



MaxCap
Investment Management

MAXCAP INVESTMENT TRUST HIGH YIELD

QUARTERLY INVESTOR REPORT
MARCH 2024

MAXCAP INVESTMENT TRUST – HIGH YIELD

PORTFOLIO MANAGER REPORT - Q1 2024

Dear valued investors, we are pleased to present the Quarterly Investor Report for the first calendar quarter of 2024, the period 1 January 2024 to 31 March 2024, for the MaxCap Investment Trust – High Yield ('Fund').

The 2024 year has begun in a similar vein to that of 2023, marked by persistent macroeconomic uncertainty that continues to dampen economic growth. Key economic indicators have yet to sway short-term market sentiment, with both inflation and unemployment remaining stubborn at 3.6%¹ and 3.8%² respectively. Despite this, we continue to identify and pursue strong opportunities that enhance the risk profile, return and composition of the overall Fund portfolio.

We are pleased to report that the Fund is performing in line with target, with a gross return over the past twelve months of 14.10% (target: 13.95%). This outcome is especially pleasing considering the risk metrics and composition of the underlying portfolio, maintaining LVR below target at 65.8% (prior quarter: 60.8%), and continuing our strategic rebalancing of the portfolio towards robust sectors and resilient markets.

Fund Investments

Despite tight credit conditions persisting throughout the quarter, the steady competition for high-quality opportunities has led to a slight compression in market pricing. This trend has only bolstered our deployment strategy, with an unwavering focus on transactions offering strong risk-adjusted returns and diversification benefits to the underlying portfolio.

During the quarter we were deployed into, or were mandated on, 5 new investment opportunities:

- Residential: Parramatta (NSW), Louise (VIC), Nexus (QLD)
- Retail: Meridian Village (VIC)
- Office: West Block (ACT)

These investments enhance the overall diversification and performance of the portfolio, with an average LVR of 70.6% and a gross IRR of 15.1%.

Aligned with our overarching portfolio construction strategy, deployment remains concentrated on the deepest markets of Victoria and New South Wales, alongside the resilient residential sector. Nevertheless, and as shown in our investment activity this quarter, we continue to selectively pursue opportunities across all sectors, geographies and strategies,

ensuring the maintenance of a highly diversified portfolio that offers a strong risk-adjusted return proposition for investors.

Market Overview

Transaction volumes for Australian commercial real estate finished strongly in 2023, with Q4 volumes representing the highest quarterly total for the year, growing 35% QoQ. Despite this, the 2023 calendar year represented the lowest calendar year volume since 2020, and the second lowest since 2015³, driven by persistently high funding costs and a tight credit market.

As banks continue to withdraw from commercial real estate debt due to regulatory shifts, market participants will increasingly seek alternative funding sources. This trend will expand the opportunity set for institutional grade non-bank lenders, such as MaxCap, that possess the scale, capability and platform to back strong borrowers and high-quality assets.

At a more granular level, the performance of specific sectors remains consistent with previous quarters. The residential and industrial sectors maintained their strong performance, remaining a key component of the Fund's overall portfolio construction strategy. Despite challenges persisting in other sectors, particularly the office sector, we continue to assess the idiosyncratic risks of each transaction, with a focus on achieving a strong risk-adjusted return for investors.

Residential house prices grew 9.6% and 3.2% YoY in Sydney and Melbourne respectively⁴, and continue to be supported by a fundamental lack of supply and strong immigration inflows. These factors continue to place upward price pressure on the market, despite higher interest rates impacting overall affordability.

The industrial sector remains buoyed by strong underlying tailwinds, with sustained demand from purchasers and tenants and minimal vacancy rates. However, it is expected that undersupply in the market will ease in the medium term, with oncoming supply projected to bring vacancy levels and rental growth to normal levels, even as demand remains robust. Oncoming supply in 2024 is expected to be 2.9 million sqm, c. 11% higher than that delivered in 2023⁵.

¹Australia Bureau of Statistics, Monthly Consumer Price Index Indicator

²Australia Bureau of Statistics, Labour Force, Australia

³Cushman and Wakefield, Marketbeat Australia, Investment Q4 2024

⁴CoreLogic, RP Data Daily Home Value Index: Monthly Values

⁵Knight Frank, Australian Industrial Review, Q4 2023

Construction cost inflation appears to have stabilised, with CoreLogic's Cordell Construction Cost Index reporting YoY growth of 2.8% as of 31 March 2024⁶. This marks the lowest YoY growth since March 2007, in turn providing a sense of cost certainty to the market. However, building costs still stand 27.6% higher than pre-pandemic levels⁷, continuing to exert pressure on builders' profit margins. We persist in selectively pursuing construction opportunities, with the firm belief that the current market is supportive of financially resilient sponsors and strategically located projects.

Interest Rate Overview

In line with market expectations, the Reserve Bank of Australia (RBA) decided to maintain the official cash rate at 4.35% at its March board meeting. Based on a survey of 38 economists by Bloomberg, 84% of respondents are expecting at least one cash rate cut by Q4 2024, increasing to 100% of respondents by Q1 2025⁸. Whilst inflation is tracking towards the 2% – 3% target range, we are of the view that the RBA will not loosen monetary policy until inflation is firmly within this range. The portfolio remains a robust hedge against inflation and continues to shield investors from volatility. As of the end of the quarter, the portfolio is entirely comprised of floating-rate investments.

⁶CoreLogic, Cordell Construction Cost Index (CCCI)

⁷CoreLogic, Construction sector on road towards normalisation of costs

⁸Bloomberg, 19 April 2024

Outlook and Strategy

Despite ongoing market uncertainty, there remain significant opportunities through which investors can earn outsized risk-adjusted returns while effectively mitigating downside risks. We remain firm in our view that the Fund represents a market-leading product through which investors can capitalise on these opportunities, as well as the expected future growth in the non-bank CRED market.

Our view remains cautiously optimistic, and we are resolute in our commitment to delivering optimal outcomes for our valued investors.



Baden Adams

Portfolio Manager

RETURNS AND PORTFOLIO METRICS

Gross Monthly Returns

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total Annual Return
2023	-	-	1.34%	0.91%	0.73%	0.87%	1.07%	1.14%	1.15%	1.22%	1.19%	1.14%	10.76%
2024	1.10%	1.18%	1.21%	-	-	-	-	-	-	-	-	-	3.49%

Portfolio Metrics

Weighted average LVR	65.8%
Weighted average LVR target	75.0%
Weighted average term (months)	19
Weighted average time to maturity (months)	9
Sponsors	37
Largest sponsor exposure	13.7%
Fund leverage ratio	6.5%
Percentage of floating rate investments	100%

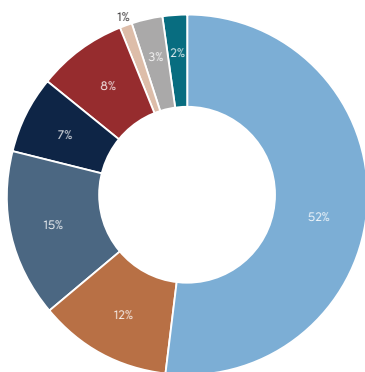
Returns

	1M	3M	6M	12M	Incep
RBA Cash Yield	0.36%	1.07%	2.13%	4.15%	4.11%
Gross Return					
Target gross return	1.13%	3.35%	6.84%	13.95%	13.91%
Gross return	1.21%	3.48%	7.07%	14.10%	14.16%
Net Return¹					
Target net return	0.99%	2.95%	5.99%	12.15%	12.11%
Net return	1.05%	3.01%	6.11%	12.13%	12.20%

¹Net return (after management fees and performance fees) is calculated based on the blended management fee and performance fee rates.

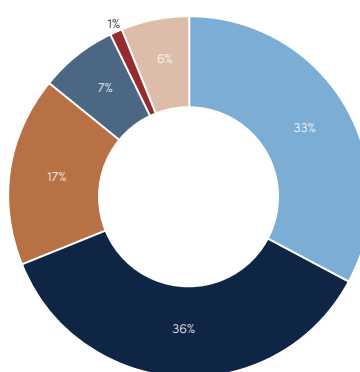
EXPOSURES²

GRAPH 1: SECTOR



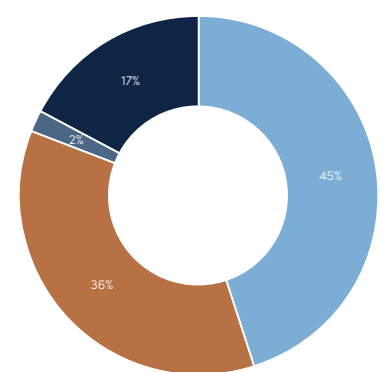
- Residential
- Office
- Retail
- Industrial
- Hotel
- Medical and Life Sciences
- Student Accommodation
- Mixed-Use

GRAPH 2: GEOGRAPHY



- VIC
- NSW
- QLD
- ACT
- WA
- NZ

GRAPH 3: LOAN TYPE



- Site Acquisition
- Construction
- Value Add
- Investment

²Exposures are based on outstanding balance of the reporting date.

Portfolio Summary

For a detailed summary of each individual investment, please refer to Ansarada data room.

TABLE 1: SUMMARY OF CURRENT INVESTMENTS IN THE PORTFOLIO

INVESTMENT	LOCATION	MATURITY DATE	RANKING	SECTOR	COMMITMENT (\$m) ³	CURRENT EXPOSURE (\$m) ^{1,3}	LVR COVENANT
Brighton International	VIC	Q4 2024	Senior	Residential	24.4	22.7	65%
HQ78	NSW	Q3 2024	Senior	Industrial	26.8	18.4	64%
Gillieston Heights	NSW	Q2 2024	Senior	Residential	23.4	4.0	65%
Rolleston Fields ²	NZ	Q2 2024	Senior	Retail	21.9	19.6	65%
Box Hill Shopping Centre	NSW	Q3 2024	Senior	Retail	50.0	19.2	58%
Brewery Yard	NSW	Q2 2024	Senior	Office	79.6	75.8	65%
Shell Cove	NSW	Q3 2025	Senior	Mixed-Use	46.2	7.3	65%
88 Laurens	VIC	Q3 2024	Senior	Office	30.0	24.9	53%
Wellington	VIC	Q1 2025	Senior	Medical and Life Sciences	49.9	25.6	65%
Noosa Civic	QLD	Q4 2024	Senior	Medical and Life Sciences	18.2	9.2	65%
Bellfields ²	NZ	Q1 2026	Senior	Residential	41.1	Not Yet Drawn	70%
Mentone (A-Note)	VIC	Q4 2024	Senior	Industrial	12.2	9.6	53%
388 Brunswick Street (A-Note)	QLD	Q4 2024	Senior	Office	22.0	12.1	65%
Sunbury Hills - Construction	VIC	Q1 2025	Senior	Residential	37.1	22.1	65%
Meridian Village	VIC	Q4 2025	Senior	Retail	30.3	Not Yet Drawn	70%
Beveridge	VIC	Q3 2024	Senior	Residential	26.5	26.5	51%
Main Beach (Retail)	QLD	Q4 2025	Senior	Retail	15.0	15.0	53%
Mackay	QLD	Q3 2024	Senior	Residential	5.0	5.0	65%
Cambridge	WA	Q3 2024	Senior	Office	12.1	10.5	60%
A'Beckett	VIC	Q3 2024	Senior	Student Accomodation	8.1	7.8	65%
Brooklyn (Refinance)	VIC	Q2 2024	Senior	Industrial	21.5	21.5	43%
Woolloongabba (Refinance)	QLD	Q4 2024	Senior	Mixed-Use	26.0	24.4	65%

INVESTMENT	LOCATION	MATURITY DATE	RANKING	SECTOR	COMMITMENT (\$m) ³	CURRENT EXPOSURE (\$m) ^{1,3}	LVR COVENANT
Ivanhoe	VIC	Q2 2024	Senior	Residential	10.0	10.1	60%
Frenchs Forest	NSW	Q3 2024	Senior	Industrial	25.9	25.9	55%
Burly	QLD	Q3 2024	Senior	Residential	35.7	35.1	70%
600 Lonsdale	VIC	Q1 2025	Senior	Mixed-Use	24.0	24.0	60%
Oakleigh	VIC	Q2 2025	Senior	Residential	23.0	23.0	50%
Rydges	NSW	Q1 2025	Senior	Hotel	29.9	27.8	61%
Oak Grove	VIC	Q4 2024	Senior	Residential	74.4	74.4	55%
Mosman	NSW	Q1 2025	Senior	Residential	14.5	14.5	65%
Sunbury Hills - Land	VIC	Q1 2025	Senior	Residential	49.0	49.0	65%
West Block	ACT	Q2 2025	Senior	Office	24.5	15.5	65%
Perth	WA	Q2 2024	Junior	Hotel	12.3	9.0	66%
Main Beach (Resi)	QLD	Q3 2024	Subordinated	Residential	13.4	13.4	80%
Nelson Bay	NSW	Q2 2025	Subordinated	Residential	4.2	3.3	72%
Christchurch ²	NZ	Q2 2024	Subordinated	Retail	9.4	10.8	65%
Mentone (B-Note)	VIC	Q4 2024	Subordinated	Industrial	2.8	2.6	65%
Shenton Quarter	WA	Q2 2025	Subordinated	Residential	6.2	4.2	75%
Warrawong	NSW	Q3 2024	Junior	Retail	11.4	11.4	69%
Rochedale	QLD	Q2 2025	Subordinated	Residential	10.8	7.7	75%
388 Brunswick Street (B-Note)	QLD	Q4 2024	Subordinated	Office	4.5	4.1	75%
Lumina Stones Corner	QLD	Q2 2026	Junior	Residential	11.5	4.1	75%
Parramatta	NSW	Q3 2025	Junior	Residential	33.2	26.1	72%
Louise	VIC	Q2 2026	Junior	Residential	5.6	3.8	80%
Nexus	QLD	Q1 2026	Junior	Residential	13.3	Not Yet Drawn	75%

¹Inclusive of principal and capitalised interest and fees.

²NZ Facility Limit and balance converted at the 31 March 2024 spot-rate.

³The Commitment and Current Exposure, which may involve multiple tranches and/or lenders/participants, in respect of which relevant sub-limits may apply.

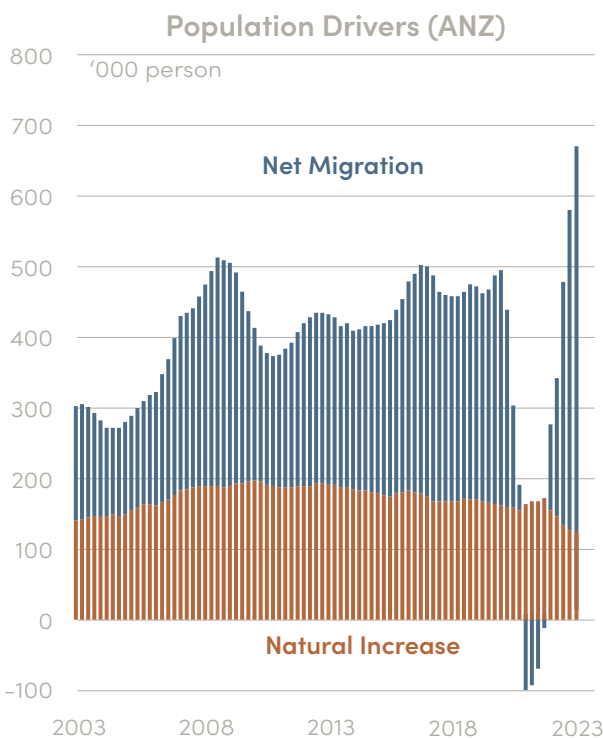
ECONOMIC AND MARKET UPDATE

Economic slowdown prompting a likely turn for interest rates.

Difficult economic climate drives slowing growth.

- The **global economy** is slowing as high interest rates continue to diminish activity. Geopolitical instability persists, affecting world trade and adding to economic uncertainty. Conflicts in Ukraine, Gaza, the broader Middle East and rising US-Chinese tensions amid a looming US election cycle are dampening global cooperation. Furthermore, hopes of large-scale stimulus appear dashed for the Chinese economy following the National People's Congress in March, weakening demand for commodities.
- The **Australian economy** is set for a slow growth environment in 2024, following very meagre growth in this past quarter (Q4: +1.5% p.a.). Growth will likely remain sluggish through 2024, as consumers face greater constraints from high mortgage rates and diminished household savings. Meanwhile, a population boom (Q4: +2.4% p.a.) is still adding considerably to potential economic demand.
- In **New Zealand**, the economy posted a double-dip recession (Q4: -0.6% p.a.), weighed down by broad-based downturns in mining, manufacturing, construction, trade and logistics. A similar surge in population is occurring (Q4: +2.9% p.a.), which is not just raising demand, but also reducing the median age of the country.

Record migration is boosting demand.



Sources: ABS, NZ Stats, MaxCap Group (April 2024)

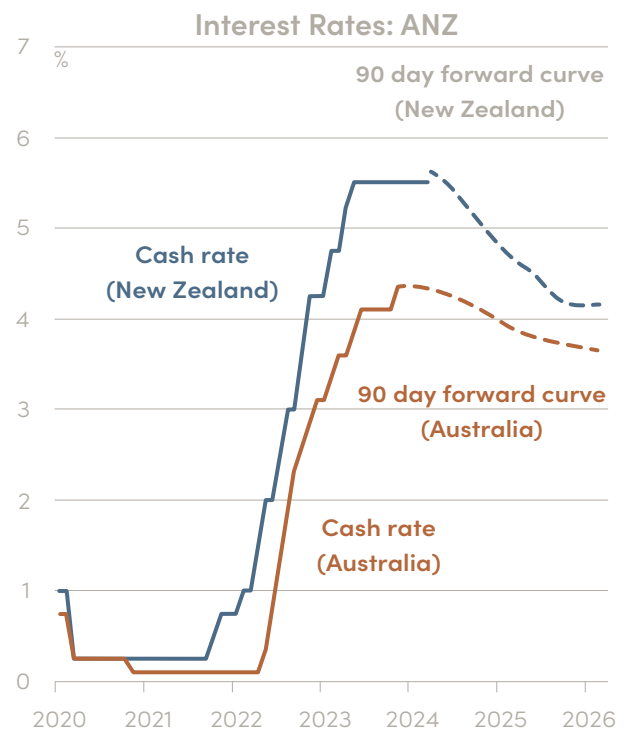
Inflation is easing more clearly and consistently.

- Consumer **price inflation** has moderated markedly from their peaks in both Australia (Feb: +3.4% p.a.) and New Zealand (Q4: +4.7% p.a.) but remain in excess of each central bank target. A return to target inflation remains elusive, requiring cash rates holding at higher levels for some time ahead.
- Following a similar tack, **construction costs** have witnessed steep inflation, followed by gradual temperance. The pullbacks since 2022 in both Australia (from 17% to 4%) and New Zealand (from 13% to 5%) are providing a timely opportunity to restore builder profit margins in 2024 as supply chain blockages ease and material input prices stabilise.

Interest rates poised to turn by the end of the year.

- Amidst early signs of disinflation, **central banks** are looking to cut rates globally. The US is likely to be more assertive, contrasting with Australia's expected cautious approach.
- US **money markets** are currently predicting 3 rate cuts in 2024 (and 3 cuts in 2025). In Australia, markets are expecting 1 rate cut in 2024 and one more in 2025. The equivalent forward curves are pricing in 4 rate cuts in New Zealand this year.

Forward curves are starting to price in rate cuts.



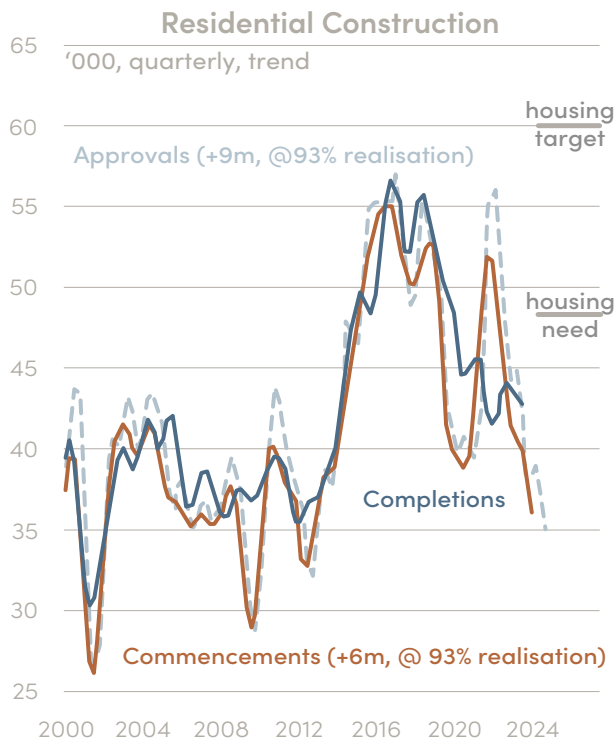
Sources: Bloomberg, MaxCap Group (April 2024)

Capital markets shift amidst optimistic outlooks.

- Recent monetary policy has caused volatility across multiple asset classes. Equities are witnessing significant fluctuations, driven by changing rate expectations. Weak performance globally alongside slowed activity in China – given large domestic sectors are tied to China’s fortunes – have dampened investor sentiment. Bond returns have recovered moderately following a challenging 2023.
- Listed real estate markets** have been uneven in Q1 2024, losing ground in the US (-2%) and New Zealand (-2%), while rebounding in Australia (+16%). The more upbeat listed asset pricing in Australia – if sustained – should translate to firmer unlisted asset pricing over the course of 2024.
- Real estate credit** markets are still well on track to deliver sustained and resilient returns amid these bouts of capital market volatility. Indeed, the risk profile of the underlying collateral is expected to improve as these asset market pricing recoveries gather more momentum.

Residential markets face surging demand and structural undersupply.

Dwelling supply insufficient to meet future needs.



Sources: ABS, MaxCap Group (April 2024)

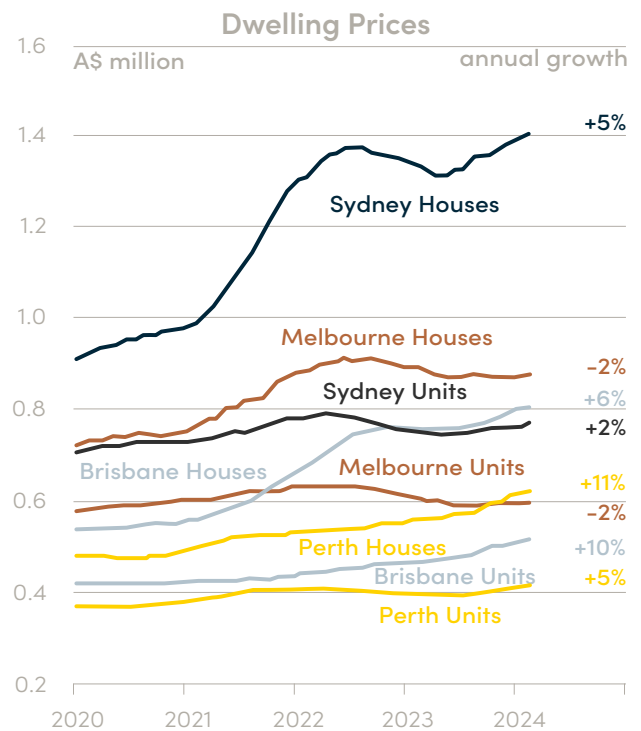
Housing market remains undersupplied.

- Mass population growth has spurred a bullish outlook on **ANZ housing markets**. While construction cost inflation and labour shortages are steadily moderating, feasibility remains precarious for many urban developers.
- The outlook is underscored by a chronic shortage in the Australian residential sector. The projected deficit of 125,000 residencies over the forthcoming five-year period creates a stark outcome; with supply constrained in the face of booming demand. Currently the market favours investors and developers capable of weathering cost risk.

More moderate gains in housing prices and rents.

- Early 2024 continues the upward direction for **housing prices and rents** seen through the latter stages of 2023, with more moderate growth off the back of high mortgage rates and affordability constraints for both buyers and renters alike.
- Perth (+16% yoy), Adelaide (11%) and Brisbane (11%) have sustained growth while Sydney and Melbourne dwelling prices have been relatively slower.
- Residential rents remain at record levels with severe undersupply of stock in all capital cities keeping vacancy rates at 1.2% nationally. Rental rises most prominently in Sydney and Melbourne have kept investor returns high.

Escalating dwelling prices in 2024.

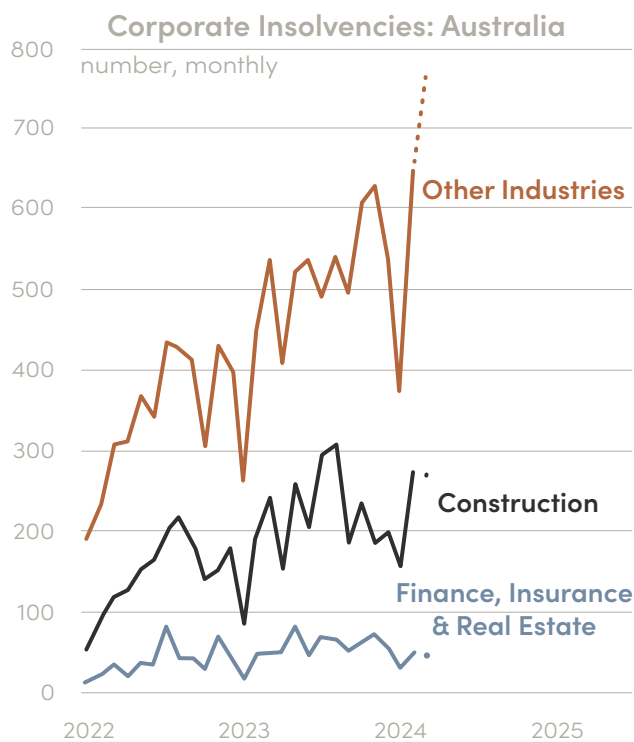


Sources: Corelogic, MaxCap Group (April 2024)

Builder insolvencies remain a key watch point.

- Easing cost inflation and rising selling prices are relieving pressure on builder profit margins. In terms of timing, we are most likely past the period of maximum strain on construction profit margins seen in 2022. And we are very likely past the peak of builder insolvency in 2023, which lags the profit squeeze by around a year.
- Undoubtedly, these indicators of financial distress warrant close watching in 2024, but there are more encouraging signs of improving profitability since 2023, which should translate – as we have seen in past cycles – into a lower trend for builder insolvency in 2024.
- Regardless, the trend for real estate developer insolvency remains low and steady, little affected by the recent and massive cycle in costs and profits.

Corporate insolvencies remain quite elevated.



Sources: ASIC, MaxCap Group (April 2024)

Commercial markets face multiple adjustments ahead.

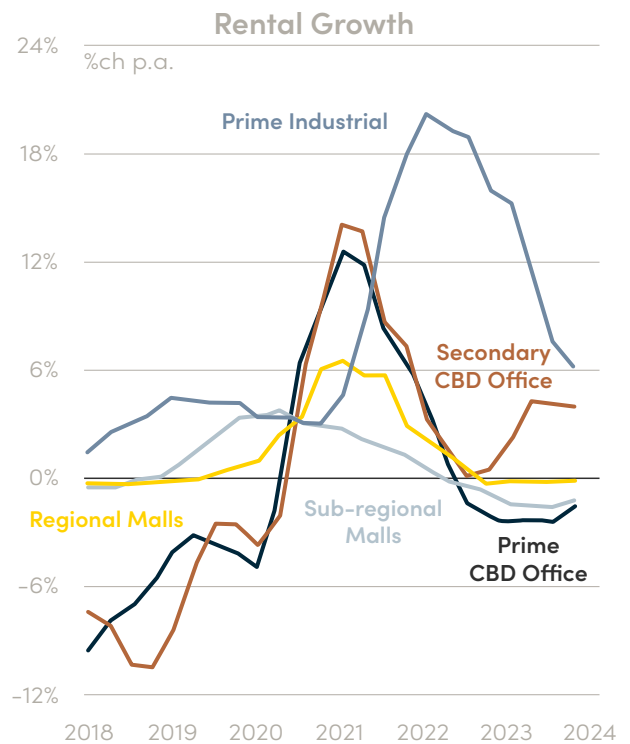
Commercial market outlooks are diverging widely.

- **Office markets** face selective demand. Transaction volumes remain stagnant, however as pricing adjustment continues, we expect the sector to approach the threshold where value investors are drawn back into the market. Occupancy and net absorption of prime-grade stock is strong, driven mostly by returning office workers.

However, the market is asset-to-asset specific, with higher grade stock proving more resilient than the lower grade assets.

- **Retail** continues to be mired at low levels as consumer spending remains weighed down. Interestingly, retail mall performances have improved with greater occupancy and stabilising rents reported throughout national markets.
- **Industrial** markets backed by tailwinds of increased ecommerce traffic and the move away from 'just-in-time' inventory practices – a lesson learnt from covid supply disruptions – have seen strong structural demand growth. Furthermore, onshore manufacturing has been expanded in ANZ markets with a visible rise in occupancy and rents in the sector. While growth has moderated since 2022, underlying asset prices remain low.

Rental growth is differing a lot across sectors.

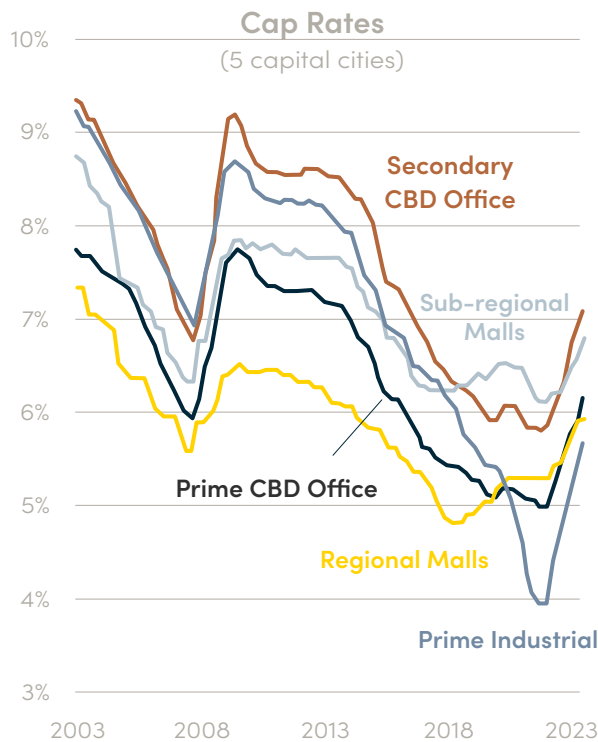


Sources: JLL REIS, MaxCap Group (April 2024)

Commercial capital markets are lagging for now.

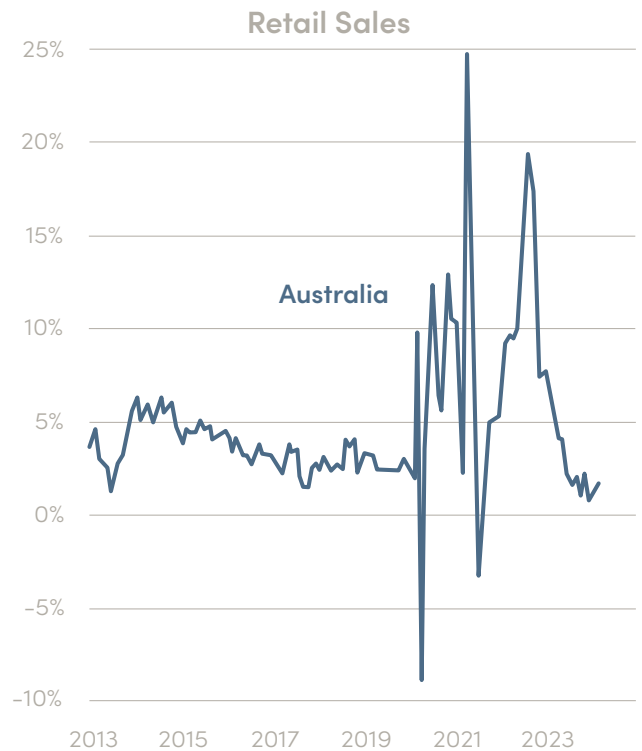
- Valuations across the board are still diminishing in the current interest rate climate. **Cap rates** continue to soften across the board, lifting from cyclically low levels.
- **Equity investors** are still making active reallocations, down-weighting retail initially and office more recently, by leaning more heavily into the living and logistics spaces.
- **Bank lending** allocations are also moving visibly, albeit on a slower, more measured basis, reducing residential and land development over the longer term and cutting office and retail exposures over more recent years.

Cap rates are rising in tandem to interest rates.



Sources: JLL REIS, MaxCap Group (April 2024)

Retail sales are struggling, given higher mortgage repayments.

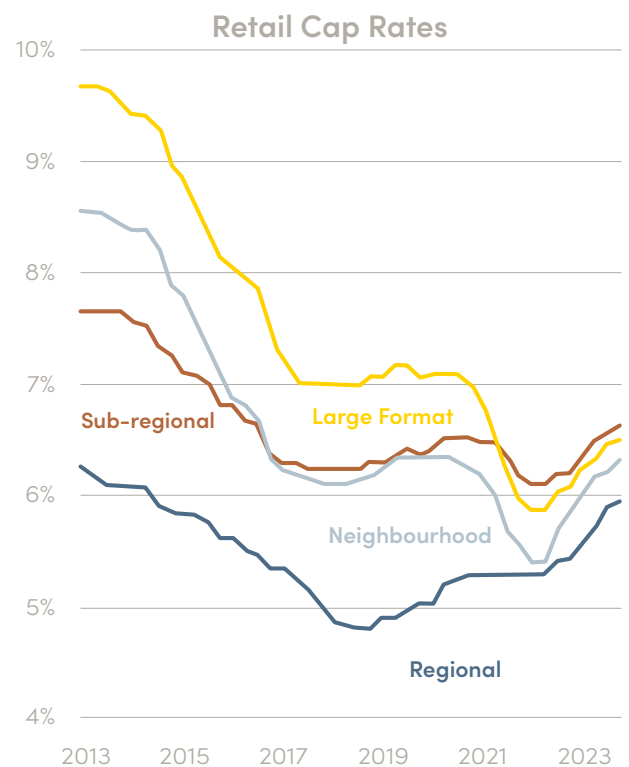


Sources: Australian Bureau of Statistics, JLL REIS, MaxCap Group (April 2024)

Retailers face stiff conditions through 2024.

- Following a difficult covid lockdown period and the current uncertainty in the global **economic climate**, the retail sector faces **strong headwinds** going forward. Diminished sales are contributing to the broad downswing in the sector as domestic consumption falls and ecommerce utilisation is sustained.
- Higher mortgage rates and the accompanying drag on household incomes continue to burden retail, with vacancy rates broadly increasing across the nation. Rental growth has stalled, although is no longer contracting, which indicates some extent of stabilisation in the mid-term.
- Cap rates have continued to soften nationwide, rising from cyclically low levels.
- **Looking forward**, as inflationary and interest rate pressures are set to moderate in late 2024, the retail sector can be expected to recover some lost ground. Buoyed by full employment and mass population growth, potential demand in the market remains high.

Retail mall cap rates are still going through a broad softening phase.



Sources: Australian Bureau of Statistics, JLL REIS, MaxCap Group (April 2024)

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MARCH 2024