

MA Credit Opportunities Fund

Investor update
March quarter 2022



The MA Credit Opportunities Fund (**Fund**) provides Investors with access to opportunities traditionally accessible only to large institutional investors.



Investment Summary

The Fund aims to provide investors (**Investors**) with exposure to a diversified portfolio of credit investments with strong risk-adjusted return characteristics. The Manager actively manages credit investments spanning three core market segments, in which it has a proven track record and differentiated capabilities:

- private credit (such as corporate lending, asset-backed financing and acquisition financing)
- structured finance
- real estate asset-backed credit.

Please note: from 15 May 2022, changes will be made to the Fund and its Information Memorandum. Please refer to page six of this update for a summary of upcoming changes.

Important Information

This update has been prepared by MA Investment Management Pty Ltd (ACN 621 552 896), the appointed Manager of the MA Credit Opportunities Fund (Fund) and is subject to the disclaimer at the end of this document. MA Asset Management Ltd (ACN 142 008 535) (AFSL 427 515) is the Trustee of the Fund.



Investment strategy

The Fund's investment strategy is to invest in a diversified portfolio of investments across private credit, structured finance and real estate asset-backed credit. The investment philosophy has a bias towards downside protection and is focused on unlocking attractive returns relative to reasonable or controlled levels of risk.

The Fund's portfolio is carefully constructed to achieve its investment objective, including through diversification of positions by investment type, obligor and investment characteristics. The Manager will draw on existing industry relationships and deep sector expertise to originate, conduct due diligence and structure investments.

The Fund manages risk through detailed initial and ongoing due diligence, portfolio construction and risk management. Investments are intended to be aligned to MA Financial Group's proprietary skill sets and capabilities, providing the Manager with a competitive edge in relation to the company, industry or situation. The Manager also targets investments that demonstrate high levels of asset backing and sufficient cash flows providing material coverage relative to the Fund's position.



Operational update

New March quarter investments

During the quarter, the Manager made two new investments, one structured finance investment and one real estate credit investment, for a total of \$11.0m. The Manager also funded a \$0.3m drawdown on an existing structured finance investment and successfully exited one real estate credit investment for \$0.3m. The structured finance investment has an annual yield of 11.0% p.a.

The real estate credit investment, which was mentioned in the December 2021 report, does not accrue interest income, but is instead entitled to a share of profit on a residential development in Eastern Sydney. This investment is currently estimated to provide an equivalent annualised return of 17.0% p.a., based on completing the residential development under the existing approved development scheme. Discussions are

FUND OVERVIEW (AS AT 31 MARCH 2022)

Assets under management (AUM)	\$69.6m (including cash)
Fund inception date	26 November 2019
Fund term	Open-ended fund
Unit price	\$1.0048
Target return	Annual target return of RBA Cash Rate + 8–10% p.a. (after all fees and costs), including monthly cash distributions
Quarterly Gross Portfolio Yield (annualised)	10.73% p.a. (excluding cash and before fees) ¹

INVESTMENT MANAGEMENT



Frank Danieli
Managing Director

progressing positively with the relevant council to approve an amended scheme that is expected to result in a return of 26 – 50% p.a. Given the nature of the return, the Manager will distribute amounts accrued on this investment once the return is received upon realisation of the investment, expected in July 2023. As such the accrued income will be incorporated into the Fund's unit price.

Going forward the Manager will report both a distribution return and a total return, taking into consideration the growth in the unit price. The monthly NAV effect of this transaction for 31 March 2022 was \$0.0021 per unit.

These investments are reflective of the Manager's focus on high yield investments at attractive and controlled levels of risk.

¹ Based on Total Loan Investments and excluding expected credit losses.



Operational update (continued)



Investment pipeline

Investments post quarter-end

As at 31 March 2022, the Fund had a cash balance of \$11.2m, or 16.0% of AUM, having deployed \$11.3m in new and existing investments and having realised one investment for \$0.3m throughout the quarter.

Post-quarter end, the Manager made:

- a \$2m real estate credit investment at a yield of 17.5% p.a.
- a \$2m commitment for an additional real estate credit investment due to fund in mid-April 2022, with an expected return of 11.5%
- further drawdowns of \$0.3m on existing investments.

The Manager considers both new investments to be of high quality and attractive opportunities to the Fund.

Fund cash balance

The Manager is conscious of the cash balance as at quarter end and the impact a prolonged high allocation to cash has on Investor returns.

The Manager has a strong pipeline of transactions for the Fund totalling c.\$100m, split between private credit, real estate investments and structured finance. The Manager expects the cash to be materially deployed by the end of May 2022.

The amendment of portfolio allocation restrictions, as part of upcoming Fund changes, will allow the Fund to invest in opportunities that provide the optimal return, commensurate with the risk of the investments – please refer to page six of this report for further details.

Gross portfolio yield

The current gross portfolio annualised running yield has dropped from 9.80% p.a. as at 31 December 2021 to 9.70% p.a. as at 31 March 2022.

This is primarily due to the drop in the current interest rate on the remaining private credit investment from 5.865% p.a. to 5.75% p.a. and the lack of remaining establishment fee amortisation, which was fully amortised in December 2021.

The Manager continues to see substantial deal flow sourced through its proprietary origination channels, as well as deep relationships in the credit markets.

The Manager executed on two new investments during the quarter, one investment post quarter end and has one committed investment for April 2022, as referred above.

The Manager continues to be highly selective in reviewing opportunities, ensuring that investments meet the Manager's investment philosophy. Any declined opportunities were those which did not meet the Manager's rigorous criteria of strong risk-adjusted return characteristics and material cash flow and asset position coverage.

The Fund has c.\$7m in cash available for deployment in new opportunities. An additional benefit of the Fund is that it can also seek support from MA Financial Group (on arms' length terms), if required, in order to seed investments in a timely fashion.



Unit price and distribution

The unit price as at 31 March 2022 was \$1.0048 following the distribution of all interest earned².

The Fund delivered a total return to Investors of 2.11% over the quarter, taking the total return over the past 12-months to 8.24%³. The actual monthly cash distributions received by Investors over the quarterly period represents an annualised return of 6.56%.

As referred above, the return on one of the real estate investments was not distributed and instead accrues into the unit price, resulting in an increase in cash of \$0.0048 in the unit price.

The total annualised return for investors over the quarter was 8.50% p.a. This return reflects the Fund mandate of accessing high quality investment opportunities with returns outsized to the underlying risk.



Source: MA Financial Group

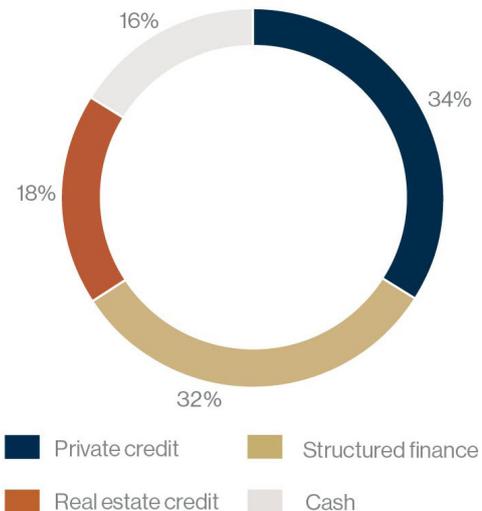


Fund dashboard (as at 31 March 2022)

Existing investments

No. of active investments	15
Invested Capital⁴ (\$m)	\$58.4
Quarterly gross portfolio yield (annualised) (excluding cash)*	10.73%
This return comprises gross quarterly distributable portfolio yield (annualised) of 8.39% p.a. and unrealised quarterly gain (annualised) of 2.34% p.a.	
Weighted average remaining Term	2.5 Years

*Includes amortised establishment fees.



Source: MA Financial Group

² This includes a modest amount of capitalised (Payment-in-kind or PIK) interest.

³ Total Return calculated in accordance with the standards set out by the Financial Services Council (FSC) of which MA Financial Group is a member and reflect the value of a continuing investors investment assuming the reinvestment of all distributions.

⁴ Based on Total Loan Investments and excluding expected credit losses (ECL).



Investment update

As at 31 March 2022, the Fund had made 20 investments, exited five investments and had 15 active investments totalling \$58.4m⁵.

The Fund's diversification improved during the quarter, following the exit from one private credit investment. As at 31 March 2022, the Fund had a 34% exposure to private credit,

32% exposure to structured finance, 18% exposure to real estate credit and 16% exposure to cash.

Following quarter end, exposure to real estate credit and structured finance has increased and cash has decreased after the Manager made further real estate credit investments referred to earlier.

INVESTMENT	TYPE	REMAINING TERM (YEARS)	ANNUALISED RUNNING YIELD (%) ⁶	PRINCIPAL OUTSTANDING (\$)
Investment 1	Private credit	–	10.0%	–
Investment 2	Private credit	2.8	5.8%	23,913,906
Investment 3	Private credit	–	10.2%	–
Investment 4	Private credit	–	8.4%	–
Investment 5	Structured finance	1.5	10.0%	1,520,000
Investment 6	Structured finance	3.6	10.0%	3,030,000
Investment 7	Structured finance	3.9	10.0%	1,970,000
Investment 8	Structured finance	4.1	11.0%	2,370,000
Investment 9	Real estate credit	–	12.0%	–
Investment 10	Structured finance	0.6	14.0%	4,000,000
Investment 11	Structured finance	4.3	8.0%	3,135,000
Investment 12	Structured finance	4.3	11.0%	2,960,000
Investment 13	Structured finance	4.4	11.0%	980,000
Investment 14	Real estate credit	-	14.0%	-
Investment 15	Real estate credit	0.7	14.0%	788,598
Investment 16	Structured finance	0.5	12.0%	1,387,561
Investment 17	Real estate credit	0.8	14.0%	191,309
Investment 18	Real estate credit	1.7	14.0%	1,192,573
Investment 19	Real estate credit	1.3	17.0%	10,332,093
Investment 20	Structured finance	5.0	11.0%	660,000
Investment portfolio		2.5 Years	9.7%	58,431,040

⁵ Based on Total Loan Investments and excluding expected credit losses (ECL).

⁶ Annualised running yield refers to the annualised return for each investment and includes amortised upfront fees. Annualised running yield for exited investments refer to the actual annualised return achieved and includes upfront fees



Upcoming Fund changes

The market for non-bank originated loans continues to change rapidly. To ensure the Fund's strategy reflects the current market opportunity and the Fund is able to continue to invest in new opportunities which meet an attractive risk/return profile, the Manager has determined that changes to the Fund's strategy are required.

These changes will enable the Fund to capitalise on current market conditions while at the same time, meet investor demand and enhance product differentiation. These changes are proposed to take effect from 15 May 2022.

Revised investment mandate parameters

The Manager has identified a significant volume of attractive transactions that sit slightly outside of the existing Fund parameters with respect to real estate credit. Accordingly, the Manager proposes the following changes to the investment parameters of the Fund:

- Removal of the 25% allocation limit on real estate credit mezzanine investments;
- Removal of "Target Portfolio Allocation", which is currently set at a 30% maximum allocation to real estate credit and a 60% maximum allocation to both to structured finance and private credit;
- Reduction in the management fee from 1.20% to 1.00%;
- Increased liquidity with monthly applications and redemptions with 30 days' notice. This compares to the current quarterly application and redemption periods with 30 business days' notice; and
- The addition of Cathy Houston (a Managing Director within MA Financial Group's real estate credit business) as a joint Portfolio Manager, alongside Frank Danieli.

Revised Target Return

The increased investment mandate flexibility will allow the Manager to access an increased range of investments with attractive returns. As a result, the Fund's target total return (after all fees and costs) will increase from 8-10% p.a. to 10-12% p.a., with a target cash distribution of 8% p.a.⁷

Consistent with the increase in the target return, the return hurdle above which Performance fees apply will increase to 10% p.a.

Update to portfolio management team

Cathy Houston will join Frank Danieli as a joint Portfolio Manager, given the increased proportion of real estate credit investments in the portfolio. Cathy has over 25 years' experience in real estate credit, including structured finance and debt restructuring roles.

Frank and Cathy will be supported by the real estate credit team, structured finance team and credit investments teams, which together have over 14 members, with a range of experience across the Fund's main focus sectors.

Investors should consider the Information Memorandum in deciding whether an investment in the Fund continues to be suitable having regard to their personal investment objectives. If you have questions about whether the Fund is suitable for you, please contact your adviser, stockbroker or other professional adviser.

Learn more at an upcoming Fund webinar

Register for an upcoming Fund webinar to hear from Portfolio Managers, Frank Danieli and Cathy Houston, as they detail the upcoming changes to the Fund and answer any questions you may have.

[Click here to register](#) (Thursday 28 April 2022 at 10:00am AEST)

⁷ Investment returns based on a share of profit will be incorporated into the NAV and will not be distributed until received.



Outlook

The Manager has a number of real estate credit investments in the pipeline that can be invested once the Fund parameters are amended. It is intended that the remaining private credit investment, which is now yielding only 5.75% p.a., will be exited and replaced with investments that are in line with the new target return of 10-12% p.a.

Portfolio diversification remains balanced across private credit, structured finance and real estate credit.

In previous updates, the Manager outlined the impact and outlook on markets following the outbreak of COVID-19. The Manager has continued to monitor portfolio investments and economic conditions for COVID-19 impacts, and to date has not seen any direct impact on its investments. The Manager believes the portfolio will be largely insulated from COVID-19 and is ready to capitalise on investment opportunities as they arise.

The Manager continues to monitor a number of economic indicators. As consumer spending recovers, early signs of inflation are evident and the Reserve Bank of Australia has forecast Gross Domestic Product growth of 4.25% over 2022. This, alongside the potential for Central Banks to hike interest rates, and the upcoming Federal election, may lead to increased volatility. The Manager continues to monitor economic conditions and review the Fund's investment position accordingly.

The Manager thanks Investors for their continued support.

MORE INFORMATION

For more information, please contact your financial advisor or our client services team.



Client Service Team

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Learn more about the upcoming Fund changes by registering for a webinar to be held on 28 April 2022 at 10:00am AEST. [Click here to register](#)

IMPORTANT INFORMATION

The Manager has issued this update to a limited number of qualified investors that are wholesale investors as defined under section 761G of the Corporations Act 2001 (Cth) for informational purposes only. This update does not constitute an offer to sell or a solicitation of an offer to purchase any security. While every effort has been made to ensure that the information in this update is accurate, its accuracy, reliability or completeness is not guaranteed. Statements contained in this update that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of the Manager. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon.

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