illiquid asset class</li></ul>	Portfolio should be diversified by borrower industry and across the credit spectrum. Rigorous credit analysis minimises investment risks.

# MANAGER SELECTION CRITERIA



## AS A PRIVATE ASSET CLASS IT'S IMPORTANT TO CHOOSE YOUR MANAGER CAREFULLY



### Track Record of Performance

Seek evidence from the manager of regular income payments to investors and that they have been meeting their investment targets over time.



### Size and Scale

Managers need a sizeable team and breadth of market coverage to be meaningful to borrowers and better able to negotiate favourable terms.



### Origination Capability

Check the manager has direct relationships with borrowers and the expertise to directly negotiate appropriate fees and margins.



### Diversified Portfolios

A diversified portfolio helps to spread risk across sectors. Investors should look for portfolios that are diversified across industries and the credit spectrum.



### Risk Management Capability

A strong focus on risk management and experience in loan restructuring in the event of a default is essential to preserve investor capital.



### Appropriate Fund Terms

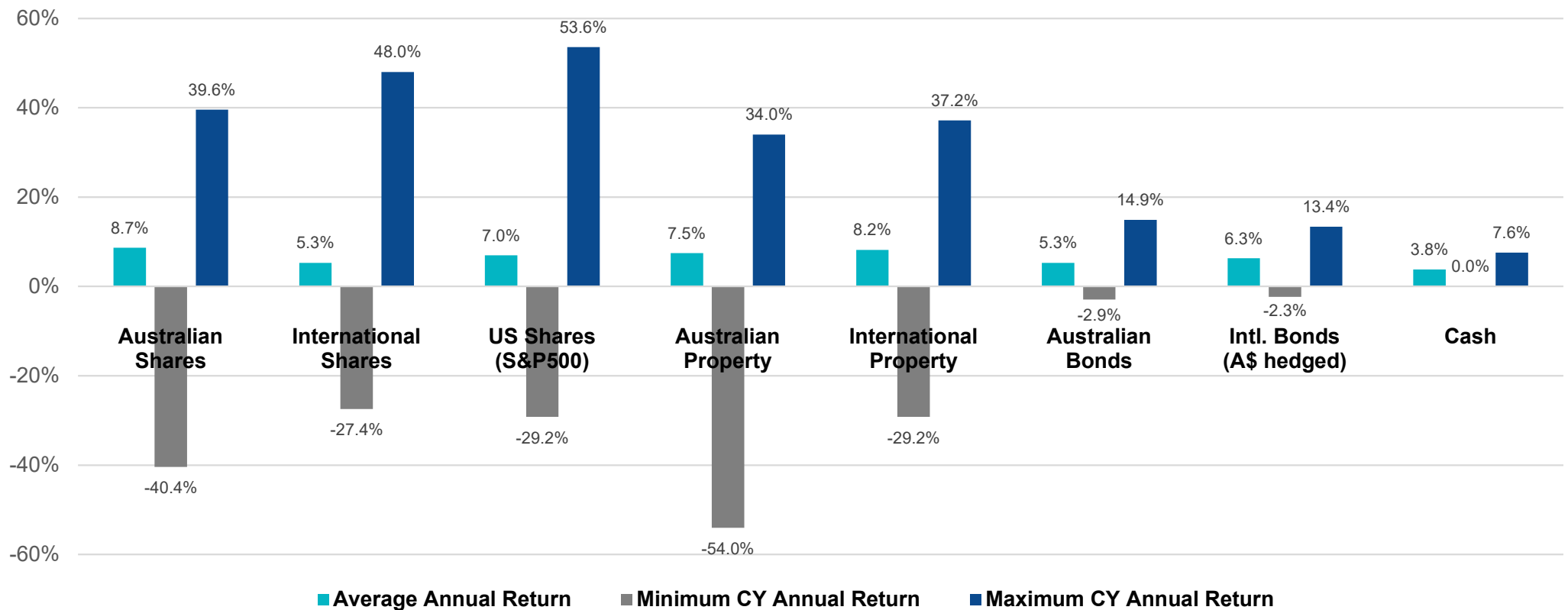
When negotiating a transaction with a borrower, the lender must ensure they achieve appropriate terms and conditions and put in place controls and covenants. These are designed to manage risk and protect investor capital.



# PUBLIC MARKETS HAVE SHOWN VOLATILITY



## ANNUAL ASSET CLASS PERFORMANCE OVER THE LAST 20 YEARS

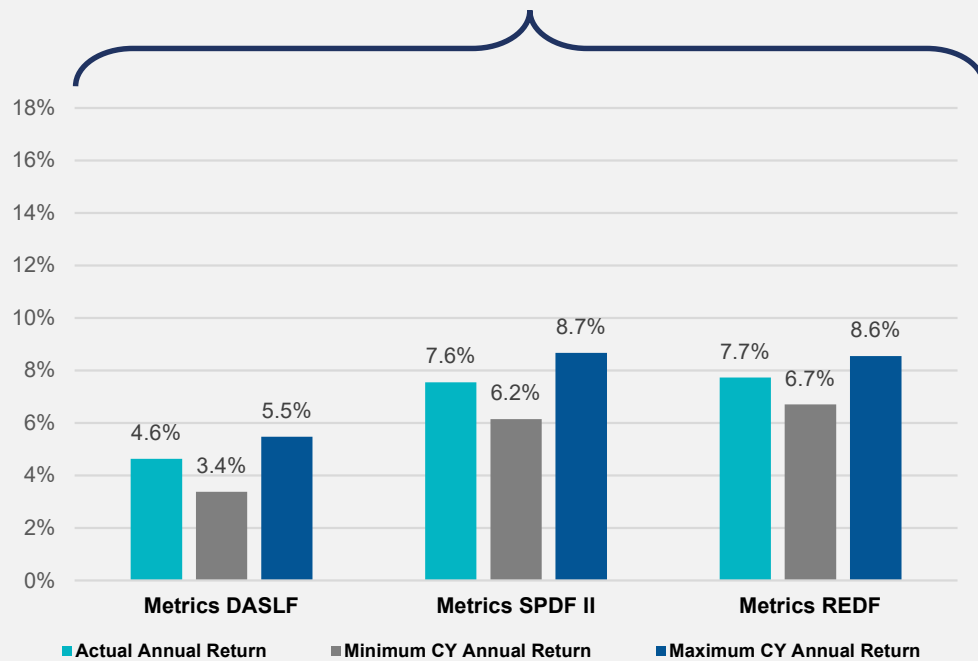


Past performance is not a reliable indicator of future performance. For illustrative purposes only.  
Source: Vanguard as at 31 December 2021. Asset class returns from January 2002 to December 2021.

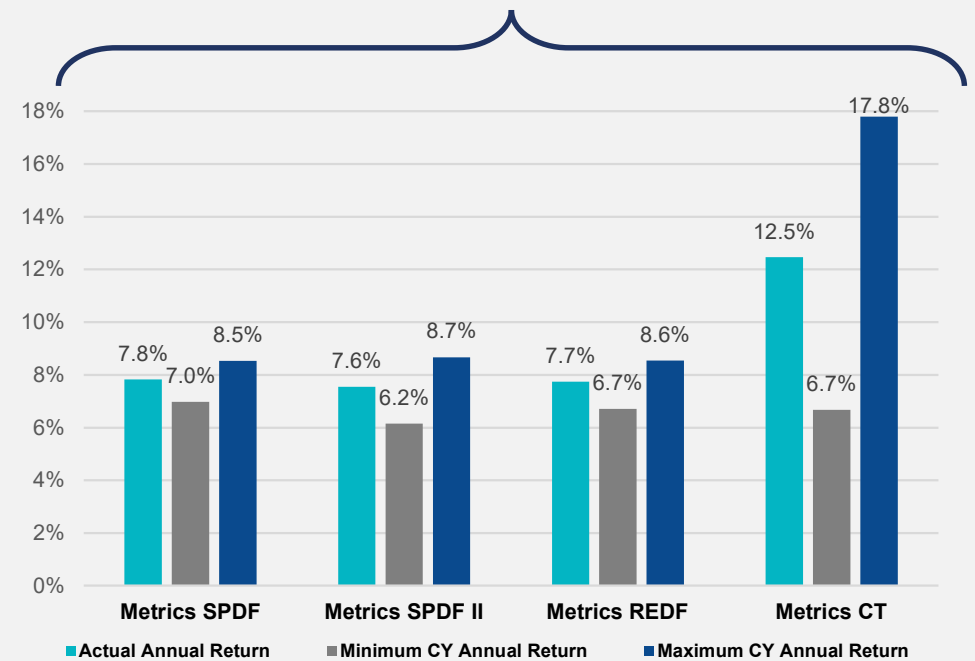
# AUSTRALIAN PRIVATE DEBT HAS PROVIDED AN ATTRACTIVE AND STABLE SOURCE OF INCOME



## METRICS MASTER INCOME TRUST (ASX: MXT) & METRICS DIRECT INCOME FUND



## METRICS INCOME OPPORTUNITIES TRUST (ASX: MOT)



Past performance is not a reliable indicator of future performance. For illustrative purposes only. Source: Metrics as at 31 December 2021. Metrics DASLF represents the Metrics Credit Partners Diversified Australian Senior Loan Fund since inception (June 2013), Metrics WIT represents the MCP Wholesale Investments Trust since inception (July 2017), Metrics SPDF represents the MCP Secured Private Debt Fund since inception (November 2015), Metrics SPDF II represents the MCP Secured Private Debt Fund II since inception (October 2017), Metrics REDF represents the MCP Real Estate Debt Fund since inception (October 2017), Metrics CT represents MCP Credit Trust since inception (December 2018).

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