MaxCap
Investment Management

MAXCAP INVESTMENT TRUST

High Yield

Quarterly Investor Report

JUNE 2024

Commercial In Confidence

Portfolio Manager Report

Dear valued investors, as we reflect on the end of the 2024 financial year, we are pleased to present the Quarterly Investor Report for the period 1 April 2024 to 30 June 2024, for the MaxCap Investment Trust – High Yield ('Fund').

Economic uncertainty persisted throughout the quarter, with key data indicators on inflation and growth yet to improve the market's general sentiment towards the near-term outlook. Despite this, the commercial property market remains resilient, with a rebound in foreign investment driving a significant increase in transaction volumes. Q2 2024 sales in the office, retail and industrial markets were 60% higher than in Q1 2024, and double that of Q2 2023[1], suggesting that investors are re-entering the market. As a result, we continue to identify attractive investment opportunities for the Fund which further enhance the risk, return and diversification of the overall portfolio.

We are pleased to report that the Fund continued to outperform its target, achieving a gross return over the past twelve months of 15.0% (target: 14.1%). This is despite the underlying risk parameters of the portfolio remaining at or below target, with a stable portfolio LVR of 66.6% (prior quarter: 65.8%) and a continued focus on deploying capital in line with our strategic and diversification objectives.

Fund Investments

Credit conditions saw a slight improvement during the quarter, consistent with the broader recovery of the commercial property market. Despite strong competition continuing to drive down market pricing for high-quality opportunities, the Manager's superior underwriting capability has ensured that the Fund's future deployment pipeline remains strong. The Manager remains dedicated to prioritizing investments that offer robust risk-adjusted returns and also contribute to the overall diversification of the portfolio.

During the quarter we were deployed into, or were mandated on, 11 new investment opportunities:

- Residential: Bellfields (NZ), Boundary Road (VIC), Hemmingway (VIC), Glenlee (VIC), Truganina (VIC), Perspective Nexus (QLD)
- Retail: Meridian Village (VIC), Bayview (NSW)
- Mixed-use: James Street (QLD), Market Square (SA), Northcote (VIC)

These investments were underwritten at an average LVR of 66.9% and a gross IRR of 13.3%.

The Manager's overarching portfolio construction strategy remains unchanged, with a continued focus on deploying into the deepest markets of Victoria and New South Wales, alongside the resilient residential and industrial sectors. Nevertheless, we persist in performing a comprehensive risk assessment for every investment opportunity and selectively pursue transactions across all sectors, geographies, and strategies where we have strong confidence in the underlying risk-return profile.

Key Portfolio Updates

In early July, the Manager successfully divested the Brewery Yard exposure, achieving a minimum return of 5.5%, with the potential for further upside over the next 18 months. Whilst this was below underwrite, we consider it a positive outcome for the Fund given the specific challenges of the underlying asset.

Interest Rate Overview

An unexpected increase in inflation to 4.0% in May[2] underscores the persistence of upside risks, leading to a market consensus that cuts to the cash rate are likely postponed until 2025[3]. The portfolio continues to act as a hedge against this uncertainty, with the portfolio remaining 100% comprised of floating-rate investments.

Outlook and Strategy

As we look ahead to the 2025 financial year, we are confident that the Fund is well-positioned to identify and capitalize on opportunities that offer outsized risk-adjusted returns. Through our meticulous approach to risk assessment and the proactive implementation of risk mitigation measures, we maintain a cautiously optimistic outlook and reaffirm our dedication to delivering optimal outcomes for our investors.

Baden Adams

Portfolio Manager

[1]JLL Market Research, July 2024

[2]Australia Bureau of Statistics, June 2024
[3]Bloomberg, 22 July 2024

Returns And Portfolio Metrics

Gross Monthly Returns since Inception

Year	Jan	Feb	Mar	Apr	May	Jun[2]	Jul	Aug	Sep	Oct	Nov	Dec
2023	-	-	1.34%	0.91%	0.73%	0.87%	1.07%	1.14%	1.15%	1.22%	1.19%	1.14%
2024	1.10%	1.18%	1.21%	1.28%	1.44%	0.95%	-	-	-	-	-	-

Portfolio Metrics

Weighted average LVR	66.6%
Maximum LVR	75%
Weighted average term (months)	21
Weighted average time to maturity (months)	10
Sponsors	40
Largest sponsors exposure	13.7%
Fund leverage	5.7%
Percentage of floating rate investments	100%
Funds under management ($m)	76

Returns

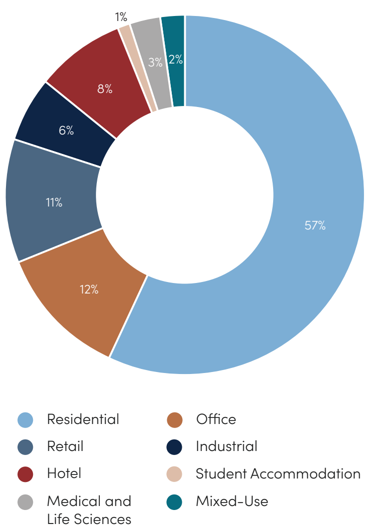
	1M	3M	6M	12M	Incep
RBA Cash Yield	0.35%	1.07%	2.15%	**4.26%**	4.16%
Gross Return					
Target gross return	1.09%	3.35%	6.82%	**14.06%**	13.96%
Gross return	0.95%	3.71%	7.32%	**14.98%**	14.76%
Net Return[1]					
Target net return	0.96%	2.95%	5.98%	**12.26%**	12.16%
Net return	0.83%	3.17%	6.17%	**12.37%**	11.78%

[1]Net return (after management fees and performance fees) is calculated based on the standard management fee and performance fee rates

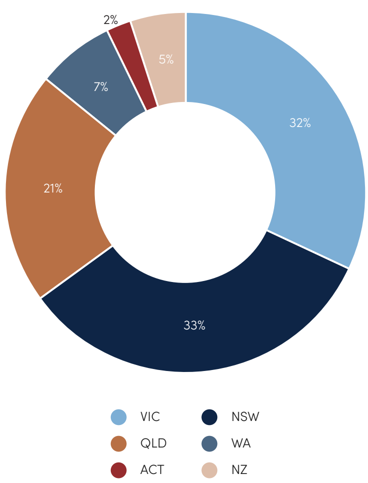
[2]The decrease in the 1-month gross return for June 2024 is a result of early revenue recognition in May 2024, leading to a higher gross return in that month.

Exposure[3]

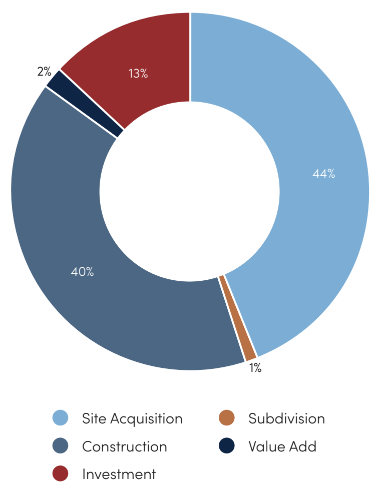
GRAPH 1: SECTOR



GRAPH 2: GEOGRAPHY



GRAPH 3: LOAN TYPE



[3]Exposures are based on the outstanding balances as at the reporting date.

Portfolio Summary

For a detailed summary of each individual investment, please refer to the 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	23.2	65%
HQ78	NSW	Q3 2024	Senior	Industrial	26.8	21.5	64%
Gillieston Heights	NSW	Q3 2024	Senior	Residential	23.4	5.0	65%
Rolleston Fields[2]	NZ	Q3 2024	Senior	Retail	21.8	14.4	65%
Box Hill Shopping Centre	NSW	Q3 2024	Senior	Retail	50.0	19.5	58%
Brewery Yard	NSW	Q3 2024	Senior	Office	79.6	78.7	65%
Shell Cove	NSW	Q3 2025	Senior	Mixed-Use	46.2	14.6	65%
88 Laurens	VIC	Q3 2024	Senior	Office	30.0	26.3	53%
Wellington	VIC	Q1 2025	Senior	Medical and Life Sciences	49.9	31.9	65%
Noosa Civic	QLD	Q4 2024	Senior	Medical and Life Sciences	18.2	12.9	65%
Bellfields[2]	NZ	Q2 2026	Senior	Residential	40.7	8.8	70%
388 Brunswick Street (A-Note)	QLD	Q4 2024	Senior	Office	22.0	15.5	65%
Sunbury Hills - Construction	VIC	Q1 2025	Senior	Residential	37.1	0.1	65%
Meridian Village (A-Note)	VIC	Q1 2026	Senior	Retail	30.3	Not Yet Drawn	70%
Boundary Road (Construction)	VIC	Q4 2025	Senior	Residential	20.5	11.9	70%
Market Square (A-Note)	SA	Q3 2026	Senior	Mixed-Use	75.0	Not Yet Drawn	60%
Hemmingway (A-Note)	VIC	Q2 2026	Senior	Residential	20.3	7.8	61%
Main Beach (Retail)	QLD	Q4 2025	Senior	Retail	37.0	15.0	55%
Mackay	QLD	Q3 2024	Senior	Residential	5.0	5.0	65%
A'Beckett	VIC	Q3 2024	Senior	Student Accommodation	8.1	8.0	65%
Brooklyn (Refinance)	VIC	Q3 2025	Senior	Industrial	21.5	21.6	43%

INVESTMENT	LOCATION	MATURITY DATE	RANKING	SECTOR	COMMITMENT ($m)[3]	CURRENT EXPOSURE ($m)[1,3]	LVR COVENANT
Frenchs Forest	NSW	Q4 2024	Senior	Industrial	25.9	25.9	55%
Burly	QLD	Q3 2024	Senior	Residential	35.7	37.1	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	28.4	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	18.6	65%
James Street A-Note	QLD	Q4 2024	Senior	Mixed-Use	16.3	16.3	65%
Glenlee 2	VIC	Q2 2025	Senior	Residential	10.9	10.8	60%
Bayview	NSW	Q1 2025	Senior	Retail	30.2	Not Yet Drawn	70%
Northcote (Refinance)	VIC	Q2 2025	Senior	Mixed-Use	46.2	Not Yet Drawn	65%
Truganina	VIC	Q2 2025	Senior	Residential	14.3	14.3	66%
Perth	WA	Q2 2026	Junior	Hotel	12.3	9.3	66%
Main Beach (Resi)	QLD	Q3 2024	Subordinated	Residential	13.4	14.0	80%
Nelson Bay	NSW	Q2 2025	Subordinated	Residential	4.2	3.5	72%
Christchurch[2]	NZ	Q4 2024	Subordinated	Retail	9.3	12.8	65%
Shenton Quarter	WA	Q3 2024	Subordinated	Residential	7.7	8.4	75%
Warrawong	NSW	Q3 2024	Junior	Retail	11.4	5.7	69%
Rochedale	QLD	Q2 2025	Subordinated	Residential	10.8	9.3	75%
388 Brunswick Street (B-Note)	QLD	Q4 2024	Subordinated	Office	4.5	4.2	75%
Lumina Stones Corner	QLD	Q2 2026	Junior	Residential	11.5	5.5	75%
Parramatta	NSW	Q3 2025	Junior	Residential	33.2	27.2	72%
Louise	VIC	Q2 2026	Junior	Residential	5.6	4.0	80%

INVESTMENT	LOCATION	MATURITY DATE	RANKING	SECTOR	COMMITMENT ($m)[3]	CURRENT EXPOSURE ($m)[1,3]	LVR COVENANT
Nexus	QLD	Q2 2026	Junior	Residential	13.3	10.3	75%
James Street (B-note)	QLD	Q4 2024	Subordinated	Mixed-Use	2.5	2.5	75%
Meridian Village (B-Note)	VIC	Q1 2026	Junior	Retail	1.5	Not Yet Drawn	75%
Market Square (B-Note)	SA	Q3 2026	Junior	Mixed-Use	17.7	Not Yet Drawn	75%
Hemmingway (B-Note)	VIC	Q2 2026	Junior	Residential	6.3	4.9	80%
Market Square (Mezz)	SA	Q3 2026	Junior	Mixed-Use	7.3	Not Yet Drawn	81%

[1]Inclusive of principal and capitalised interest and fees.
[2]NZ Facility Limit and balance converted at the 30 June 2024 spot-rate.
[3]The Commitment and Current Exposure, which may involve multiple tranches and/or lenders/participants, in respect of which relevant sub-limits may apply.

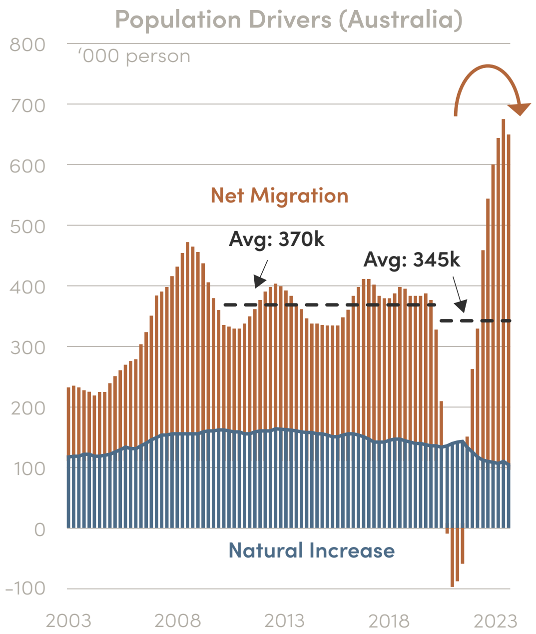
Economic And Market Update

Economic slowdown and a global lack of clarity on interest rates

Difficult economic climate drives slower growth.

- Global economic growth is running below trend, with high interest rates and weak confidence working to weigh down markets. Broadly, several economies have exited a recessionary period, posing firmer growth in the last month. Inflation remains high, acting to exacerbate cost pressures and diminish the growth outlook. Geopolitics remains a core risk factor to macroeconomics with several ongoing wars disrupting world trade and global cooperation.
- The **Australian economy** has narrowly avoided a contraction following meagre growth in the past quarter (Q1: +0.1% q/q). Economic expansion will likely be subdued for the remainder of 2024 as high mortgage rates reduce household savings. Significantly, Australia's population boom remains the primary recession prevention tool, with greater scale keeping aggregate demand elevated. Despite this, immigration and its flow on to the housing crisis will be a key focal point of the coming election cycle.
- In **New Zealand**, the economy has come out of a double-dip recessionary period, although forward looking indicators suggest weak activity in the near-term. Cautious consumer sentiment has coincided with a contraction in employment and weaker wage growth. In a more positive light, stronger export figures indicate potential support to growth from the external sector.

Migration is starting to turn.



Sources: ABS, MaxCap Group (July 2024)

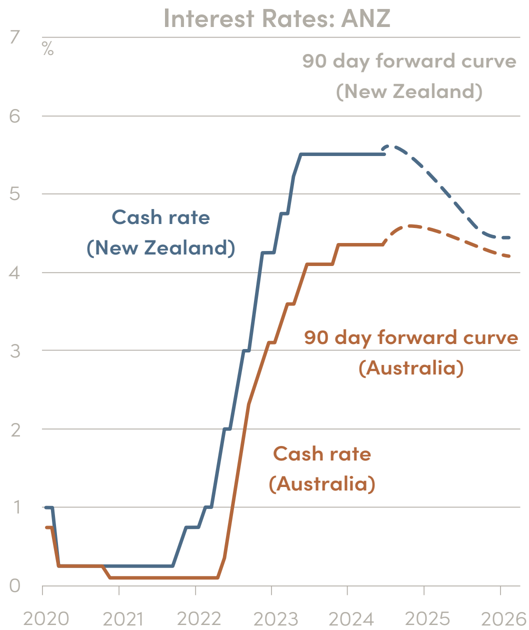
Inflation remains higher for longer.

- **Consumer price inflation** in both Australia and New Zealand remain above official targets, with the reacceleration really concerning for the central bank. A return to target inflation remains elusive, requiring cash rates holding at higher levels for some time ahead.
- **Construction costs** are experiencing a swifter decline than consumer prices with several components falling outright since their peak nationwide. The pullbacks since rising more than 30% in 2022 are providing a timely opportunity to restore builder profit margins in 2024 as supply chain blockages ease and material input prices stabilise.

Interest rates will hold high in the mid-term.

- Persistently high inflation has seemingly dashed hopes of a rate cuts in early 2024. Money markets are steadily pushing out their timelines for interest rate cuts in the US, Australia and New Zealand.
- US **money markets** are currently predicting 1 rate cut in 2024 (and 3 cuts in 2025). In Australia, markets are expecting 1 rate hike in 2024 and only one rate cut in 2025. The equivalent forward curves are pricing in 1 rate cut in New Zealand this year.

Forward curves are extending timelines to price in rate cuts.



Sources: Bloomberg, MaxCap Group (July 2024)

Capital markets are shifting clearly towards private credit.

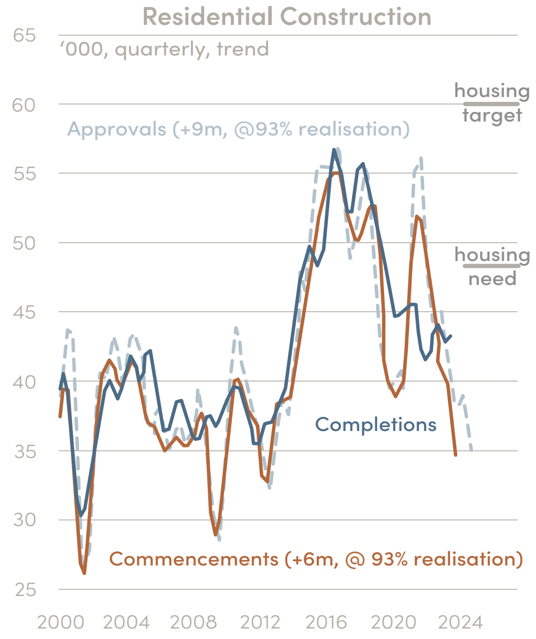
- The lack of clarity on interest rates is the key factor behind the recent volatility in global share and bond markets.

Equities are witnessing significant fluctuations, driven by these shifting rate expectations. With slower activity in China – and Australian sectors tied to China's fortunes – growth in Australia is looking sluggish.

- **Listed real estate markets** have been uniformly weak in Q2 2024, losing ground in the US, Australia and New Zealand. The uncertainty over interest rates is clearly weighing on listed real estate equity prices.
- There is a vital need to hedge against high interest rates, as the higher-for-longer rate outlook becomes more entrenched. Private real estate credit as a result remains a well-favoured option, offering stable inflation-hedged returns amid bouts of capital market volatility.

The residential markets supply-demand mismatch

Dwelling supply insufficient to meet future needs.



Sources: ABS, MaxCap Group (July 2024)

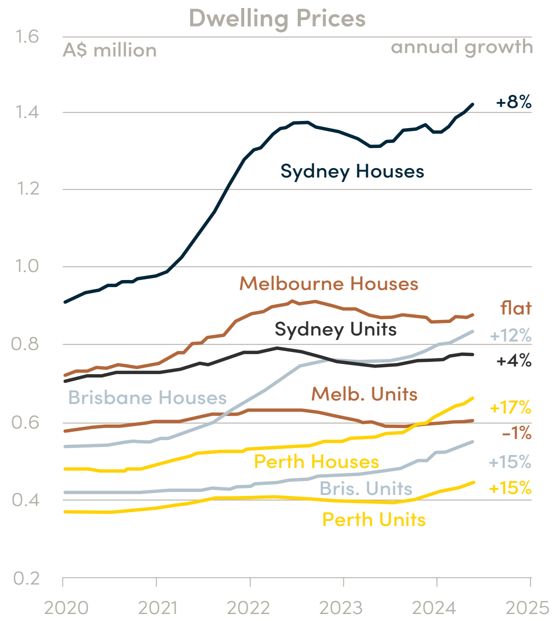
Housing market remains undersupplied.

- Australian housing markets are in an upswing phase, underscored by mass population growth and chronic undersupply. Construction costs and labour shortages are gradually moderating from record highs, however the development market remains cautious in an environment which has proven exceedingly volatile in recent years.
- 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 periodcreates a stark outcome; with supply constrained in the face of booming demand. Currently the market favours investors and developers capable of weathering cost risk.

Moderate gains in residential prices and rents.

- In 2024, house prices have continued their upward trend,. particularly in the capital cities. Residential rents have risen nationwide as vacancies remain tight.
- Perth (+17% y/y), Brisbane (+12%) and Adelaide (+11%) have shown accelerated house price growth while Sydney and Melbourne dwelling prices have been relatively slower.
- Residential rents remain at record levels with severe undersupply of rental stock in all capital cities keeping vacancy rates at 1.1% nationally. Rent rises are most prominent in Sydney, holding up investor returns.

Escalating dwelling prices in 2024.

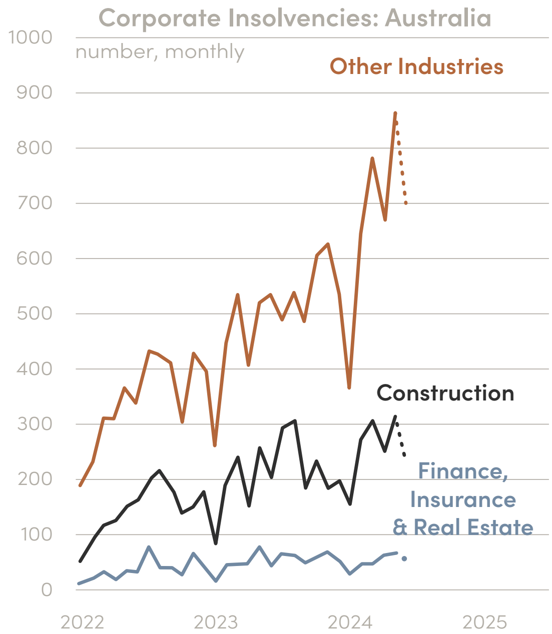


Sources: Corelogic, MaxCap Group (July 2024)

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, which lags the profit squeeze by around a year.
- Undoubtedly, these indicators of financial distress warrant close watching throughout 2024, but there are more encouraging signs of improving profitability, which should translate – as with past cycles – into a lower trend for builder insolvency in late 2024 and 2025.
- 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.



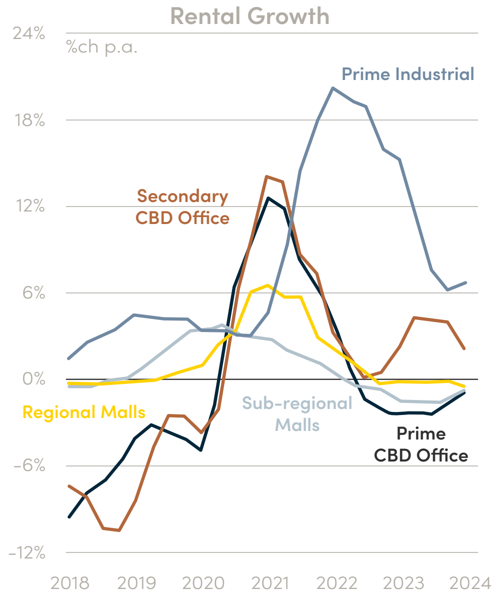
Sources: ASIC, MaxCap Group (July 2024)

Staggered correction in commercial markets

Commercial market outlooks are diverging widely.

- **Office markets** face selective demand. Transaction volumes are starting to resume, with substantial discounts of around 20% from the cyclical peak. In time, 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 looks relatively better, driven mostly by returning office workers. However, the market is 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 by higher mortgage repayments and rising ecommerce. Interestingly, retail mall performances have improved with greater occupancy and stabilising rents reported throughout national markets.
- **Industrial markets** backed by tailwinds of increased e-commerce 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 rental growth continued in 2024, asset prices are still being impacted by higher rates.

Rental growth is differing a lot across sectors.

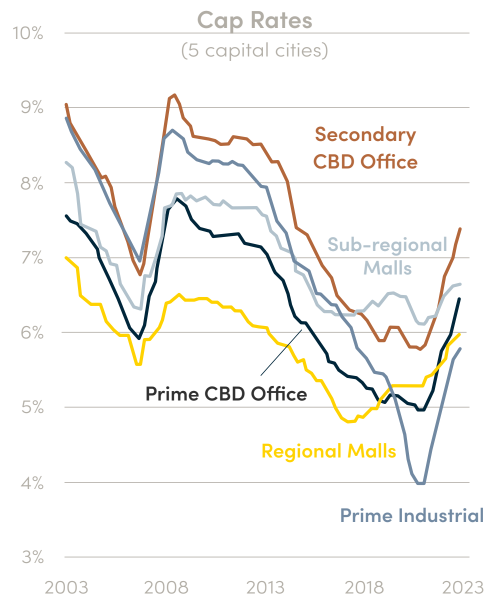


Sources: JLL REIS, MaxCap Group (July 2024)

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 sectors.
- **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 with interest rates.



Sources: JLL REIS, MaxCap Group (July 2024)

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