MaxCap Investment Management

MAXCAP INVESTMENT TRUST

First Mortgage

Quarterly Investor Report

SEPTEMBER 2024

Commercial In Confidence

Portfolio Manager Report

We are pleased to present the Quarterly Investor Report for the period 1 July 2024 to 30 September 2024 for the MaxCap Investment Trust – First Mortgage ("Fund").

The MaxCap Investment Trust has made a strong start to the 2025 financial year, with Funds Under Management ("FUM") now exceeding $500 million. This is a testament to the trust and confidence that our investors continue to place in us, and we thank you for your ongoing support.

Whilst economic uncertainty continued throughout the quarter, noticeable improvements in key data points signal that green shoots are beginning to emerge, and that the economy may have reached, or is approaching, an inflection point.

This improved sentiment is evident in the commercial property sector, where transaction volumes for Q3 2024 rose 40% from the same quarter last year and rose 48% for the nine months to September 2024[1]. This rebound in market activity continues to support the Fund's pipeline of deployment opportunities.

Fund performance continues to be strong, with the Manager pleased to report a trailing 12-month gross return of 13.0%, outperforming its target of 10.7%. This is considered a particularly strong result when viewed in the context of the risk profile of the portfolio, with the LVR remaining materially unchanged at 61.6% (prior quarter: 61.5%), and a conscious portfolio reweighting towards the residential sector.

Fund Investments

Credit conditions remained largely unchanged during the quarter, with market competition for high-quality opportunities continuing to compress pricing. Despite this, the Manager continues to leverage its deep relationships and strong reputation to ensure that key market stakeholders continue to view MaxCap as their lender of choice.

During the quarter we were deployed into, or were mandated on, 14 new investment opportunities:

- Residential: York (NZ), Lachlans Line (NSW), Manly (NSW), Thornlands South (QLD), Manningham (VIC), Palm Beach (QLD).
- Industrial: Tyabb (VIC), Frenchs Forest (NSW).
- Retail: Burleigh (QLD), Marina Mirage (QLD), Noosa (QLD), Eastlakes (NSW).
- Mixed-Use: Subiaco (WA).
- Hotel: Indigo (NSW).

These investments were underwritten at an average LVR of 64.2% and a gross IRR of 11.9%.

[1]JLL Preliminary Sales Volume Q3 2024

Our portfolio construction strategy remains unchanged, with deployment focused on the most robust markets in Victoria and New South Wales, as well as the resilient residential and industrial sectors. However, as demonstrated by our ongoing deployment activity, we remain committed to selectively exploring opportunities across all sectors, geographies, and strategies. This approach ensures a highly diversified portfolio that delivers a strong risk-adjusted return for our investors.

Key Portfolio Updates

In early September, the Manager successfully divested the Box Hill exposure, achieving a return of 19.5%, significantly above initial underwrite expectations. In the context of what became a distressed position with the Sponsor entering administration, this outcome is considered highly favorable.

This outcome demonstrates the resilience of prudently structured and managed CRE credit positions and their ability to withstand material stress without negatively affecting investor outcomes.

Interest Rate Overview

With inflation cooling to 2.7% for the 12 months to August[2] and falling within the target range for the first time since October 2021, the Reserve Bank of Australia faces increasing pressure to initiate a rate-cutting cycle, similar to that seen in the U.S. and New Zealand. Economists generally agree that rate cuts are unlikely until 2025, with 65% of respondents forecasting at least one cut by Q1, and all expecting one by Q2[3].

Outlook and Strategy

Cautious optimism continues to be the guiding theme for the Manager, as we maintain our focus on risk identification and mitigation, even with improvements in the broader macroeconomic landscape. The Fund remains well-placed to take advantage of the anticipated growth in the non-bank CRED market, and we believe the Fund represents a market-leading product through which investors can capitalise on this growth. We remain committed to delivering the best possible outcomes for our valued investors.

Baden Adams

Portfolio Manager

[2]Australian Bureau of Statistics, September 2024
[3]Bloomberg, 15 October 2024

Returns And Portfolio Metrics

Gross Monthly Returns since Inception

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023	-	-	0.81%	0.81%	1.03%	0.80%	1.01%	1.26%	1.14%	1.25%	1.14%	1.14%
2024	1.16%	1.14%	1.01%	1.00%	0.93%	1.21%	1.13%	1.09%	0.97%	-	-	-

Portfolio Metrics

Weighted average LVR	61.6%
Weighted average term (months)	17
Weighted average time to maturity (months)	7
Number of loans	50
Sponsors	39
Largest sponsors exposure	10.3%
Fund leverage	8.8%
Percentage of floating rate investments	100%
Funds under management ($m)	350

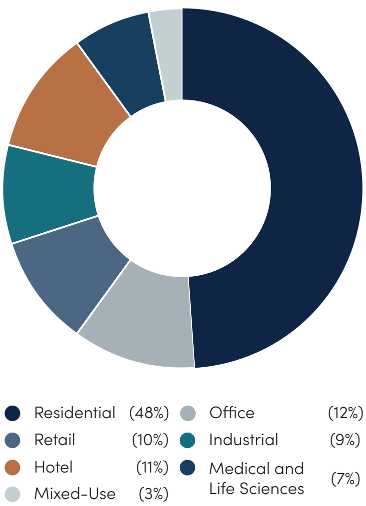
Returns

	1M	3M	6M	12M	Incep
RBA Cash Yield	0.35%	1.08%	2.16%	**4.32%**	4.19%
Gross Return					
Target gross return	0.84%	2.60%	5.23%	**10.67%**	10.54%
Gross return	0.97%	3.13%	6.30%	**13.00%**	12.94%
Net Return[1]					
Target net return	0.74%	2.28%	4.58%	**9.32%**	9.19%
Net return	0.86%	2.83%	5.64%	**11.58%**	11.53%

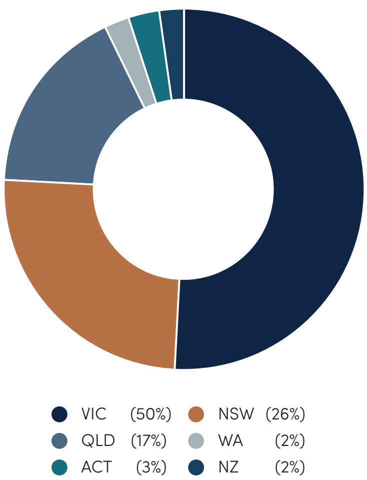
[1]Net return (after management fees and performance fees) is calculated based on the private management fee and performance fee rates.

Exposure[2]

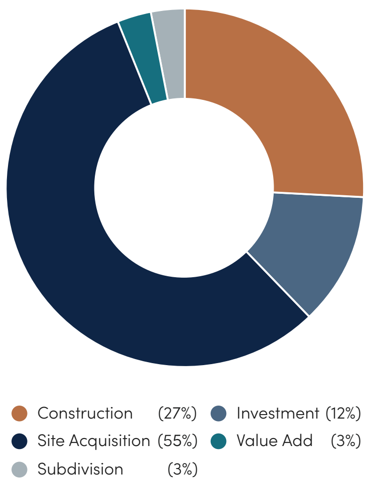
GRAPH 1: SECTOR



GRAPH 2: GEOGRAPHY



GRAPH 3: LOAN TYPE



[2]Exposures are based on the outstanding balance of 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	TOTAL PROJECT COMMITMENT ($m)[1]	FUND COMMITMENT ($m)	FUND CURRENT EXPOSURE ($m)[3]	LVR COVENANT
Brighton International	VIC	Q1 2025	Senior	Residential	73.3	9.3	9.0	65%
HQ78	NSW	Q4 2024	Senior	Industrial	53.5	10.2	9.3	64%
Gillieston Heights	NSW	Q4 2024	Senior	Residential	10.1	8.9	2.0	65%
Rolleston Fields[2]	NZ	Q4 2024	Senior	Retail	22.0	8.3	2.6	65%
Shell Cove	NSW	Q3 2025	Senior	Mixed-Use	92.4	17.5	8.6	65%
88 Laurens	VIC	Q4 2024	Senior	Office	90.0	11.4	10.3	53%
Wellington	VIC	Q1 2025	Senior	Medical and Life Sciences	149.7	19.0	15.0	65%
Noosa Civic	QLD	Q4 2024	Senior	Medical and Life Sciences	19.6	6.9	6.2	65%
Bellfields[2]	NZ	Q2 2026	Senior	Residential	40.9	15.5	3.6	70%
388 Brunswick (A-Note)	QLD	Q4 2024	Senior	Office	26.5	8.3	7.7	65%
Sunbury Hills - Construction	VIC	Q1 2025	Senior	Residential	37.1	14.1	3.3	65%
Meridian Village (A-Note)	VIC	Q2 2026	Senior	Retail	31.9	11.5	Not Yet Drawn	70%
Boundary Road (Construction)	VIC	Q4 2025	Senior	Residential	118.5	18.5	7.0	70%
Hemmingway (A-Note)	VIC	Q1 2026	Senior	Residential	26.5	7.7	2.6	61%
Albert Road	VIC	Q4 2026	Senior	Residential	109.4	37.8	Not Yet Drawn	65%
Tyabb (A-Note)	VIC	Q1 2026	Senior	Industrial	17.6	6.3	Not Yet Drawn	70%
M1 Burleigh	QLD	Q1 2026	Senior	Retail	28.5	10.8	Not Yet Drawn	60%
York (A-Note)[2]	NZ	Q1 2027	Senior	Residential	75.3	9.8	Not Yet Drawn	59%
Lachlans Line	NSW	Q4 2026	Senior	Residential	193.2	22.6	Not Yet Drawn	70%
Frenchs Forest (Construction)	NSW	Q2 2026	Senior	Industrial	86.5	16.4	Not Yet Drawn	65%
Oak Grove (Construction)	VIC	Q1 2026	Senior	Residential	56.8	21.6	Not Yet Drawn	65%
Cremorne	NSW	Q3 2026	Senior	Residential	29.4	11.2	Not Yet Drawn	65%
Gillieston B-Note	NSW	Q4 2024	Senior	Residential	7.3	2.8	2.7	55%

INVESTMENT	LOCATION	MATURITY DATE	RANKING	SECTOR	TOTAL PROJECT COMMITMENT ($m)[1]	FUND COMMITMENT ($m)	FUND CURRENT EXPOSURE ($m)[3]	LVR COVENANT
Brooklyn	VIC	Q3 2025	Senior	Industrial	82.5	9.7	9.7	43%
Frenchs Forest	NSW	Q4 2024	Senior	Industrial	25.9	11.7	11.7	55%
Burly	QLD	Q4 2024	Senior	Residential	35.7	16.1	16.2	70%
600 Lonsdale	VIC	Q1 2025	Senior	Mixed-Use	48.0	10.8	10.8	60%
Oakleigh	VIC	Q2 2025	Senior	Residential	45.9	10.3	10.3	50%
Rydges	NSW	Q1 2025	Senior	Hotel	29.9	13.5	13.0	61%
Oak Grove	VIC	Q4 2024	Senior	Residential	74.4	33.5	33.5	55%
Mosman	NSW	Q1 2025	Senior	Residential	14.5	6.5	6.5	65%
Sunbury Hills - Land	VIC	Q1 2025	Senior	Residential	73.5	22.1	19.1	65%
West Block	ACT	Q2 2025	Senior	Office	49.1	11.1	10.4	65%
James Street A-Note	QLD	Q4 2024	Senior	Mixed-Use	18.8	7.3	7.3	65%
Glenlee 2	VIC	Q2 2025	Senior	Residential	12.1	5.4	5.4	60%
Bayview	NSW	Q2 2025	Senior	Retail	30.2	13.6	0.5	70%
Northcote	VIC	Q2 2025	Senior	Mixed-Use	53.3	20.8	20.8	65%
Truganina	VIC	Q2 2025	Senior	Residential	14.3	6.4	6.4	66%
Marina Mirage	QLD	Q2 2026	Senior	Retail	37.0	16.7	16.7	53%
Subiaco	WA	Q4 2025	Senior	Mixed-Use	29.2	13.1	7.4	70%
Manly	NSW	Q2 2025	Senior	Residential	24.5	11.0	11.0	70%
Hotel Indigo	NSW	Q2 2025	Senior	Hotel	37.0	16.7	16.7	65%
Thornlands South	QLD	Q1 2027	Senior	Residential	6.5	2.9	Not Yet Drawn	60%
Oak Grove (Land)	VIC	Q2 2026	Senior	Residential	122.1	55.1	Not Yet Drawn	65%
Manningham	VIC	Q4 2025	Senior	Residential	6.0	2.7	Not Yet Drawn	55%
Noosa Land (Balance Sheet)	QLD	Q4 2025	Senior	Retail	17.6	8.0	Not Yet Drawn	61%
Merrylands	NSW	Q2 2026	Senior	Mixed-Use	39.0	17.6	Not Yet Drawn	65%
Palm Beach (A-Note)	QLD	Q4 2025	Senior	Residential	13.1	5.5	Not Yet Drawn	70%

INVESTMENT	LOCATION	MATURITY DATE	RANKING	SECTOR	TOTAL PROJECT COMMITMENT ($m)[1]	FUND COMMITMENT ($m)	FUND CURRENT EXPOSURE ($m)[3]	LVR COVENANT
Noosa Land (Trust)	QLD	Q4 2025	Senior	Retail	15.8	7.1	Not Yet Drawn	55%
Eastlakes	NSW	Q4 2025	Senior	Retail	13.7	6.2	Not Yet Drawn	70%
Brewery Yard	NSW	Q3 2029	Senior	Office	5.4	2.1	2.1	65%

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

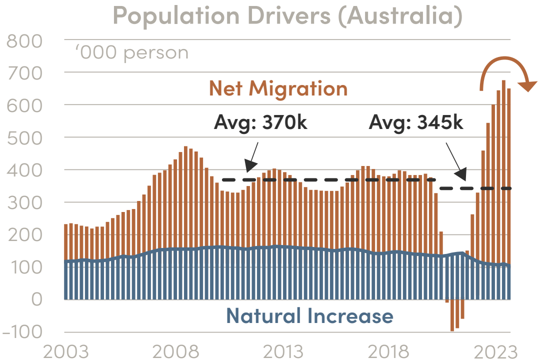
Economic And Market Update

Economic slowdown and a global lack of clarity on interest rates

Difficult economic climate drives slower growth.

- Global economic growth remains sluggish, falling below trend as high interest rates and subdued confidence continue to pressure markets. Although some economies have emerged from recession, growth remains precarious under the weight of stubborn inflation, which amplifies cost pressures and clouds the growth outlook. Geopolitical risks are a persistent concern, with destabilisation in the Middle East and the Ukraine conflict threatening further disruptions to global energy markets and supply chains. This environment of uncertainty complicates prospects for global cooperation and adds to the strain on the world economy.
- Australia's economy narrowly escaped contraction with modest growth of 0.2% in the last quarter, and activity is projected to stay muted through 2024 as high mortgage rates put pressure on household savings and limit discretionary spending. The Reserve Bank of Australia is likely to keep interest rates stable, offering a consistent rate outlook amid persistent economic headwinds. As the federal election approaches, there's anticipation for new economic strategies, with upcoming budgets expected to introduce initiatives targeting critical issues such as housing affordability and fiscal sustainability.
- New Zealand has recently pulled out of an economic contraction, yet forward-looking indicators signal lingering economic fragility. Consumer sentiment remains subdued, reflecting declines in employment and sluggish wage growth. However, there is a silver lining: an uptick in export activity may lend support to the economy, as stronger external demand helps counterbalance the weak domestic landscape.

Robust population growth – particularly from overseas migration – has been a massive driver of increased demand.



Sources: ABS, MaxCap Group (October 2024)

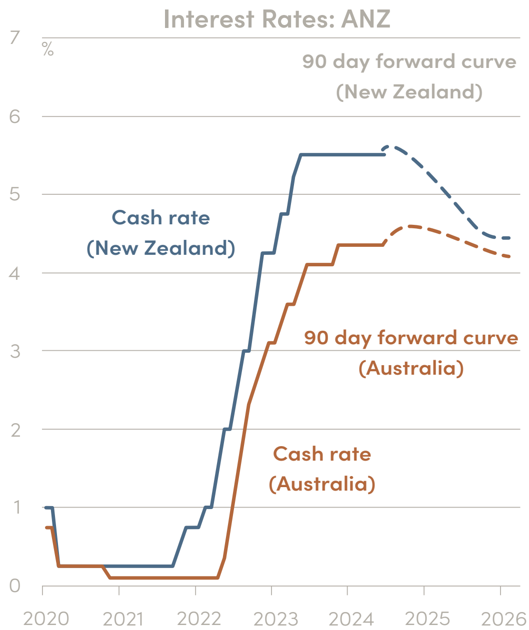
Inflation remains higher for longer.

- Inflation in both Australia and New Zealand continue to moderate, but the risk of re-inflation continues to pose challenges for central banks. Sustainable on-target inflation remains elusive, necessitating elevated cash rates for an extended period to limit persistent price pressures.
- Construction costs are declining at a faster pace than consumer prices, with several key components dropping since their nationwide peak. Following a surge of over 30% in 2022, the recent cost reductions present an opportune moment to restore builder profit margins in 2024, as supply chain disruptions ease and material input costs stabilize.

Interest rates will hold high in the mid-term.

- Sustained inflation has effectively quashed expectations for Australian rate cuts in 2024. Meanwhile, other central banks are already starting their policy easing cycles, with New Zealand and the United States joining the stimulus bandwagon in recent months.
- The US has begun its easing cycle with a 50bps rate cut in September 2024 and money markets are predicting further rate cuts in 2024 and 2025. In Australia, markets are expecting rate cuts to start either in late 2024 or early 2025, with elevated inflation being the impediment to easing. Meanwhile, the RBNZ is well set for aggressive rate cuts ahead, more in line with the US Fed Funds profile.

Official interest rates are starting to fall across more markets, with Australia the laggard this cycle, holding higher for longer.



Source: Bloomberg, MaxCap Group (October 2024)

Capital markets are shifting clearly towards private credit.

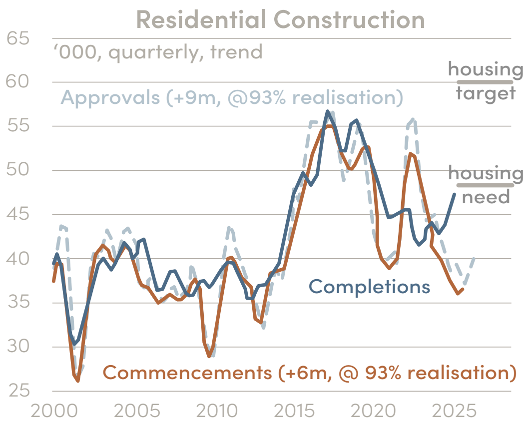
- The ongoing uncertainty around interest rates is driving recent fluctuations in global equity and bond markets. These shifts in rate expectations have led to notable volatility in stock prices. Furthermore, a slowdown in China's economy is casting a shadow over Australian sectors that depend on Chinese demand, contributing to a lackluster growth outlook in Australia.
- With the expectation of elevated intertest rates over the longer term (even with some modest ahead), investors are still looking for robust hedging strategies against interest rates. In light of this, private real estate credit still stands out well as a preferred option, delivering reliable returns that are shielded from inflation and interest rates, especially during times of volatility in capital markets.

The residential markets supply-demand mismatch

Housing market remains undersupplied.

- Australian housing markets are currently experiencing an exceptional upswing phase, driven by resurgent population growth and a structural undersupply of stock. While construction cost inflation and labour shortages are slowly easing from their peaks, the development sector remains wary in an environment characterised by extreme volatility in recent years.
- The outlook for the Australian residential sector is shaped by a persistent shortage of housing. An anticipated shortfall of 125,000 residences over the next five years highlights the stark imbalance between limited supply and surging demand. In this climate, investors and developers who can effectively manage cost risks are in a favourable position.

Residential construction continues to lag behind the country's needs, although the rate of completions is picking up steadily.

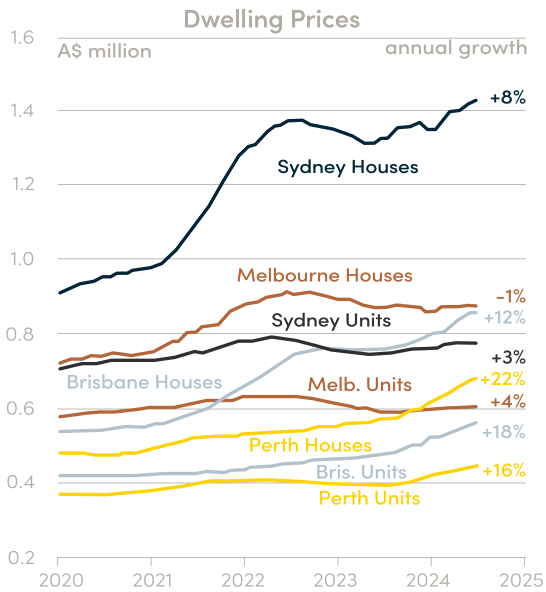


Source: ABS, MaxCap Group (October 2024)

Moderate gains in residential prices and rents.

- In 2024, house prices are on the rise, especially in major capital cities. Nationwide, residential rents have also increased, driven by persistently low vacancy rates.
- Perth (+22% y/y), Brisbane (+18%) and Adelaide (+11%) have shown accelerated house price growth while Sydney and Melbourne dwelling prices have been relatively slower yet leading in absolute values.
- Residential rents are reaching all-time highs, driven by a significant shortage of rental properties across all capital cities, which has resulted in a national vacancy rate of just 1.3%. The most substantial rent increases are occurring in Sydney, bolstering investor returns in the process.

Prices are broadly lifting, except for in Melbourne, while Perth and Brisbane are showing particularly accelerated growth.

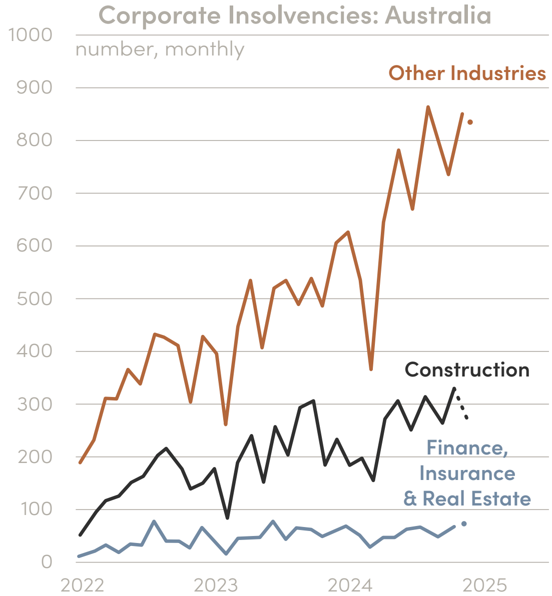


Source: Proptrack, MaxCap Group (October 2024)

Builder insolvencies remain a key watch point.

- Declining cost inflation coupled with increasing selling prices is alleviating the strain on builder profit margins. We are likely beyond the peak of construction profit margin pressures that were prevalent in 2022, with the profit squeeze typically lagging by about a year.
- While the signs of builder financial distress certainly require careful monitoring in 2024, there are also promising indicators of improving profitability. Historically, such improvements have led to a decrease in builder insolvencies, and we can anticipate a similar trend emerging in late 2024 and into 2025.
- Nevertheless, the rate of insolvency among real estate developers remains consistently low and stable, showing minimal impact from the recent significant fluctuations in costs and profits.

Corporate insolvencies continue to rise in a sluggish economy, although the construction sector is tracking to a flatter trend.



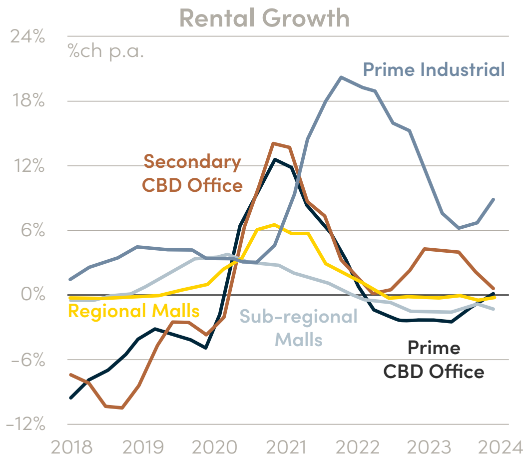
Source: ASIC, MaxCap Group (October 2024)

Staggered correction in commercial markets

Commercial market outlooks are diverging widely.

- Office markets are experiencing selective demand, with transaction volumes beginning to pick up again, albeit at substantial discounts of approximately 20% from the cyclical peak. Over time, we anticipate the sector will reach a point where value investors are re-engaged in the market. Occupancy rates and net absorption of prime-grade assets are showing relatively positive trends, largely fuelled by the return of office workers. However, the landscape remains asset-specific, with higher-grade properties demonstrating greater resilience compared to their lower-grade counterparts.
- The retail sector remains challenged, with consumer spending constrained by elevated mortgage repayments and the ongoing shift towards e-commerce. However, retail malls are showing signs of recovery, as occupancy rates stabilise, and rents increase modestly across national markets.
- Industrial markets are benefiting from strong structural demand growth, driven by heightened e-commerce activity and a shift away from 'just-in-time' inventory practices. Additionally, there has been a notable expansion of onshore manufacturing in the ANZ markets, leading to increased occupancy rates and rising rents in the sector. Although rental growth persisted in 2024, asset prices continue to be adversely affected by higher interest rates.

Rental growth across Australian commercial sectors shows variability, with industrial market growth picking up pace.

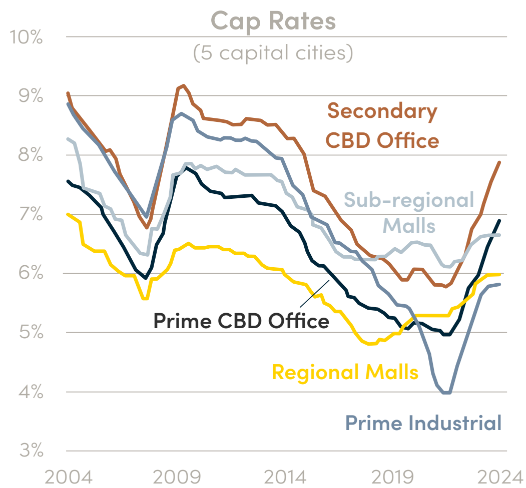


Source: JLL REIS, MaxCap Group (October 2024)

Commercial capital markets are lagging for now.

- Valuations are still declining across the board due to the prevailing interest rate environment. Cap rates are continuing to rise from their previously low cyclical levels, reflecting this trend.
- Equity investors are actively adjusting their portfolios, initially reducing exposure to retail and more recently to office sectors, while increasingly favouring the living and logistics markets.
- Bank lending allocations are also shifting, though at a slower and more cautious pace, with a notable reduction in funding for residential and land development in the long term, as well as cuts to office and retail exposures in recent years.

The continued softening in cap rates in this cycle will continue to dampen commercial sector returns for the duration of 2024.



Source: JLL REIS, MaxCap Group (October 2024)

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