March 2020

MCP INCOME OPPORTUNITIES TRUST

Quarterly Update

KEY POINTS

- **Despite material economic headwinds and current public market volatility, MOT's portfolio continues to deliver capital stability reflected in the daily published NAV.**
- **MOT has continued to deliver strong monthly cash income. *Past performance may not be repeated.***
- **MOT's Unit Price has traded materially its net asset value albeit on thin volumes.**
- **Given current market conditions the funds to which MOT is exposed may take advantage of further restriction and availability of capital and believe attractive transaction opportunities will become available during this period of market uncertainty.**
- **There will be a Livewire webinar interview with James Marley at 2pm on 2 April 2020 to provide an update on the portfolio and market outlook. Email invest@metrics.com.au for details.**

Economic and Market Conditions

- The spread of COVID-19 has quickly evolved into an event that has created substantial public market volatility and is resulting in a significant working capital liquidity squeeze for companies globally. Government action to halt the rapid spread has seen dramatic declines in company revenues across many sectors.
- Based on current responses, there is likely to be a significant increase in debt within the government and corporate sectors and unfortunately rising unemployment, falling asset values and a need for corporate balance sheet repair to reduce leverage by way of future dilutionary equity raisings for shareholders.
- Dividend distributions from companies are likely to be impacted as corporates seek to retain future earnings to restore liquidity buffers and balance sheets. If these risks eventuate and economic activity takes longer to recover then investor returns from traditional growth assets are expected to be lower.
- The education (including student accommodation), tourism & travel, retail, retail & commercial properties, hotel & hospitality industries have been most immediately impacted. In tandem with this pandemic has been further volatility in the price of oil impacting an energy sector that has only recently recovered from 2015-16.
- To add to the real economic shock public equities, fixed income and offshore credit markets have experienced significant volatility, with market movements exaggerated by leverage, poor liquidity and position covering.
- The NAV of ASX-listed trusts that participate in these public markets reflect this volatility and the inherent lower credit quality of assets held. Volatility is amplified by holding instruments with longer tenor, lower credit quality, weaker covenants and weaker controls around leverage and distributions or subordinated notes in investment vehicles.

The Trust Company (RE Services) Limited ABN 45 003 278 831 AFSL 235 150 is the Responsible Entity of MCP Income Opportunities Trust and the issuer of this quarterly update.

Trust Information

Trust	MCP Income Opportunities Trust ARSN 631 320 628
ASX Ticker Code	MOT
Price/NAV (share)(1)(2)	$1.48/$2.00
Market Cap./NAV (1)(2)	$256m / $348m
Unit Pricing	Daily
Distributions	Monthly

Responsible Entity
The Trust Company (RE Services) Limited ACN 003 278 831 AFSL 235 150.

Investment Manager
Metrics Credit Partners Pty Ltd ACN 150 646 996 AFSL 416 146 (Metrics).

Investment Objective
Provide monthly cash income, preserve investor capital and manage investment risks while seeking to provide potential for upside gains through investment in private credit and other assets such as warrants, options, preference shares and equity.

Investment Strategy
Provide exposure to the full spectrum of private credit investments. MOT will be mostly exposed to loans, notes and bonds, however may also provide investors with the potential for upside gains through exposure to private equity and equity-like investments.

Target Return
Target Cash Return of 7% pa net of fees paid monthly.

Target Total Return of 8-10% net of fees through the economic cycle.

Investment Highlights

- Monthly cash income with potential to participate in upside gains
- Access to the private credit market and asset class diversification
- Experienced and active management team with proven track record

Fund Performance to 31 March 2020

	1mth	Incep(3)(4)
Net Return (%)	0.59	7.28
RBA Cash Rate (%)	0.04	0.96
Distribution (%)	0.67	6.77
Spread to RBA (%)	0.63	5.82

Past performance is not a reliable indicator of future performance.

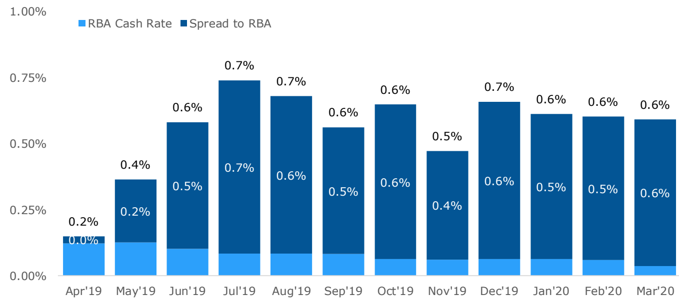
MCP INCOME OPPORTUNITIES TRUST

Fund Performance

Past performance is not a reliable indicator of future performance.

- MOT's net returns have been 0.6-0.7% per month. These returns reflect net operating cash income from interest and fee income generated across the portfolio of loan assets to 69 Australian corporate and project borrowers. There are also 4 equity or equity like investments in the funds to which MOT is exposed.
- MOT has consistently delivered cash income (monthly distributions from October 2019) and a net return of 7.3% pa since inception. MOT has never had a negative month of income.

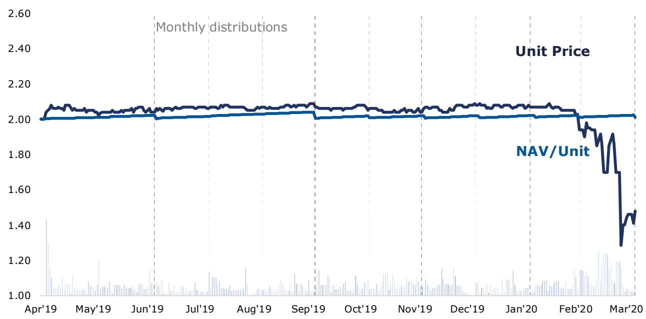
Monthly Return (Net of Fees)(4)



Trading Performance

- The discount of MOT's unit price to NAV is not easily explained by reference to the fundamental values of the performing instruments which it is exposed.
- The loans to which MOT is exposed are mostly short dated mitigating credit and market risk, and have been originated over time resulting in regular repayments at par. The weighted average tenor of MOT's loan investments is 1.7 years (excluding equity and equity-like instruments), with a staggered repayment profile.
- MOT's Responsible Entity is of the view is that the market has potentially ignored or misunderstood the differences between MOT's assets and the publicly traded fixed income and credit instruments predominantly held by other credit listed investment trusts.

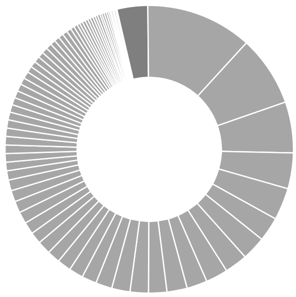
NAV / Unit and Unit Price Performance



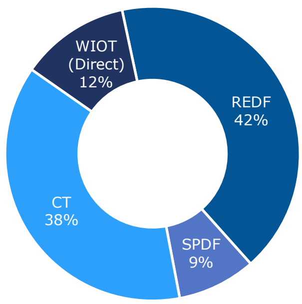
Portfolio Construction(5)

- MOT's underlying portfolio is well diversified with average borrower exposure <1.5% per counterparty.
- MOT's largest risk is borrower credit risk, this is, the risk of actual loss of capital in the event of a default. Such a loss would arise after all recovery actions have been taken. This is sought to be mitigated by detailed credit analysis, structuring loans reflecting risk and ensuring appropriate covenants and controls to allow for active monitoring and loan management. Please refer to page 6 in respect of the impact of COVID-19 on MOT.
- MOT's Commercial Real Estate (**CRE**) debt exposure is secured by freehold property at an average loan-to-value ratio (**LVR**) of 66%, providing alignment with the interests of equity holders.
- 47% of MOT's underlying assets are senior ranking loans controlling enforceability. The subordinated positions to which MOT is exposed generally benefit from contractual rights to acquire the senior debt in order to protect value, if needed.

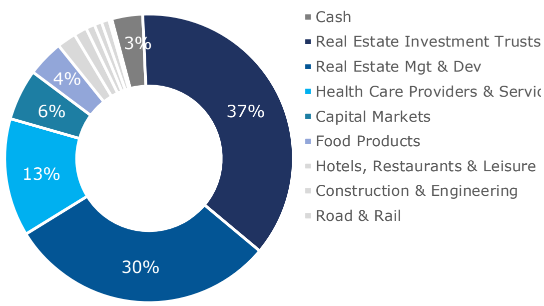
Borrower Diversification(6)



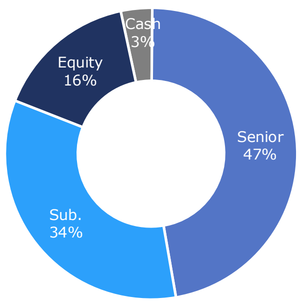
Wholesale Fund Investment



Industry Diversification(7)



Ranking in Capital Structure

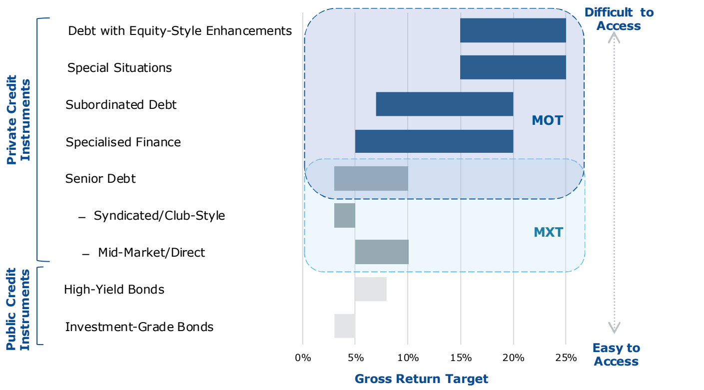


March 2020

MCP INCOME OPPORTUNITIES TRUST

MOT's Investment Universe

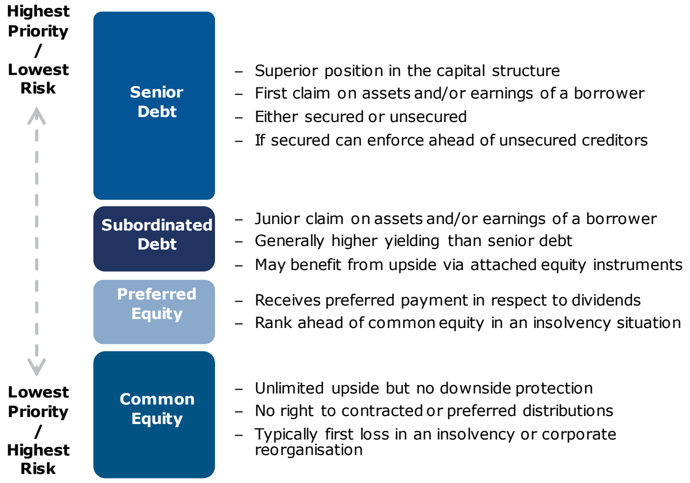
- MOT provides investors with exposure to private credit instruments which are privately originated and negotiated (not publicly / exchange traded).
- Private credit instruments are difficult to access, and generally only available to institutional investors.
- By contrast to the MCP Master Income Trust (ASX:MXT) which is managed by the same investment manager as MOT, MOT has a higher risk mandate across the credit spectrum which is intended to generate higher returns demonstrated by the higher Target Return. ***The Target Return is only a target and may not be achieved.***



Position in the Capital Structure

Senior and subordinated lenders typically benefit from extra protections that are not provided to equity:

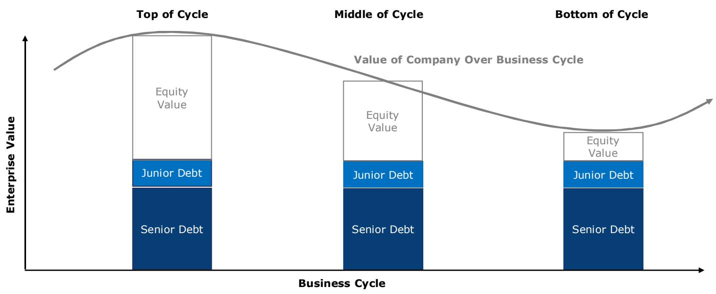
- Covenants: restrictions on amount of debt / triggers for lenders to restructure or enforce e.g. leverage (debt/earnings) and debt to asset valuations.
- Controls: there are restrictions on borrowers to keep cash available for debt payments or recover e.g. no additional debt or making loans, selling assets etc.
- Protections: in enforcement, secured lenders have first right to cash from asset disposals, business cashflow etc ahead of other creditors and equity.
- Monitoring: lenders are often entitled to receive non-public reporting e.g. management accounts.



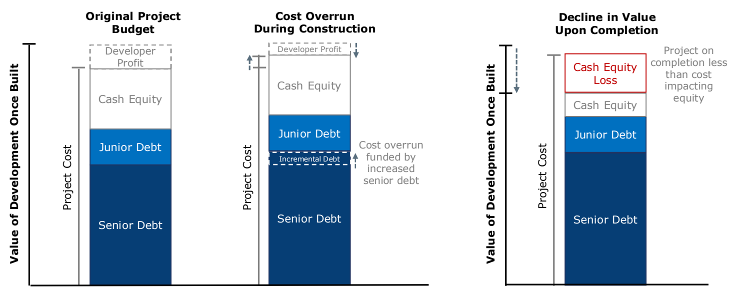
Equity at Risk

- In Australia's Syndicated & Club-Style Loan Market, except for large investment grade ASX-listed corporates, almost all corporate loans are secured.
- Security is over all the rights and assets of the borrower, its shares and often guarantees from a parent company or owner/sponsor.
- If a loan defaults, a lender can enforce on its security and recover amounts owing. Australia's personal bankruptcy and corporate insolvency legal regime is protective of the rights of lenders.
- A lender will ensure equity wears the risk of underperformance by advancing an amount of debt commensurate with the risks of the company or project, and will structure a loan with covenants and controls to enable a lender to act to protect itself where necessary.
- A lender negotiates covenants and controls to ensure they have a mechanism to monitor and act to protect the value of their investment where risk arises. Project loans are structured around a pre-approved construction budget with controls around the release of funding drawdowns.
- These examples show how equity wears the risk of loss before debt, including in adversity.

Example of Equity at Risk in a Corporate Loan



Example of Equity at Risk in a CRE Loan



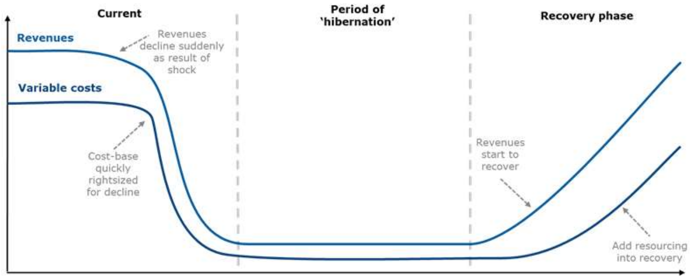
Working Capital Liquidity Squeeze

A working capital liquidity squeeze brought on by a sudden shock like a pandemic require business to quickly right size their cost base to ensure they can trade on within resource capacity.

Earnings Impact

- Sudden unanticipated deterioration in revenues.
- Management move to quickly reduce costs:
  - Reduce / renegotiate labour cost
  - Negotiate rental relief with landlords
  - Slow down outstanding supplier payment
- Once cost base is rightsized, trade business on in a manner reflective of the uncertain outlook.
- With recovery, revenues typically grow faster than costs driving margin expansion.

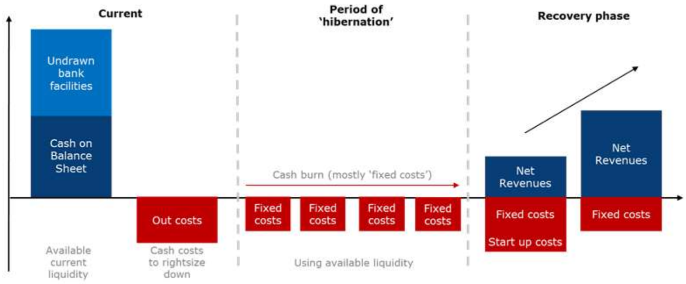
Response to Liquidity Shock



Cash Flow Impact

- Initial expenses associated with rightsizing the cost base (i.e. pay out redundancy entitlements)
- Assess available liquidity:
  - Cash on balance sheet
  - Lines of credit available from bank
- Available liquidity assessed in light of projected earnings and cash burn. Government has legislated temporary headroom for Company Directors loosening Director Duties obligations.
- With recovery, start incurring expenses to grow. This requires cash (i.e rebuild working capital).

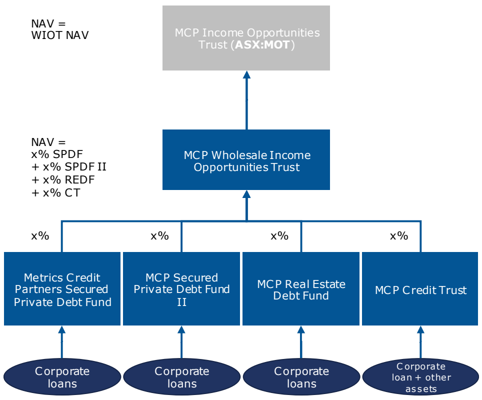
Managing Liquidity



Understanding MOT's Net Asset Value (NAV)

- MOT holds units in the MCP Wholesale Income Opportunities Trust (WIOT) which may hold units in 4 Metrics managed funds **(Underlying Funds)**:
  - MCP Secured Private Debt Fund I (A$257m wholesale fund);
  - MCP Secured Private Debt Fund II (A$463m wholesale fund);
  - MCP Real Estate Debt Fund (A$608m wholesale fund); and
  - MCP Credit Trust (A$277m wholesale fund).
- Across these 4 funds, MOT is exposed to loan assets to 69 Australian corporate and project borrowers and 4 equity or equity like investments. MOT's NAV is indirectly the sum of the value of all these loan assets.
- Each Underlying fund is audited by an international accounting firm including loan carrying values.
- Each day loans are priced in accordance with each Underlying Fund's valuation policy. Value comprises carry value plus accrued interest. Value builds in each Underlying Fund's NAV, which flows up through WIOT into MOT's daily published NAV.

MOT's NAV



Underlying wholesale fund NAV = value of loans / other assets.
Calculation of MOT NAV starts by valuing the underlying corporate loan/other assets and feeds up through each fund to MOT at the top.

Valuing a Corporate Loan

- Loans impose a legal contractual obligation on borrowers to repay debt on a maturity date.
- A loan gets repaid and the lender receives cash.
- If the borrower doesn't repay the full amount, they are in default.
- Corporate loans are almost always secured enabling the lender to enforce securities to recover the outstanding debt if not repaid.
- Corporate loans also typically have covenants and controls to enable the lender to monitor risk and to act to protect value if borrower performance deteriorates.
- Valuing loans is relatively straight forward and verifiable upon repayment. In this respect unlike other asset classes, valuations are less subjective.

Portfolio Impact of COVID-19 Pandemic

Some borrowers in MOT's underlying loans are experiencing disruption albeit impacting equity values rather than the value of the debt facilities. Disruption is different depending on whether the borrower is a corporate or project. The volatility evident in public equity, fixed income and offshore credit markets is absent in Australia's bank-dominated Corporate Loan Market, reflecting a private market where borrowers and lenders engage directly and where credit risk is the primary focus. This economic shock is expected to trigger a variety of financial covenants requiring borrowers to update lenders and negotiate alternative arrangements.

The speed and severity of the economic impact of this pandemic has resulted in increased credit risk management across MOT's portfolio, however based on current information and the appropriate response of management, it is believed that the potential risk of loss still firmly resides with equity. It is also expected that if a borrower were to default there are a number of ways in which exposures can be managed to potentially avoid the risk of loss to lenders. At present, in MOT's underlying investments, there are no borrowers in default, no bad debts and no arrears of either principal or interest. ***Past performance is not a reliable indicator of future performance.***

Supply Impact

- For Corporate borrowers the supply of some inputs has been disrupted due to reliance on offshore markets and China in particular. Factory closure was the primary cause rather than logistics issues. MOT was exposed to a small number of borrowers who had experienced disruption awaiting supplies from China and were utilising inventories, however have since been advised supply is normalising as factories re-open.
- Project borrowers currently being impacted by supply issues are those that are reliant on specifically engineered building materials from China / offshore that have been delayed due to factory shut downs or delays in global supply chains. Examples include lifts, building façade components or specific technical components for large infrastructure projects. While MOT has some exposure to construction there is not any notable evidence of delays as sites have been able to source alternate supplies or re-sequence programmes to achieve outcomes.

Demand Impact

- Industries most immediately impacted by the sudden fall in demand are the Discretionary Retail, Education, Tourism & Travel, Hotels & Hospitality, Entertainment and Consumer Auto sectors. Revenues have declined as travel bans impacted volumes and most recently government enforced temporary cessation of trading.
- Projects impacted are those that have recently reached completion with construction facility repayment tied to settlement of completed apartments / land lots. Borrowers to whom MOT is exposed have not experienced any failure of purchasers to settle although there has been some delays where buyers cannot undertake presettlement physical inspections of properties. MOT has 3.3% of loans to which it is exposed currently repaying from settlements.

Liquidity Impact

- Across the economy there is clearly evidence of liquidity stress with borrowers actively engaged with lenders regarding liquidity. With uncertainty regarding the longevity of this pandemic, lenders are looking out 12 months in advance. Industries most impacted are also Australia's largest employers and commercial property tenants. The impact being felt in these industries is severe, and government assistance has been necessary. Banks are being instructed to engage proactively with borrowers and the government has taken steps (financially and legally) to facilitate this.
- Project borrowers experiencing liquidity issues are those that have new project commencement delays which increase holding costs or if there is loss of tenant income due to retail closures. MOT has exposure to pre-development sites however a number of these actually generate holding income from previous use or sponsor guarantees that have other income sources. MOT has no direct commercial real estate exposures to the retail sector of any note.

Management of credit risk during COVID-19

- MOT's investment manager is of the view that some loans held within the Trust are exposed to a working capital / liquidity squeeze and it is noted that lenders are working constructively with company management.
- Where necessary some borrowers are seeking to defer the cash payment of interest (requested to capitalise) until operations normalise and some covenant waivers have been requested. As part of this process lenders will negotiate or renegotiate appropriate controls and pricing to reflect the current circumstances and to ensure the preservation of their capital.
- In all cases, the investment manager of the Underlying Funds is actively engaged with borrowers and is comfortable that valuation risk remains firmly with equity. At this point equity and debt are highly aligned and motivated to preserve value.
- The portfolio of assets has been reviewed on the basis of the following key credit risks:
    - Available cash on balance sheet
    - Available committed undrawn revolving credit facilities available to the company.
    - Projected reduction to fixed operating costs as the impacted company goes into "hibernation"
    - Rate of projected cash burn and risk of less than 12 months liquidity buffers
    - Projected increase in leverage of the company as a result of the temporary impact to the business operations during the current period of dislocation.
    - Projected lower earnings upon re-commencement of resumed business operations.
    - Reduction to Enterprise or Project Values reflecting the changed market outlook.
- This analysis not only allows management of the current impact of the cashflow / liquidity squeeze but provides a basis for risk assessment once the period of pandemic induced market dislocation no longer exists.
- This analysis was completed and provided to the international accounting firm to assist with the month end portfolio credit review which is the basis upon which the NAV is calculated.

CONTACT DETAILS

METRICS

ABOUT THE INVESTMENT MANAGER OF MOT

The responsible entity of MOT has appointed Metrics as the investment manager of MOT. Metrics is an alternative asset manager with expertise in fixed income, private credit, equity and capital markets. Metrics has significant experience in corporate and institutional lending and currently manages assets in excess of A$5b. Metrics 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).

ENQUIRIES

Perpetual	**P** 1800 022 033	**W** www.perpetual.com.au	**A** Level 18, 123 Pitt Street, Sydney, NSW 2000
General	**P** 1300 010 311	**E** invest@metrics.com.au	
Unit Registry	**P** 1300 816 157	**E** metrics@automicgroup.com.au	

NOTES Past performance is not a reliable indicator of future performance (1) As at close of 31 March 2020 (2) Ex-distribution (3) Annualised (4) IPO 29 April 2019 (5) MOT invests in underlying Metrics funds which engage in direct lending activities (6) as a % of fund portfolio (7) MSCI and Standard & Poor's Global Industry Classification Standard