AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

Metrics Master Income Trust (ASX: MXT)

Review

23 December 2021

INDEPENDENT
INVESTMENT RESEARCH

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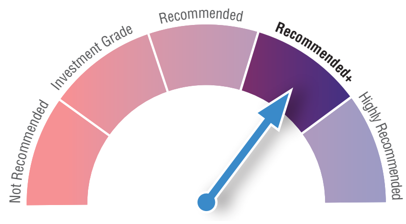
Metrics Master Income Trust (ASX: MXT)

Review

Note: This report is based on information provided by the Manager as at October 2021.

Rating



Key Investment Information (as at 31 October 2021)	
ASX Code	MXT
Unit Price ($)	2.08
NAV ($)	2.00
Units on Issue (m)	736.1
Market Cap ($m)	1,531.0
Distribution Yield*	4.1%
Listing Date	October 2017
Responsible Entity	The Trust Company (RE Services) Limited
Investment Manager	Metrics Credit Partners Pty Ltd
Investment Structure	Listed Investment Trust (LIT)
Target Distribution	RBA Cash Rate + 3.25% (net of fees and expenses)
Distribution Frequency	Monthly
Fees:	
Management Fee (p.a)	0.60%
Performance Fee	#
Performance Fee Hurdle	#

*Represents distributions paid over the 12-months to 31 October 2021 and the unit price at 31 October 2021.
#The Manager is eligible for performance fees for the SPDF II and REDF underlying wholesale funds. See Fee subscetion in the MXT Overview & Update Section of the report.

Key Exposure	
Underlying Exposure	Diversified portfolio of direct loans to Australian corporates through an investment in three underlying wholesale funds: (1) DASLF - 60%-70%; (2) SPDF II - 20%-30%; and (3) REDF - 10%-20%.
Foreign Currency Exposure	MXT provides exposure to Australian corporate loans. There is no direct foreign currency exposure.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

PRODUCT SUMMARY

Metrics Master Income Trust (ASX:MXT) (the "Trust") listed in October 2017 raising $516m through the issuance of 258m units at a price of $2.00 per unit. Since listing the Trust has grown to a market cap of $1.5b with 736.1m units on issue. The Trust is managed by Metrics Credit Partners ("MCP" or the 'Manager'), an Australian private debt-specialist asset manager founded in 2011 and with significant expertise in the Australian corporate loan market. MXT provides exposure to a portfolio of loans to Australian companies diversified by borrower, industry and credit quality. It does so through an investment in three wholesale funds managed by MCP, all of which provide exposure to the Australian corporate loan market but with differing risk-return investment profiles and target loan investments. From a credit quality perspective, the Manager targets the investment through to sub-investment grade segment (A through to B rated), reflecting the Manager's view that this segment presents a particularly attractive opportunity set in terms of market pricing relative to default risk. Through the underlying investments, the Manager is targeting a return equal to the RBA Cash Rate + 3.25% per annum, net of fees and expenses. The Trust pays distributions on a monthly basis and to date has consistently exceeded the target return.

INVESTOR SUITABILITY

The Trust provides retail investors access to an actively managed portfolio of direct corporate loans, providing an enhanced yield to traditional fixed income securities such as government and corporate bonds and term deposits. Unlike bonds traded in the secondary market, the Manager's investment strategy is very hands-on transactional, with the focus on originating transactions, conducting detailed bottom-up due-diligence, structuring the loan and managing the loan life-cycle thereafter. As such, the Manager's ability to successfully structure and manage transactions that meet the investment objectives and avoid credit defaults is critical. In this regard, the Manager has a strong track-record with minimal defaults and recouping all outstanding capital in those loans that have defaulted. The portfolio has exposure to sub-investment grade loans which have a higher level of default risk associated with them. Investors should be mindful that defaults generally tend to cluster during periods of prolonged economic distress. In terms of income, as a listed investment trust (LIT), the income that is generated on the loan asset will flow through to the investor and be paid on a monthly basis. Investors should note that distributions are exposed to default risk and there is the potential for capital loss on individual loans.

RECOMMENDATION

Independent Investment Research (IIR) has reaffirmed its **Recommended Plus** rating for the Metrics Master Income Trust (ASX: MXT). Over the four years since listing in October 2017, MXT has delivered on its investment mandate, providing exposure to an increasingly diversified portfolio of direct loans to Australian corporates and offering downside capital protection through a stable NAV. The Manager has consistently exceeded the target distribution of RBA Cash Rate + 3.25%p.a. and it has done so at a low cost to investors with a look through management fee of 0.60%p.a. The diversification benefits of fixed income to a portfolio were highlighted during 2020, with the Trust continuing to pay a monthly distribution as many listed companies cut of suspended dividends.

A key benefit of the listed investment trust structure for direct corporate loans is that investors are offered liquidity through the secondary market to less liquid securities. A drawback is the unit price may dislocate from the NAV, which can result in investors experiencing a greater level of volatility than the underlying portfolio. We note that in 2020, the Manager launched the Metrics Direct Income Fund (MDIF), an unlisted version of MXT with the fund able to invest in MXT units, providing a vehicle to acquire units when trading at a discount to NAV to assist with discount management as well as providing a level of liquidity to MDIF. While not a risk at present, the level of MXT units held by MDIF will have to be monitored as the fund grows as in the event MDIF becomes a significant unitholder of MXT this could pose a risk if significant redemptions from the unlisted fund were to occur.

The FUM of the Manager has grown considerably in recent years with the Manager able to attract resources to scale up in line with FUM growth, offering potential succession planning and reducing the risk associated with the four Principals.

SWOT

Strengths

- Specialist skill is required to successfully operate in the direct lending corporate loan market. The four-member IC is highly experienced in all aspects of the loan life-cycle, from originating, structuring, and managing the loan, with each member having in excess of 20 years relevant experience. The four-member IC also mitigates key person risk.
- Competitive and well-structured fees, with retail investors benefiting from wholesale rates.
- A thorough and proven investment and portfolio monitoring process that is closely and integrally overseen by the four-member IC. This has seen very few defaults in the underlying wholesale funds.
- The Manager has shown a strong capability to raise and deploy capital without diminishing the return profile for investors.
- The portfolio is highly diversified with 213 loans in the portfolio at 31 October 2021 and an individual loan exposure of <0.5%.
- Since being established in 2011, the Manager has grown to $9.0b AUM. The Manager has continued to add resources in line with growth with the Manager now having 76 employees and an investment team of 43, excluding the members of the IC.
- The Trust has exceeded the target return since listing and delivered a monthly distribution to unitholders. The Trust continued to make monthly distributions during a period when many listed companies were cutting or suspending dividends.

Weaknesses

- The Trust has operated in a declining interest rate environment and despite the disruption from COVID-19 the credit environment has been considered favourable due to the large amounts of liquidity being injected into the market. The Trust and the underlying funds are yet to be tested in an increasing interest rate environment and prolonged economic downturn. Having said this, we do note IC members were all directly involved in managing corporate loan books during the GFC period and during prior events in the 1980's and 1990's, hence, have experience during a prolonged downturn.

Opportunities

- MXT provides investors the opportunity to generate an enhanced yield on traditional fixed income securities such as government bonds and term deposits.
- MXT provides secondary market liquidity to less liquid investments.

Threats

- MXT will have exposure to sub-investment grade loans. By its very nature, sub-investment grade debt tends to have a higher probability of default and this risk tends to cluster around specific events and/or economic environments, notwithstanding that secured loans provide options in workout/restructuring.
- The MCP Wholesale Investment Trust in which MXT invests has $100m in debt and DASLF has a $1.35b debt facility, $483.6m was drawn at August-end. DASLF has the ability to leverage the Fund no greater than 30% of the gross asset value while SPDF II and REDF can leverage to no more than 50% of the gross asset value. In the event the interest payment terms increase, this will result in an increase to the costs of the wholesale funds in which MXT invests. Further to this, while leverage can improve returns it can also magnify losses.
- Unlike a publicly traded bond, where the value of the asset is determined by its traded price, MXT's portfolio will largely comprise loans where a traded price does not exist. Investors should note that NAV calculations will be based on the Manager's internal loan valuations combined with a rigorous and ongoing independent external review and oversight. While the valuation processes are thorough and prudent, there is nevertheless a risk the valuations may not accord with what the market may ultimately value these assets.
- In the event the unit price dislocates from the NAV, unitholder returns may be more volatile than the underlying portfolio. The Manager will seek manage the discount/premium where possible but as was evident in 2020, market shocks may result in a dislocation from the portfolio value. The Manager has created an unlisted version of the Trust, which has the ability to invest in MXT units when trading at a discount to assist with discount management.

MXT OVERVIEW & UPDATE

Metrics Master Income Trust (ASX:MXT) provides exposure to an actively managed portfolio of Australian corporate loans with the portfolio generally reflecting activity in the corporate loan market resulting in diversification by borrower, industry and credit quality. The Trust seeks to deliver a target return of RBA Cash Rate + 3.25%p.a, net of fees and expenses, and pay monthly cash distributions.

MXT invests in the MCP Wholesale Investment Trust, which in turn invests in three wholesale trusts managed by the Manager in accordance with the target allocation ranges, detailed in the below table. The largest exposure is to the Metrics Credit Partners Diversified Australian Senior Loan Fund (DASLF), which was the first fund launched by the Manager in June 2013 and has grown to $4b FUM. In summary:

1) Metrics Credit Partners Diversified Australian Senior Loan Fund (DASLF) - provides exposure to a diversified portfolio of corporate loans. As at 31 October 2021, the Fund had 155 investments with 61% of the loans rated investment grade. At least 90% of loans must be senior ranking. It is designed to have a high investment grade, lower risk, lower return profile and has a target return of 90-day BBSW + 2.75%-3.25% p.a. The Manager has typically generated returns within the target return range or exceeded the target return since inception. The Fund has a rating of A- from Standard and Poors.

2) MCP Secured Private Debt Fund II (SPDF II) - SPDF II was established in October 2017 and as the name suggests is the second iteration of the strategy, which commenced in 2015. The Fund provides exposure to predominantly sub-investment grade corporate loans across mid-market borrowers. The Fund has a target return of 90-day BBSW + 4.0%p.a. At 31 October 2021, the Fund comprised 64 loans, 94% of which were senior ranking. The Fund has consistently generated net returns in excess of the target return to date.

3) MCP Real Estate Debt Fund (REDF) - REDF was also established in October 2017 and provides exposure to a portfolio of commercial real estate (CRE) debt. The Fund has a target return of 90-day BBSW + 5.0%p.a, which the Fund has consistently exceeded since inception. The Fund has grown to $1.3b. At 31 October 2021, the Fund had 68 loans. 99% of which were senior ranking. The portfolio is predominantly exposed to residential properties with 77% of the portfolio allocated to residential properties. Loans are concentrated to NSW with 73% of the loans secured against properties in NSW at 31 October 2021. 11% of loans are secured against properties located in VIC. The additional target returns of the Fund reflects the increased risk associated with CRE debt. REDF has a rating of A- from Standard & Poors.

Wholesale Fund Allocation

Underlying Wholesale Fund	Target Allocation	Actual Allocation*	Target Return
Metrics Credit Partners Diversified Australian Senior Loan Fund (DASLF)	60%-70%	60%	90 day BBSW + 2.75%-3.25% p.a
MCP Secured Private Debt Fund II (SPDF II)	20%-30%	20%	90 day BBSW + 4.0% p.a
MCP Real Estate Debt Fund (REDF)	10%-20%	20%	90 day BBSW + 5.0% p.a

*The actual wholesale fund allocation has remained at the stated levels for the life of the Trust to 31 October 2021.

DASLF provides the lowest risk exposure from a credit rating perspective with the target return reflecting the lower risk profile of the Fund. SPDF II and REDF provide exposure to higher risk loans with the Trust benefiting from the increased yield generated from the higher risk returns.

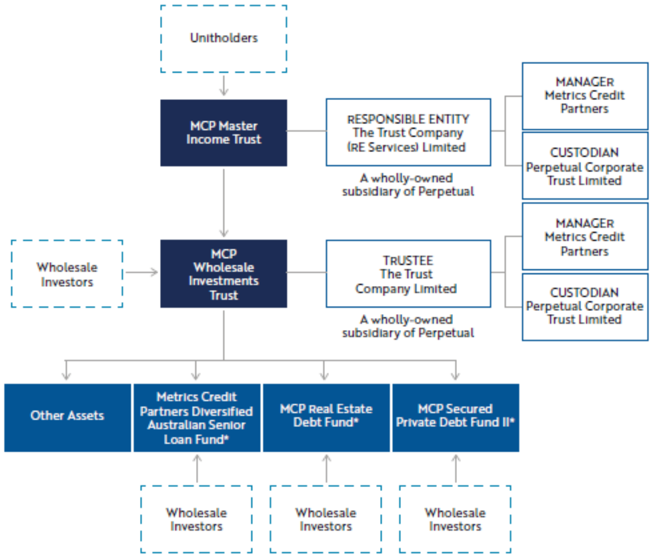
The Manager typically provides short-to-medium term loans with the portfolio having a credit duration of 2.1 years at 31 October 2021.

Fees

MXT itself does not charge a fee to investors, rather fees are charged at the wholesale fund level (no double layer of fees). IIR notes that the DASLF offers investors a declining fee rate ranging between 30 basis points and 17.5 basis points, depending on the size of the investment made by the individual investor. Given the MXT capital is pooled and aggregated, MXT effectively gets the benefit of being one single large wholesale investor in the underlying wholesale funds. DASLF does not have a performance fee but SPDF II and REDF do. The Manager is entitled to 15% of the outperformance of the hurdle rates of SPDF II and REDF, which is represented by the target returns of the two funds. Performance fees are calculated and accrued daily and are payable in arrears at the last business day of the financial year.

At the IPO, the Manager paid the costs of the issue through the proceeds of a non-recourse loan provided by MXT (the Manager Loan). Over the initial Investment Management Agreement (IMA) period, the Trust will repay the loan, including interest. The Manager will recover the costs from investors over the period through the Investor Equalisation Expense (IEE).

MXT Structure



Capital Raisings

Since listing in October 2017, the Trust has completed a number of additional capital raises the most recent being a Unit Purchase Plan (UPP) with binding commitments for $97.2m through the issue of 48.6m new units at $2.00 per unit. The UPP comes after the withdrawal of the Entitlement Offer in early 2020 that was pulled due to the market uncertainty arising from COVID-19.

MXT Capital Raising Activity

Date	Type	Issue Price	Units Issued (m)	Amount Raised ($m)
Dec-21	Unit Purchase Plan	$2.00	48.6	$97.2
Apr-21	Wholesale and Institutional Placement	$2.00	95.9	$191.8
May-19	1:1.8 non-renounceable Entitlement & Shortfall Offer	$2.00	200.0	$400.0
Jun-19	Additional placement to wholesale investors	$2.00	80.3	$160.9
Jun-19	Additional placement to wholesale investors	$2.00	7.7	$15.3
Apr-18	1:1.7 non-renounceable Entitlement & Shortfall Offer	$2.00	74.5	$214.0
Oct-17	IPO	$2.00	258.1	$516.2

Investment Manager Update

There have been no changes to the Manager since we initiated coverage on MXT in March 2018. The Investment Management Agreement (IMA) has an initial term of 10 years with automatic extensions every five years, unless terminated earlier.

Since MXT listed in October 2017, the Manager has grown AUM from ~$3b to $9.0b with the Manager becoming one of the leading non-bank corporate lenders in Australia. The Manager has expanded resources with growth in AUM with employees growing from 25 to 76. The investment team in addition to the four principals has grown to 43 across the New Asset Origination and Investment Compliance and Portfolio Risk Management divisions. The Manager will continue to hire additional staff as required.

In March 2021, the Manager acquired Investec's $1.3b corporate loan portfolio. The portfolio included loans to corporates and funds across business services, entertainment, retail, childcare, healthcare, mining services and financial services. The sale of the portfolio was a result of Investec exiting the market.

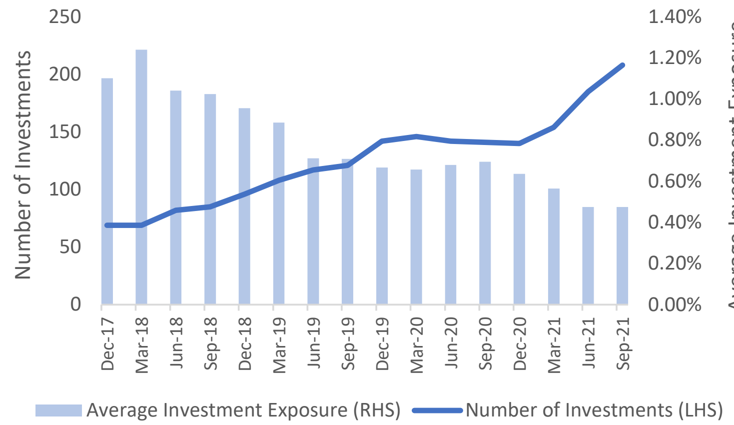
In July 2018, Pinnacle acquired National Australia Bank's 35% stake in the Manager. The Manager remains majority owned by the four principals.

There has been no changes to the four principals who are the key members of the investment team, making up the Investment Committee (IC). The IC has sole responsibility for investment decisions. The IC meets weekly and operates on the basis that all four members are equally involved in each potential transaction with investment decisions based on unanimous approval.

PORTFOLIO POSITIONING

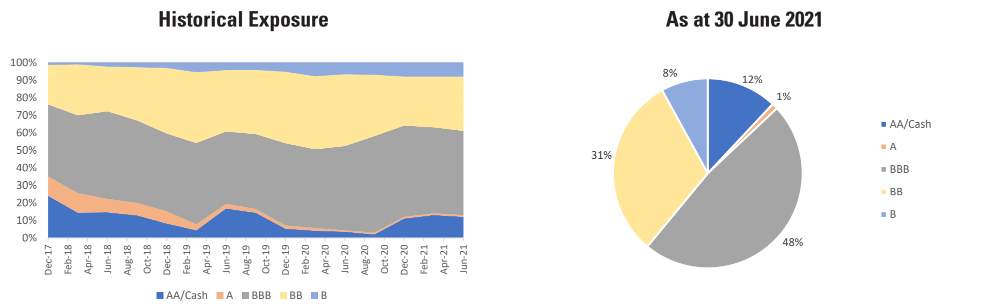
The portfolio has increased its diversification as the Trust has grown. As at 31 October 2021, the portfolio was exposed to 213 individual investments. As the number of loans has increased, the average exposure to an individual loan has declined, as shown in the below chart.

Number of Loans & Average Loan Exposure



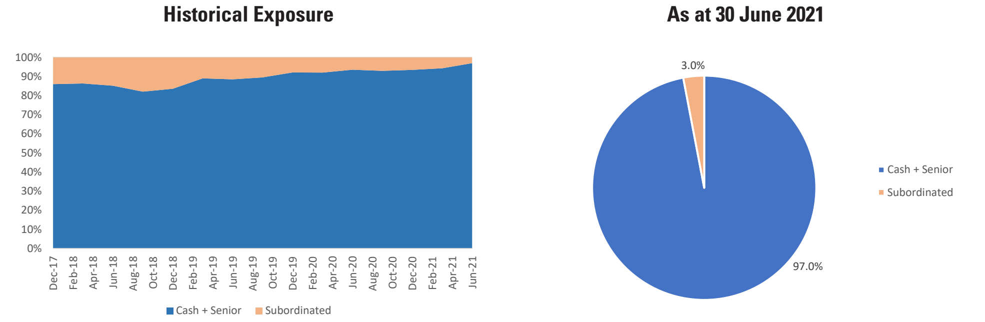
The portfolio is exposed to investment grade and sub-investment grade loans, with the majority of loans spanning the BBB and BB categories. As at 30 June 2021, 79% of the portfolio was exposed to loans rated BBB and BB. Exposure to B rated loans has been increasing slightly over the last 12-months, with the portfolio having an 8% allocation to B rated loans at 30 June 2021.

Credit Rating Exposure



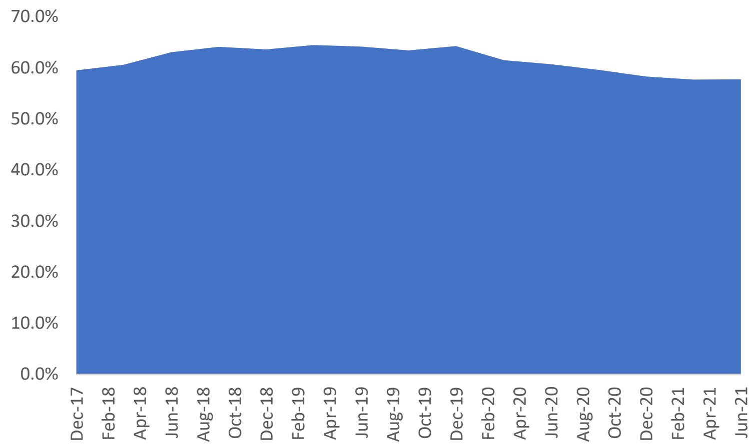
The Trust is predominantly exposed to senior secured loans as is highlighted by the below chart. The average exposure to senior secured loans and cash since listing to 30 June 2021 has been 89.7% and the remainder in unsecured investment grade loans and subordinated loans.

Capital Structure Exposure



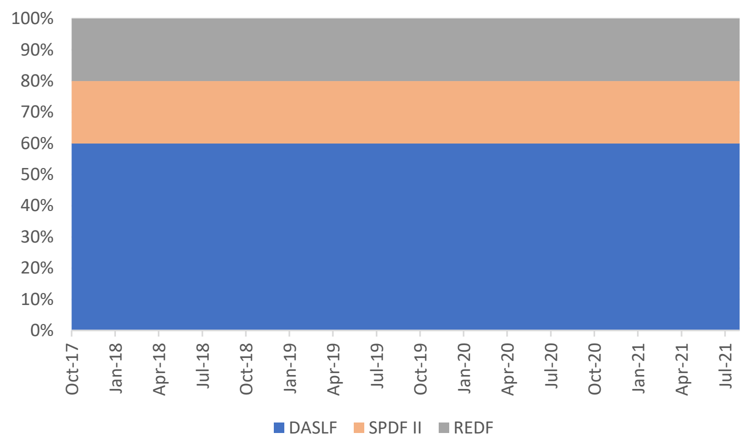
The weighted average LVR of the portfolio has remained at relatively conservative levels with the weighted average LVR ranging from 57.7% to 65.5%.

Weighted Average LVR



The allocation to the underlying wholesale funds has remained unchanged since listing with an allocation of 60% to Metrics Partners Diversified Australian Senior Loan Fund (DASLF), 20% to MCP Secured Private Debt Fund II (SPDF II) and 20% to MCP Real Estate Debt Fund (REDF).

Wholesale Fund Allocation



The portfolio is diversified by sector. As at 30 June 2021, Real Estate Management and Development and REITs were the largest sector allocations in the portfolio. This has been the case historically for the portfolio and is to be expected given 20% of the portfolio is allocated to the MCP Real Estate Debt Fund (REDF), which invests in commercial real estate (CRE) debt.

Hotels, Restaurants and Leisure and Health Care Providers and Services have been the next largest exposures for the Trust. The portfolio is actively managed with loans typically being short-to-medium term. As such, the sector exposure will change. Initially the Trust had a relatively large exposure to the Transport sector, however these loans have been repaid and the portfolio currently has no exposure to this sector.

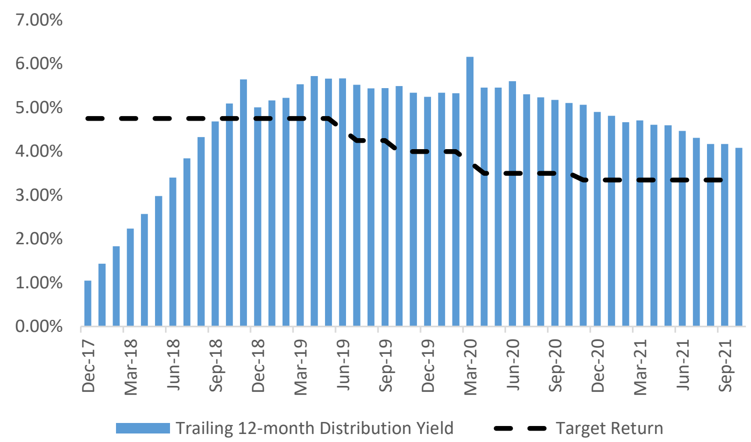
Sector Allocation as at 30 June 2021

Sector	Portfolio Weighting
Real Estate Management & Development	22%
REITs	19%
Hotels, Restaurants & Leisure	8%
Health Care Providers & Services	5%
Professional Services	4%
Capital Markets	4%
Speciality Retail	2%
Diversified Financial Services	2%
Oil, Gas & Consumable Fuels	2%
Commercial Services & Supplies	2%
Other/Cash	30%

PERFORMANCE ANALYTICS

The Trust provides direct loans to Australian corporates with returns comprising the fees charged and interest payments made by the borrowers. Therefore the returns from the portfolio will be purely income in nature. The Trust has a target return of RBA Cash Rate + 3.25%p.a. Since listing, the Trust has exceeded the target return, as is shown by the below chart. The floating target return reflects the fact that the Trust is primarily exposed to floating rate loans.

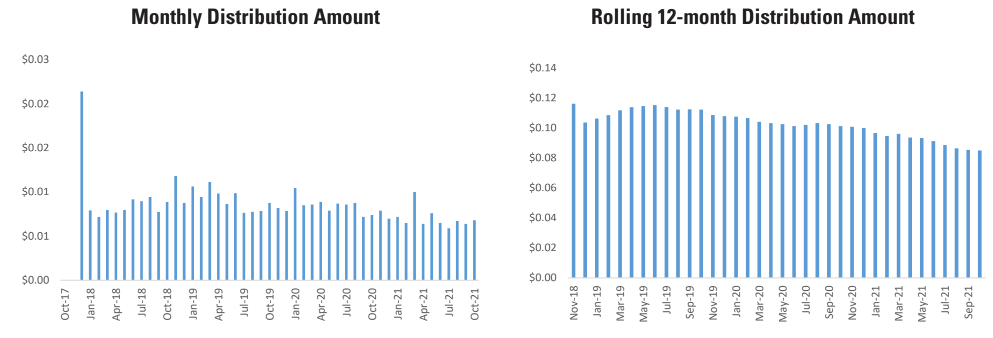
Historical Distribution Yield



Source: Iress/IIR

There is some volatility in the monthly distribution amount paid as will be the case given the floating rate exposure and actively managed nature of the portfolio. On a rolling 12-month basis, the distribution amount is relatively stable. Excluding the first distribution, the rolling 12-month distribution amount has annualised volatility of 5.6%. We note that the monthly distribution amount has been on the decline in line with the declining interest rates but still represents a yield above the target return on both a unit price and NAV basis.

Historical Distribution Amounts

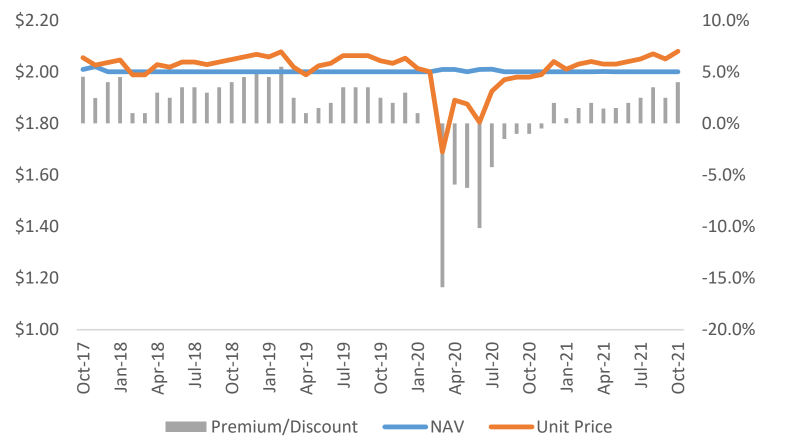


Source: Iress/IIR

While returns from the portfolio of loans will be purely income, in the event the unit price dislocates from the NAV, there may be a capital element to returns for investors. The NAV has remained steadfast since listing, as shown in the below chart.

There was a significant dislocation event in 2020 resulting from the COVID-19 pandemic that was experienced by all fixed income LITs, and LITs and LICs more broadly. Even though MXT's NAV remained stable , the unit price fell sharply. MXT's unit price rebounded promptly from the discount and outside of this event, the Trust has typically traded at a slight premium to NAV.

Premium/Discount to NAV (month-end data)



Source: MXT/Iress/IIR

PEER COMPARISON

There are currently 8 fixed income LITs on the ASX. MXT provides a unique offering within the peer group with the Trust being the only LIT that provides exposure to direct corporate loans across both investment and sub-investment grade. PCI also provides exposure to direct credit across both investment and sub-investment grade categories, however the portfolio includes exposure to other sectors as well such as RMBS.

MXT is the largest fixed income LIT with a market cap of $1.53b at October-end. Given the investment grade exposure, the Trust offers an attractive yield compared to the peer group.

ASX Fixed Income LITs

LIT Name	ASX Ticker	Market Cap, $m (as at 31 October 2021)	Underlying Investments	Credit Quality	Distribution Yield (as at 31 October 2021)	Distribution Frequency	Target Distribution (p.a)
MCP Master Income Trust	**MXT**	**1,530.7**	**Private Credit**	**Investment Grade & Sub-Investment Grade**	**4.08%**	**Monthly**	**RBA Cash Rate + 3.25%**
NB Global Corporate Income Trust	NBI	861.4	Corporate High Yield Bonds	Sub-Investment Grade	5.17%	Monthly	4.80%

ASX Fixed Income LITs							
LIT Name	**ASX Ticker**	**Market Cap, $m (as at 31 October 2021)**	**Underlying Investments**	**Credit Quality**	**Distribution Yield (as at 31 October 2021)**	**Distribution Frequency**	**Target Distribution (p.a)**
KKR Credit Income Fund	KKC	843.6	Corporate High Yield Bonds, traded loans and Private Credit	Sub-Investment Grade	4.61%	Monthly	4%-6%
Partners Group Global Income Fund	PGG	515.9	Private Credit	Sub-Investment Grade	4.38%	Monthly	RBA Cash Rate + 4%
Gryphon Capital Income Trust	GCI	493.6	RMBS & ABS	Investment Grade & Sub-Investment Grade	4.55%	Monthly	RBA Cash Rate + 3.5%
Qualitas Real Estate Income Fund	QRI	470.0	CRE debt	Senior & Mezz debt	5.91%	Monthly	RBA Cash Rate + 5.0%-6.5%
Perpetual Credit Income Trust	PCI	434.6	Diversified	Investment Grade & Sub-Investment Grade	3.36%	Monthly	RBA Cash Rate + 3.25%
MCP Income Opportunities Trust	MOT	436.8%	Private Credit	Sub-Investment Grade	6.46%	Monthly	7.00%

MXT has competitive fees with the Trust accessing wholesale investor fees. The Trust itself does not pay fees with fees charged through the underlying wholesale funds. There is no double layer of fees.

ASX Fixed Income LIT Fee Comparison				
LIT Name	**ASX Ticker**	**Management Fee**	**Performance Fee**	**Performance Fee Hurdle**
Metrics Master Income Trust	**MXT**	**0.60%**	**na****	**na****
NB Global Corporate Income Trust	NBI	0.85%	na	na
KKR Credit Income Fund	KKC	0.90%	5.13%	RBA Cash Rate +4% p.a subject to High Water Mark
Partners Group Global Income Fund	PGG	1.00%	na*	na
Gryphon Capital Income Trust	GCI	0.72%	na	na
Qualitas Real Estate Income Fund	QRI	1.54%	20.50%	8.0% p.a
Perpetual Credit Income Trust	PCI	0.72%	na	na
MCP Income Opportunities Trust	MOT	1.03%	15.38%	RBA Cash Rate +6% p.a

*The Manager is entitled to a performance fee of 10% of returns over the hurdle rate of RBA Cash Rate + 6% on the Special Situations Strategy. The Special Situations Strategy has a target portfolio allocation of 0%-25%.
**SPDF II and REDF are eligible for performance fees of 15% of the outperformance of the target returns for the respective funds.

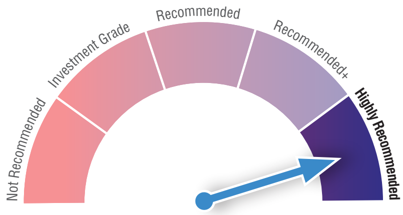
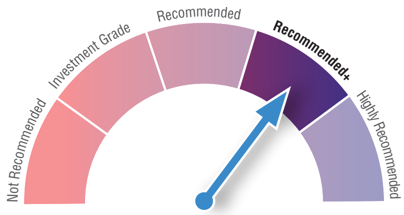
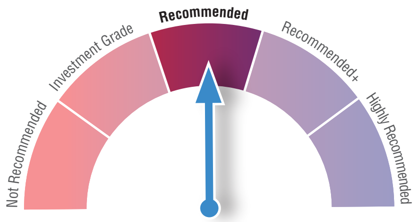
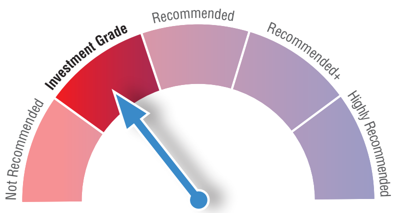
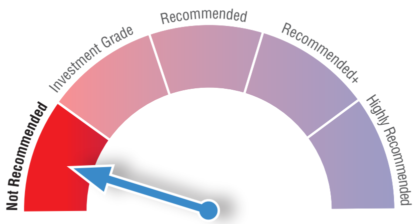
Outside of the dislocation event in 2020, MXT has typically traded at a slight premium to NAV. The LITs that have exhibited a stable NAV have traded in a closer band to the NAV than those LITs that have exhibited NAV volatility.

ASX Fixed Income LIT Premium/Discounts as at 31 October 2021		
LIT Name	**ASX Ticker**	**Premium/Discount**
Metrics Master Income Trust	**MXT**	**4.0%**
NB Global Corporate Income Trust	NBI	-3.0%
KKR Credit Income Fund	KKC	-8.3%
Partners Group Global Income Fund	PGG	-2.8%
Gryphon Capital Income Trust	GCI	0.5%
Qualitas Real Estate Income Fund	QRI	0.8%
Perpetual Credit Income Trust	PCI	-2.3%
Metrics Income Opportunities Trust	MOT	1.5%

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd "IIR" rating system

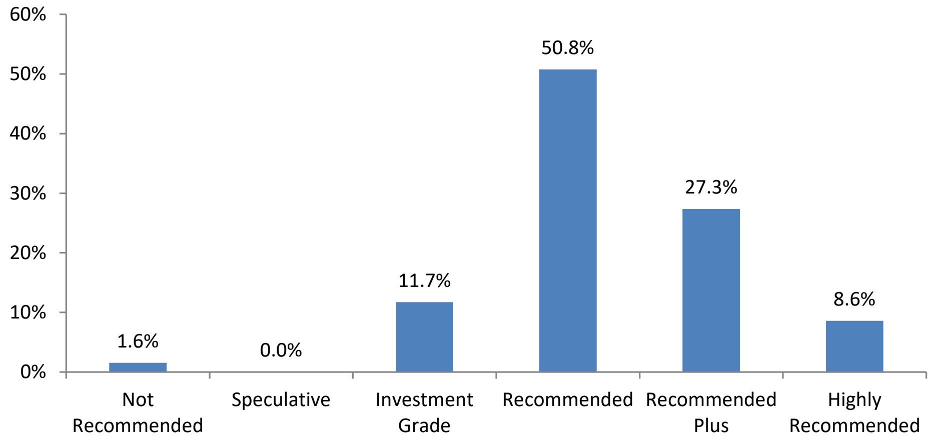
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	**83 and above**
	This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.
Recommended +	**79–83**
	This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.
Recommended	**70–79**
	This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.
Investment Grade	**60-70**
	This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.
Not Recommended	**<60**
	This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

SPREAD OF MANAGED INVESTMENT RATINGS



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