Investor Communication
29 January 2025

Commercial Real Estate Debt: Providing Security in Uncertain Times

Reflecting on 2024, it was undoubtedly the year where private credit rose to the fore, as the sector performed with distinction against a challenging backdrop of high inflation, elevated interest rates and geopolitical volatility.

Global institutional and private wealth investors voted with their capital – funnelling an incredible weight of money towards the sector as they sought to gain the highest possible return for each unit of risk. Importantly, commercial real estate (CRE) debt managers such as MaxCap were the major beneficiary of this capital.

MaxCap is exceptionally proud of the performance and growth of its flagship evergreen vehicle, the MaxCap Investment Trust (MIT). In the 12 months to 31 December 2024, the MIT First Mortgage returned **11.75% net[1] to investors**. This compelling return has been achieved in the context of maintaining the highest credit standards and conservative lending parameters (average 62% LVR across the portfolio).

Monthly liquidity, consistent distributions and sharing of establishment fees have clearly resonated with investors who are seeking to benefit from the diversification and liquidity advantages of the MIT's access to a c.**$1.7bn pool** of loans, versus traditional evergreen real estate equity funds or single asset credit opportunities.

The MIT finished 2024 with over **$750 million in funds under management**, spread across a diversified portfolio of **67 loans**. The MIT is on track to surpass $1 billion within the first half of 2025, with the product attracting strong interest from both institutional and private investors domestically and abroad, while also gaining presence on a number of eminent Australian wealth platforms in order to access the deep pool of local sophisticated private wealth.

MaxCap's Broader Debt Performance in a Challenging Market

MaxCap had a record year of deployment, originating a significant velocity of new loans. MaxCap also successfully managed through repayments of **93 loans** during the same period, achieving a weighted average return in excess of **12% IRR**. This significant transaction volume reflects our large origination capacity (40+ investment team members across Australia and New Zealand) and ability to build a deep deal pipeline, even amidst heightened competition.

Throughout the year, MaxCap's wider loan book has demonstrated strong resilience and delivered solid returns. Our risk management framework, enhanced by leveraging our partner Apollo's global experience and best practices, has ensured that any potential or realised impairments remain minimal, reflecting early and prudent intervention.

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[1] First Mortgage trailing 12-month return as of 31 December 2024. Past Performance is no guarantee of future returns. For wholesale investors only. MaxCap Investment Management Pty Ltd AFSL No 462086.

It's important to acknowledge the general market challenges faced throughout 2024 and as we move into 2025. Investments in CRE debt are not without risk, but the key is to allocate to an experienced manager in a diversified manner. However, even the strongest underwriting standards can be tested by prolonged market headwinds and loans will occasionally require active asset management. What is important is that these actively managed loans remain a small minority of the portfolio – which has been our company's experience to date and is our expectation moving forward.

The Importance of Rigorous Portfolio Management

Our risk adjusted returns remain among the most compelling investment opportunities in the APAC region. MaxCap believes that achieving outsized returns hinges on intensive and disciplined management and ensuring that GP's have the necessary framework to deploy, manage and recycle capital efficiently. The creation and management of the MIT is the culmination of 18 years' experience in the sector. Our key management focus:

- **Sector Exposure:** MaxCap has deep experience and expertise in all real estate classes and can execute with confidence across all sectors.
- **Geographic Diversification:** While our loan portfolio will maintain strong exposures to Greater Sydney and Melbourne, our investment guidelines support the origination of loans across Australia and New Zealand, supported by our staff in our 5 offices across both countries.
- **Borrower Concentration:** Over its 18 years of trading, MaxCap has cultivated strong relationships generating repeat business which is often a virtue in dealing with proven sponsors. This is tempered by policies designed to ensure no overexposure to a single client with strict concentration limits.
- **Duration:** The average loan term in the MIT portfolio is approximately 18 months, providing natural underlying liquidity. This structure also provides the flexibility to recalibrate the portfolio in a timely manner in response to evolving market dynamics.
- **Valuations:** MaxCap is committed to accurate and conservative loan marking. Given the monthly liquidity available in the MIT, valuations of the loan portfolio are conducted monthly and in accordance with industry standards and regulatory requirements. Importantly, all valuations are reviewed and tested via external audit, ensuring transparency and rigor in the process.

MaxCap's Macro Perspective

Over the past four years, investors have experienced the most significant shift in base rate settings from expansion to contraction ever recorded which has resulted in deeply embedded (and sometimes neglected) risk within global economies and markets. We are seeing the most sophisticated global investors continuing to both re-allocate and increase their allocations to private credit, incorporating CRE debt as a meaningful component to manage the volatility in their portfolios and deliver higher returns for each unit of risk.

As we move further into 2025, it is an opportune time to review the market landscape, consider the key investment themes and chart a course for the year ahead.

- The most pressing concerns of the past year – weak growth, high inflation and rising rates – appear to be gradually unwinding, though uncertainty remains as to what effects (be they positive or negative) a new policy direction from the United States and rising tariff barriers on global trade may have on global economies.
- In 2025, the Australian economy is set to lift from its cyclical low, with stronger capital markets and modest cuts to interest rates. As always, there are multiple risks to the outlook, such as a slower Chinese economy weakening commodity demand and inflated asset values leading to a share market bubble.

Meanwhile, real estate markets are set to move to different cyclical beats in the year ahead.

- With interest rate relief not eventuating and diminished affordability, housing markets slowed markedly in late 2024. The residential market is set for a cyclical rebound ahead, in the face of relentless demand pressures from sustained population growth, as lower rates in 2025 revive buyer sentiment and partially restore affordability.
- Commercial markets started a cyclical recovery in late 2024, as capital values lifted modestly across the board and investors returned, albeit on an opportunistic basis. The longstanding headwinds for the office and retail sectors – working-from-home and shopping-from-home – are slowly subsiding. The recovery is set to continue in 2025, albeit at a slow and gradual pace.

For investors seeking clarity, in our view the focus should remain keenly on well-diversified, compelling risk-adjusted returns.

- Considering key indicators, we see interest rates declining somewhat, but the curve remaining elevated into the medium term. Major domestic events such as the impending Federal Election could drastically influence this view moving forward. Elevated interest rates will continue to hamper real estate equity investors, and transfer wealth from borrowers to lenders.
- Risks remain present in real estate debt, especially with lingering concerns about builder failures and developer liquidity. Best in class CRE debt managers are better equipped to address these risks with a specialised skillset to originate loans, evaluate credit risks and oversee delivery of projects in a timely manner.
- There is significant value derived from diversification. Allocating to private credit in 2025 will likely add to portfolio returns and reduce portfolio volatility. Similarly, allocating to a pool of real estate loans can markedly smooth out cashflows and diminish the risks and impacts of infrequent single loan defaults.

After almost two decades of successful operations, MaxCap continues to evolve, leveraging our institutional funds management platform to the further benefit of our valued clients. By investing heavily in our operational, investment and risk capabilities, we’ve positioned the business to continue to deliver for investors into the future.

We will be sharing these continued improvements with investors over the coming year. We thank you for your continued support and look forward to further success in 2025 and beyond.