

Fund Research

Metrics Direct Income Fund



Overview

The Metrics Direct Income Fund (the “Fund”, “MDIF”) is an unlisted open-ended unit trust, domiciled in Australia, which provides retail investors exposure to the Australian corporate loan market. The Fund invests in wholesale funds that participate across the credit risk spectrum and are managed by Metrics.

Metrics has a similar Fund to MDIF that is listed on the ASX in the “Metrics Master Income Trust” (ASX: MXT). MDIF invests in Metrics funds through its Wholesale Investment Trust (WIT). Both MDIF and MXT invest in the WIT, however, MDIF also has the ability to invest in units of MXT. Both MXT and MDIF may gain exposure to the WIT by way of units or convertible notes in the wholesale funds.

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, MDIF offers a unique investment opportunity and exposure to a market typically not accessible to retail investors.

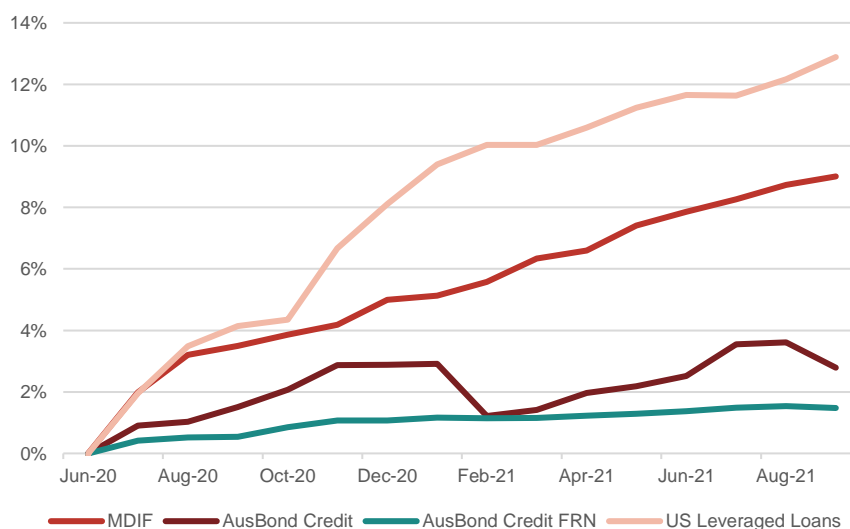
The investment objective of the Trust is to provide stable income with a target return of the **RBA cash rate plus 3.25% p.a.** (currently 3.35% p.a.) **after fees**, payable monthly.

Figure 1. Monthly Net Returns* (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	0.13	0.43	0.72	0.24	0.77	0.42	0.37	0.44	0.25				3.76
2020							1.99	1.19	0.28	0.35	0.32	0.77	4.90

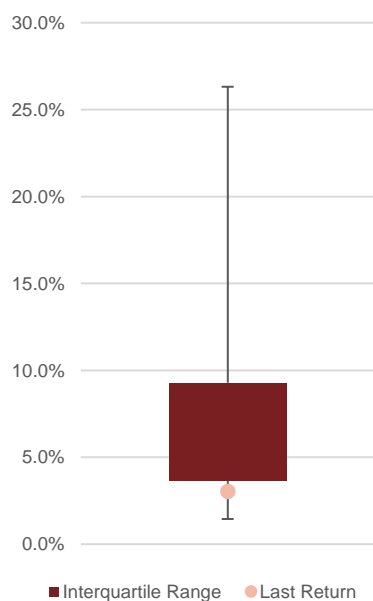
Source: BondAdviser, Metrics. As at 30 September 2021. May not sum due to rounding.
* Return is monthly net total return based on NTA plus dividends.

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.

Figure 2. Monthly Net Returns Box Plot



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

Product Assessment

Highly Recommended

A deteriorating bank appetite for corporate lending has created capital scarcity. This has resulted in ample opportunity and attractive pricing.

Strong credit quality in conjunction with a diversified base of individual borrowers supports an attractive risk adjusted return profile.

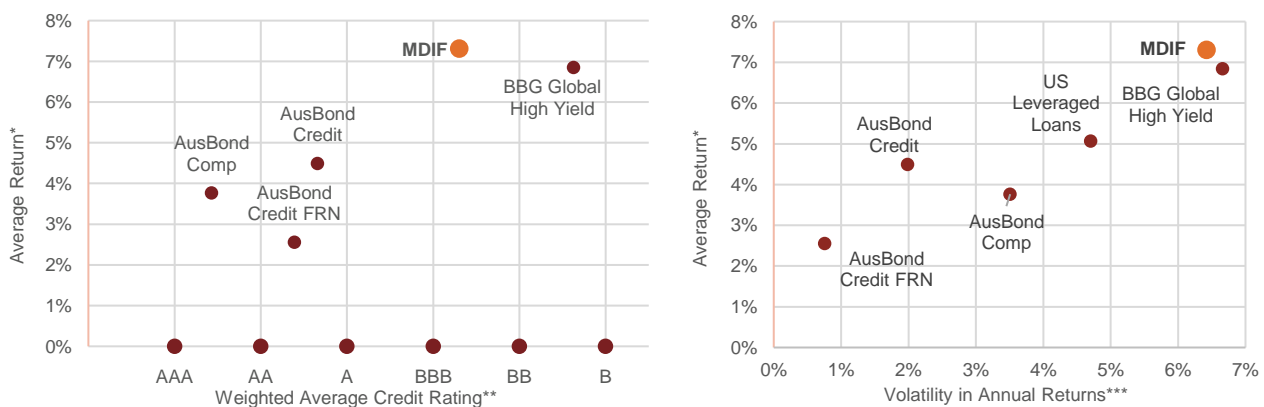
MDIF provides retail investors with unique exposure to the **domestic corporate lending market**. On an underlying basis, the Fund primarily consists of **senior secured floating rate exposure** to both investment grade and sub-investment grade companies. MDIF is a non-listed, open-ended Fund that invests in Metrics Wholesale Investment Trust (WIT) along with the capability to invest in Metrics Master Income Trust (ASX: MXT). MXT exclusively invests in the WIT. While MDIF is in its infancy, we are comforted by MXT's strong track record exceeding the target return for over three years.

This product is best suited for investors looking to generate an **attractive and steady return** from a **diversified portfolio of private loans**. As the 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.

MDIF has performed exceptionally well since inception having consistently outperformed the Fund's target. On a rolling 12-month basis, MDIF has returned 5.32% (net). It has delivered a net return of 7.14% since inception in July 2020, following a very strong initial two months of performance. As the impact of these months lessens over time, we would expect long-term returns to remain in line with the performance over the last 12 months.

The Fund does have a high degree of exposure to the real estate sector, and intra-industry correlations in this space mean we are near the limit of our comfort. However, Metrics has an eight-year track record of performance across the business cycle and has demonstrated skills, systems, and processes to limit credit risk. Furthermore, any concern is also mitigated by very strong diversification of counterparty risk. The Fund has continued to grow the number of individual borrowers with a portfolio now of 200+ individual borrowers. This has reduced the maximum single borrower exposure to an impressive 2.00%.

Figure 4. Estimated Risk-Adjusted Return Comparison



*All returns for indices calculated using annualised monthly returns for the past five years. Average return for MDIF calculated since inception in July 2020.

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

The short track record would typically anchor our assessment, however MDIF is eligible for a rare uplift, given: (1) the underlying funds have been individually assessed by BondAdviser; (2) these underlying funds have track record in excess of target returns for the prior two years; and (3) no hedging is required from MDIF into the WIT or MXT in terms of FX exposure. MDIF on a standalone basis would have a product assessment

of Approved, however, with MXT carrying a Highly Recommended assessment, MDIF qualifies for a chiral assessment. Accordingly, given Metrics demonstrated skills, systems, and processes, in parallel with a proven investment strategy, we expect MDIF will continue to outperform from a risk-reward perspective, forming the basis for our top tier **Highly Recommended** product assessment.

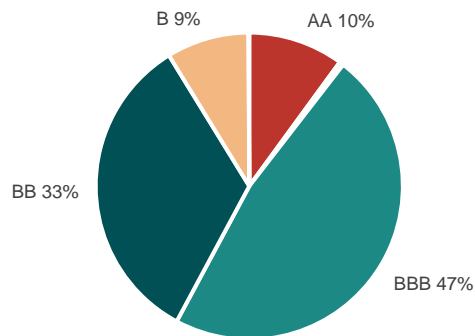
Construction and Investment Process

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

Portfolio Risk Management

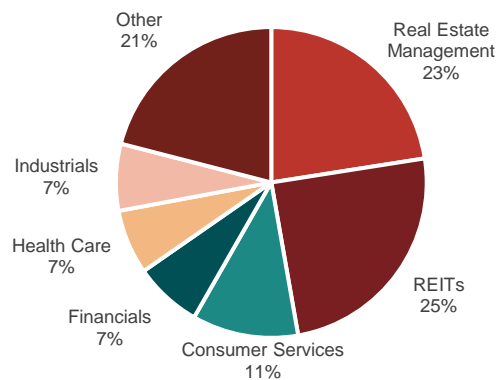
There have been **no material changes** to MDIF's portfolio risk management.

Figure 5. Portfolio Credit Rating Mix*



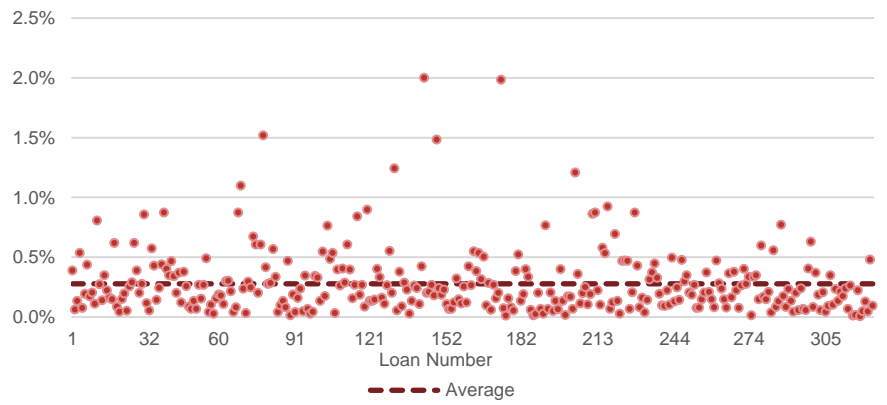
Source: BondAdviser, Metrics. As at 30 September 2021. * Including cash which is rated AA.

Figure 6. Portfolio S&P Sector Mix**



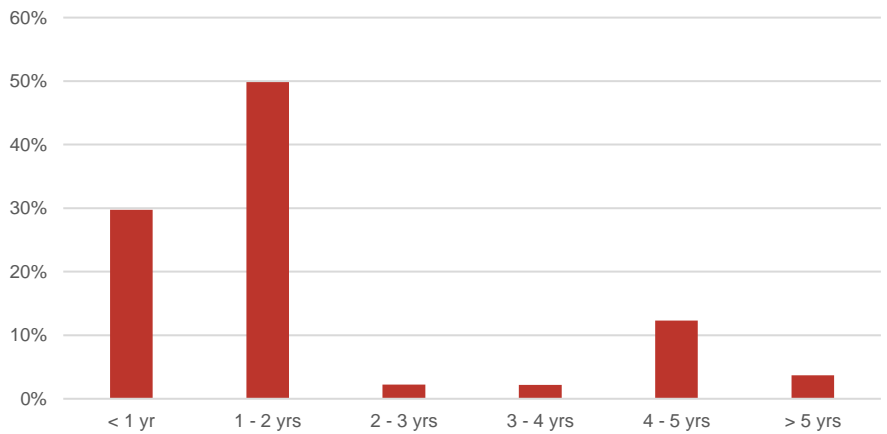
Source: BondAdviser, Metrics. As at 30 September 2021. **Excluding cash.

Figure 7. Portfolio Individual Loan Mix***



Source: BondAdviser, Metrics. As at 30 September 2021. ***Based on Metrics' underlying portfolio (WIT) not MDIF 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 MDIF's fund governance.**

Figure 9. MXT Net Asset Value Against Unit Price

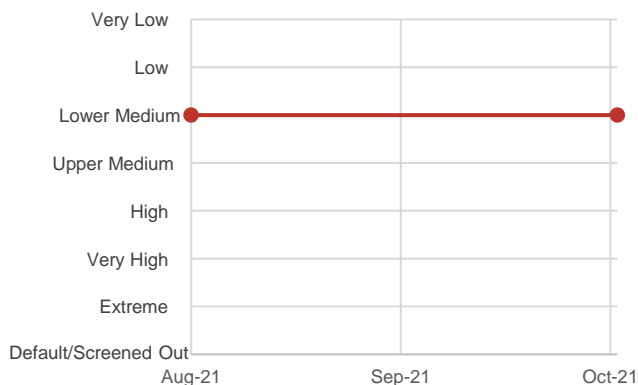


Source: BondAdviser, Metrics, Bloomberg. As at 30 September 2021.

MDIF's strategy allows it to hold units in Metrics' retail fund, MXT. Following the dislocation of MXT's ASX unit price from its NAV during the COVID crisis during 2020, MDIF increased its allocation to MXT. Since June 2021, when MXT began trading at pre-pandemic levels – that is, at a material premium to NAV, MDIF has sold down its MXT holding, delivering a windfall capital gain to the Fund.

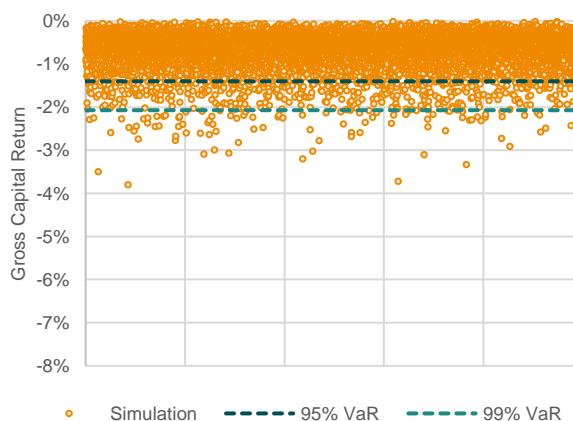
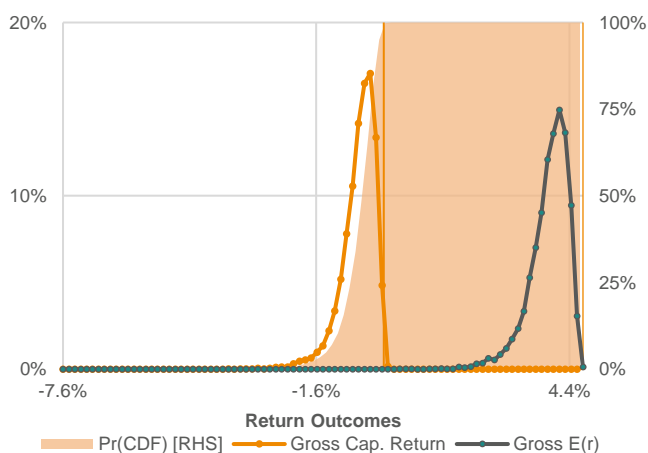
Quantitative Analysis

Figure 10. Risk Score



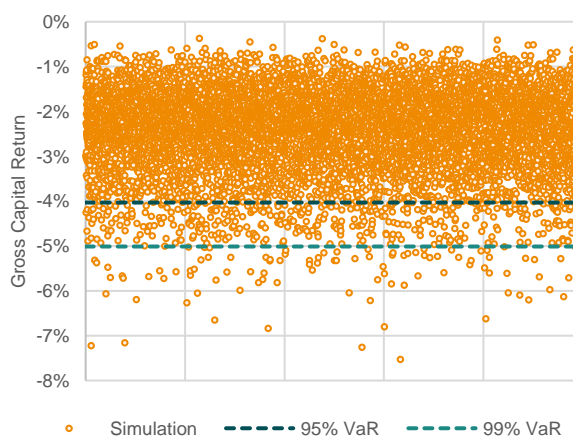
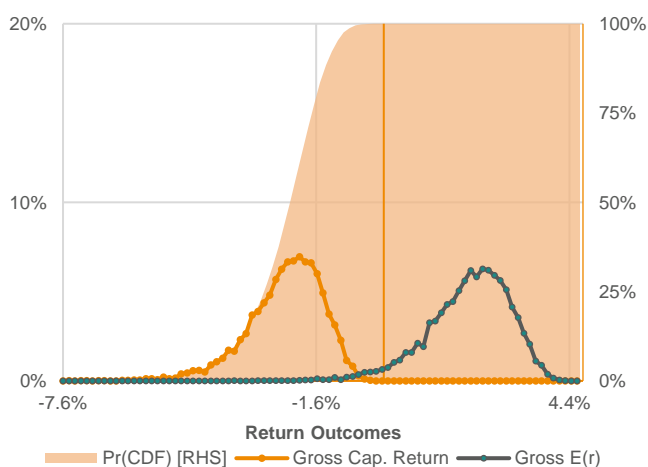
The portfolio performs exceptionally well in stress testing. **Our risk score has remained stable at Lower Medium.** This is superior to the weighted average credit profile due to an effective upward notching in relation to diversification of underlying counterparties. It is also supported by seniority of the assets (driving stronger LGD outcomes) and a short average remaining term of securities.

Scenario 1. Baseline Asset Assessment



Source: BondAdviser Estimates as of 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 Asset Assessment



Source: BondAdviser Estimates as of 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

MDIF IPO Report – August 2021

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