

Fund Research

MA Priority Income Fund



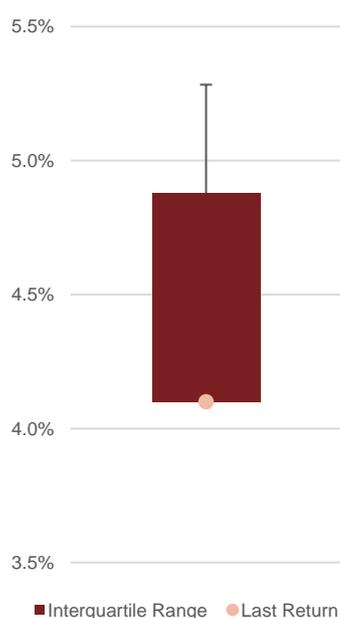
Overview

The MA Priority Income Fund ('the Fund', 'MAPIF') is an open-ended, unlisted unit trust, which seeks to provide retail and wholesale investors with a stable, monthly income stream via exposure to a diversified portfolio comprising predominantly private credit investments. The Fund aims to provide monthly cash distributions at a target distribution of the RBA Cash Rate + 4.00% p.a. (net of fees).

MAPIF invests in Class A units of the MA Master Credit Trust ('the Portfolio') to obtain exposure to a mix of commercial-, consumer-, and real estate-related credit. This includes, but is not limited to, trade and debtor finance, legal disbursement funding, fleet and auto finance, insurance premium funding, personal loans, strata finance and residential and commercial real estate lending.

MA Investment Management Pty Ltd ('the Manager') established the Fund in 2018. As at 28 February 2022, the Master Credit Trust had \$325 million in drawn funds under management (FUM). This comprises \$296 million in capital from investors and the balance being a co-investment by MA Financial Group (ASX: MAF) (formerly Moelis Australia) via Class B units equal to 10% of the Fund. The co-investment is a strong loss absorption mechanism, which provides additional protection for Fund investors' capital and returns at the portfolio level as it is the first loss piece.

Figure 2. Monthly Returns* Box Plot



Source: BondAdviser, MA. Annualised monthly returns of the Fund, after fee returns since inception.

Figure 1. Monthly Net Returns* (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	0.34	0.34											0.68
2021	0.34	0.34	0.34	0.34	0.34	0.34	0.34	0.34	0.34	0.34	0.34	0.34	4.10
2020	0.40	0.40	0.37	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.34	0.34	4.32
2019	0.42	0.42	0.42	0.42	0.42	0.44	0.42	0.42	0.42	0.40	0.40	0.40	4.96
2018												0.42	0.42

Source: BondAdviser, MA, as at 28 February 2022.
* Return is monthly net investor distribution.

Figure 3. Relative Cumulative Performance



Source: BondAdviser, MA, Bloomberg, as at 28 February 2022.
* Calculated from cumulative net monthly investor distributions of the Fund.

Product Assessment

Recommended

The Manager has successfully delivered targeted returns, while growing FUM and improving the Portfolio risk profile.

The MA Priority Income Fund (MAPIF) allows investors to gain exposure to a diversified portfolio of primarily private credit investments, focused on lending to both mainstream and niche lending segments.

We expect the Portfolio to exhibit relatively muted downside risk, preferencing capital protection, while delivering relatively attractive returns through-the-cycle. Our analysis indicates that the product should deliver investors stable income and returns that are not correlated to equity markets.

An important feature of the Fund is the generous and unique credit enhancement offered by the co-investment from MA Financial Group. The 10% capital buffer acts as a first loss piece at the portfolio level, which helps protect investors from capital losses and improves the likelihood of delivering targeted returns.

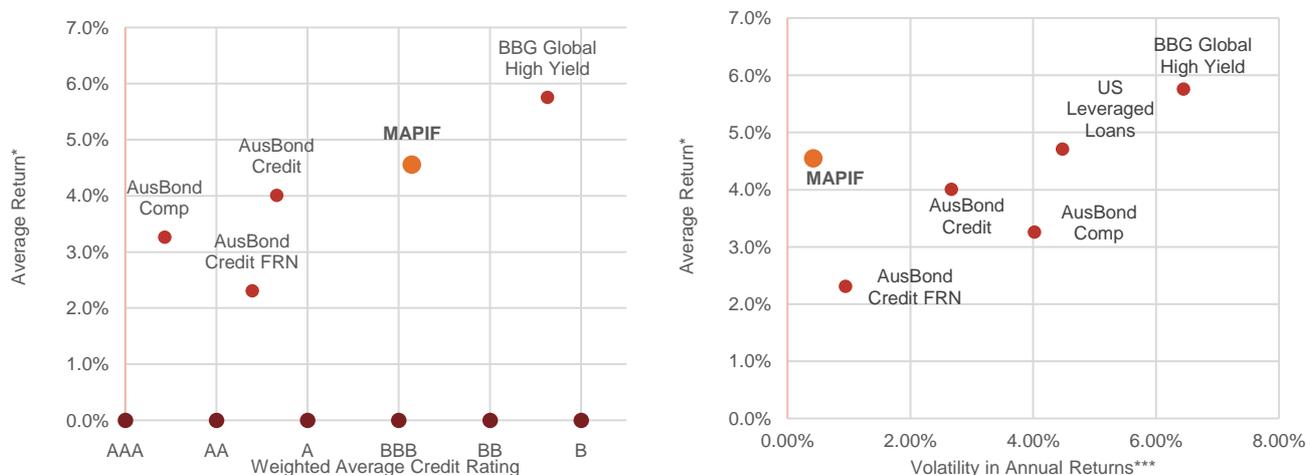
The 10% capital buffer acts as a first loss piece at the portfolio level, which helps protect investors from capital losses and improves the likelihood of delivering targeted returns.

There are some shortcomings that we consider not to be best practice globally, though these are not uncommon in the local private credit market: (1) a lack of external oversight from an independent trustee and/or responsible entity as the current Trustee is wholly owned by the parent, (2) assets are not subject to independent valuation except for auditing services, (3) MAF Credit, a wholly owned subsidiary, retains all origination and servicing fees related to legal disbursement lending.

The Manager has successfully delivered targeted returns, while growing FUM and improving the Portfolio risk profile. There has been some style drift with increased exposure to RMBS, but this was earmarked and expected. Furthermore, it is an appropriate asset class in which to deploy cash while lending opportunities in niche segments are sought.

Performance and development of the Portfolio reflects favourably upon the Manager's investment and risk management processes, as well as its expertise to execute the strategy. Additionally, we are cognisant of the Manager's strong market position and technical capabilities in the space that enhances its ability to source niche investment opportunities at favourable terms. On this basis we expect continued outperformance by MAPIF from a risk-return perspective and retain a rare **Recommended** rating.

Figure 4. Estimated Risk-Adjusted Comparison (Underlying Portfolio for Wgt. Avg. Credit Rating)



*All returns for indices and the Underlying Fund are calculated using annualised monthly returns for the past five years. Average return for the Fund is calculated since inception in December 2018. ** Credit Ratings based on BondAdviser estimates. *** Calculated based on annualised monthly returns data for past five years for indices and since inception for the Fund. Source: BondAdviser, MA, Bloomberg, as at 28 February 2022.

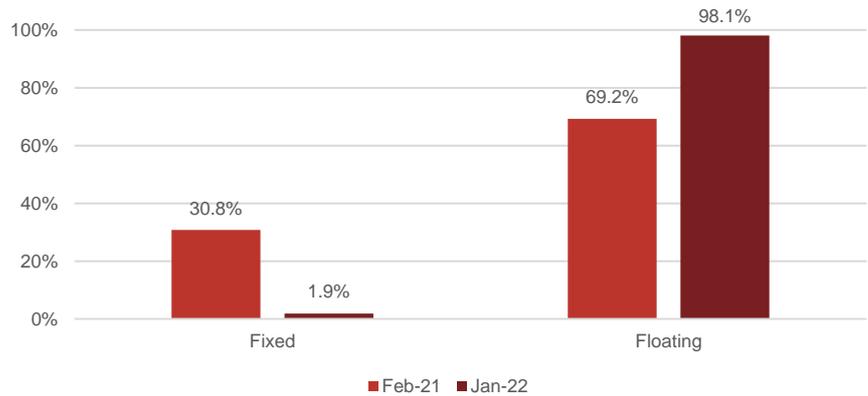
Construction and Investment Process

There have been **no material changes** to the construction and investment process.

Portfolio Risk Management

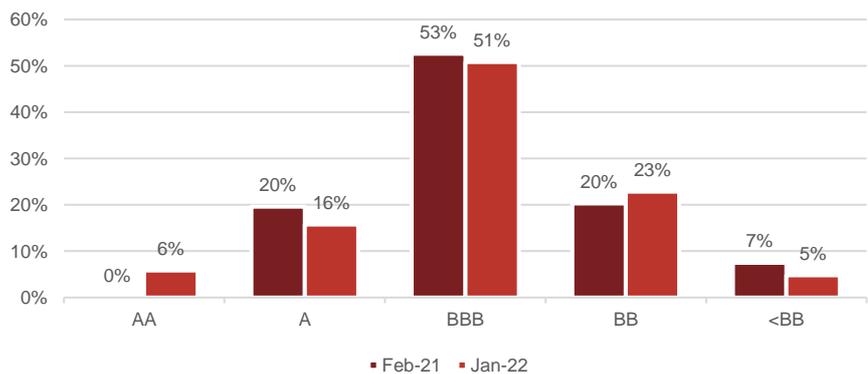
In light of the rising interest rate environment and the Fund's floating rate target, the Manager has repositioned the Fund to 98.1% floating rate exposure from 69.2% at February 2021. We view this risk mitigation as a positive given there is still much to play out in fixed income with relation to duration exposure.

Figure 5. Underlying Portfolio Interest Rate Exposure*



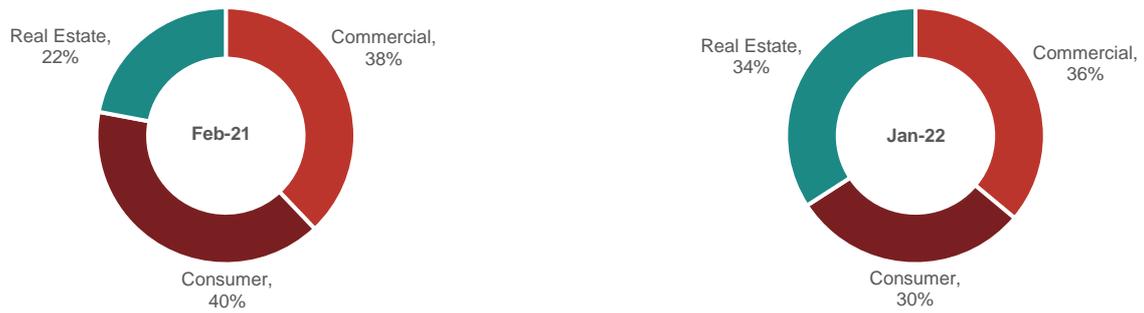
Source: BondAdviser, MA. * Excludes cash and cash equivalents.

Figure 6. Underlying Portfolio Credit Rating Mix*



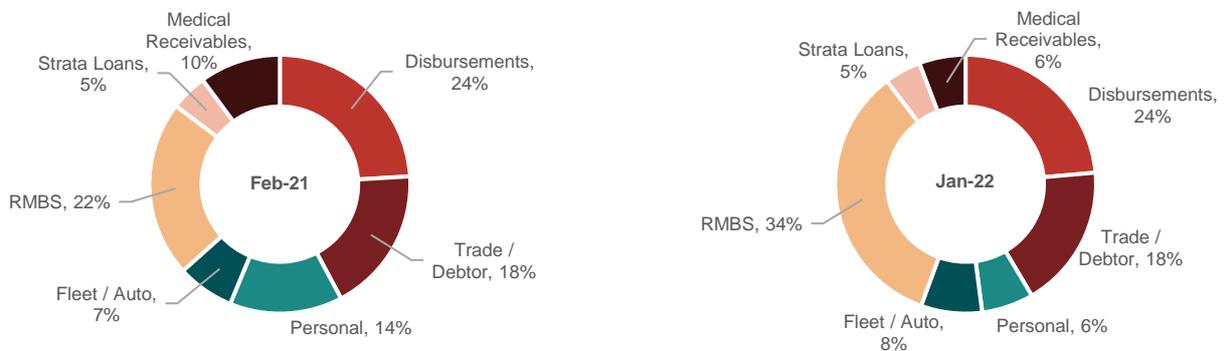
Source: BondAdviser, MA. * Excludes cash and cash equivalents. Based upon public and MA internal ratings.

Figure 7. Underlying Portfolio Sector Mix* - Feb-21 vs Jan-22



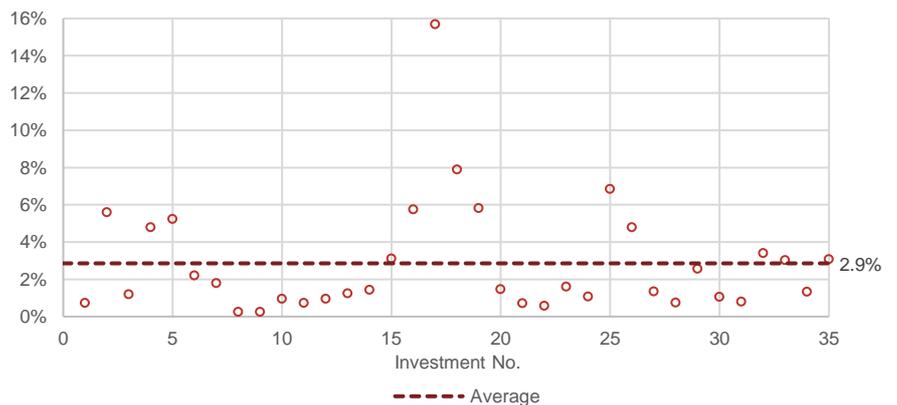
Source: BondAdviser, MA. * Excludes cash and cash equivalents.

Figure 8. Underlying Portfolio Sub-Sector Mix*



Source: BondAdviser, MA. * Excludes cash and cash equivalents.

Figure 9. Underlying Portfolio Individual Asset Weighting*



Source: BondAdviser, MA. As at 31 January 2022. * Excludes cash and cash equivalents.

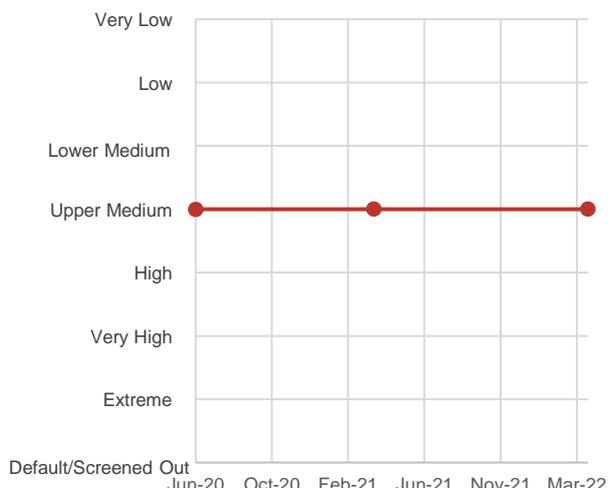
Fund Governance

There have been **no material changes** to fund governance.

The structure of the Fund was changed in 2021 to allow it to be offered to retail investors, as outlined in our [April 2021 Update Report](#) (see page 5).

Quantitative Analysis

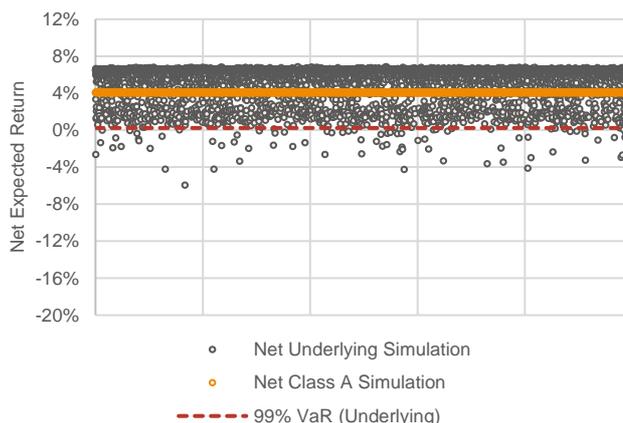
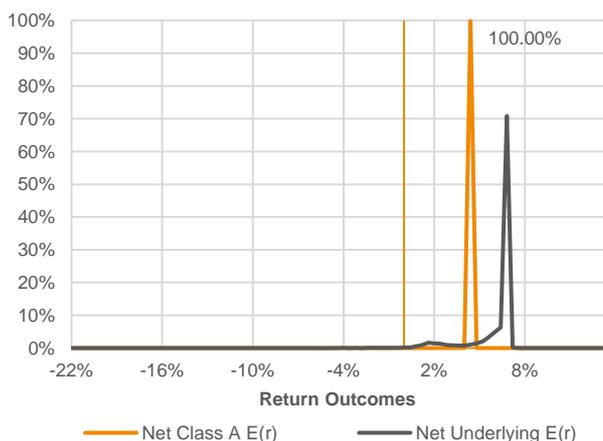
Figure 10. Risk Assessment



The Fund's Class A units are highly insulated from volatility due to valuable credit enhancements, including a 10% capital buffer and yield protection at the target return level. This, along with diversification at the portfolio level, an estimated weighted average credit rating of investment grade and a short average remaining term of 1.1 years (quantum of cashflows revalued on impairment is less) further reduce susceptibility to adverse movements in the Fund.

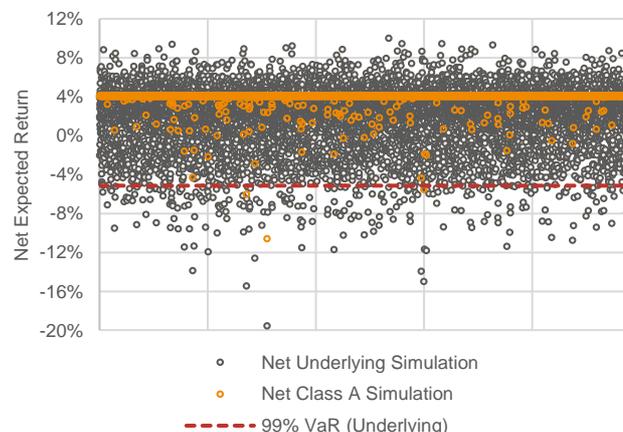
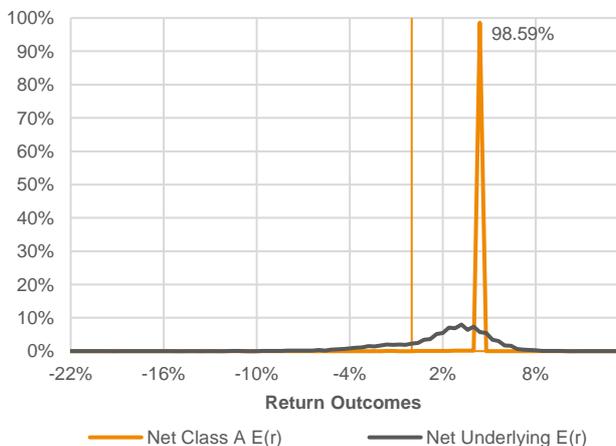
As was the trend when we last provided an update on MAPIF, there has again been a reduction in first lien exposures within the Fund. That said, borrower diversification has nearly doubled, as has FUM, which has offset the added subordination. The below scenarios from our Monte Carlo modelling are relatively unchanged from a year prior. We expect that: should counterparty diversification grow substantially, without an increased exposure to structurally subordinated positions, our Risk Assessment may be notched upwards.

Scenario 1. Baseline Asset Assessment



Source: BondAdviser Estimates. Net includes impact of fees, gross excluded.

Scenario 2. Stressed Asset Assessment



Source: BondAdviser Estimates. Net includes impact of fees, gross excluded.

Reporting History

[MAPIF Update Report – 9 April 2021](#)

[MAFIF Initial Report – 19 June 2020](#)

Important Information

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