



**MaxCap**  
Investment Management

**MAXCAP INVESTMENT TRUST**

# First Mortgage

## Quarterly Investor Report

**DECEMBER 2024**

**Commercial In Confidence**



# Portfolio Manager Report

We are pleased to present the Quarterly Investor Report for the period 1 October 2024 to 31 December 2024 for the MaxCap Investment Trust – First Mortgage (Fund).

2024 was characterised by persistent economic uncertainty both at home and abroad, driven by elevated interest rates, inflationary pressures and geopolitical tensions. Despite this, the performance of the Fund has remained resilient, demonstrating the ability to withstand material stress without adverse effects. This performance underscores the value of private CRE credit within a diversified portfolio, delivering strong risk-adjusted returns with minimal volatility. We firmly believe that the Fund represents a market-leading platform through which investors can gain access to this asset class.

**Fund performance remained strong during the quarter, with the Manager pleased to report a trailing 12-month gross return of 13.4%, outperforming its target of 10.7%.**

We remain committed to actively managing the risk profile of the portfolio and are pleased to achieve this strong performance without comprising key risk metrics. The portfolio's Loan-to-Value (LVR) remained below target at 63.8% (prior quarter: 61.9%), while further diversification was achieved in alignment with the overall portfolio construction strategy.

We are pleased to announce that the Fund achieved another significant milestone this quarter, with Funds Under Management (FUM) surpassing \$750m. The Fund continues to attract capital from a diverse range of investors including wholesale, institutional and wealth platforms, with investor interest outside of Australia continuing to grow at pace, particularly in Europe, the Middle East and Asia.

This growth, combined with our robust investment pipeline, continues to enhance the quality and diversification of the Fund's portfolio. We thank our investors for their ongoing support.

## Fund Investments

Strong competition for high-quality opportunities remains a key theme in the market, keeping pricing at compressed levels. Despite this, the Manager continues to sustain and expand a substantial pipeline of high-quality investment opportunities that deliver strong risk-adjusted returns by leveraging its competitive advantages, including significant scale of in market origination teams, superior underwriting capability and structuring expertise.

During the quarter the Fund was deployed into, or was mandated on, 14 new investment opportunities, taking the portfolio to 49 loans. These investments were underwritten at an average LVR of 65.7% and a gross IRR of 11.4%. Deployment activity during the quarter was aligned with our portfolio construction strategy, with a strong weighting towards the Residential and Industrial sectors, as well as the geographies of Victoria and New South Wales.

## Key Portfolio Updates

During the quarter the Manager successfully exited two portfolio exposures that had not performed in line with original underwriting expectations: an industrial asset in Victoria and a mixed-use asset in New Zealand. Notably, the Manager achieved full repayment on both exposures, including all interest and fees, with the final returns surpassing the initial underwritten projections.

These successful divestments offer further evidence of the material downside protection offered by prudently structured and actively managed CRE credit positions, whereby loss absorption buffers (i.e. equity) allow investors to achieve positive outcomes despite unfavorable market movements or other negative developments.

## Outlook and Strategy

The Manager is of the view that whilst economic growth is forecast to gradually improve over 2025, downside risks still remain. In light of this, we remain laser-focused on actively managing the Fund's risk exposure, and are committed to ensuring future deployment contributes to both portfolio diversification and performance.

Wishing you and your families a prosperous year ahead.

## Baden Adams

Portfolio Manager





# Returns And Portfolio Metrics

## Net Monthly Returns since Inception

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023	-	-	0.71%	0.69%	0.88%	0.69%	0.86%	1.05%	0.96%	1.05%	0.97%	0.97%
2024	0.99%	0.96%	0.87%	0.78%	0.83%	1.01%	0.99%	1.02%	0.86%	1.00%	0.79%	1.11%

## Portfolio Metrics

Weighted average LVR	63.8%
Weighted average term (months)	18
Weighted average time to maturity (months)	10
Number of loans	49
Sponsors	40
Largest sponsors exposure	5.9%
Fund leverage	12.5%
Percentage of floating rate investments	100%
Funds under management (\$m)	497

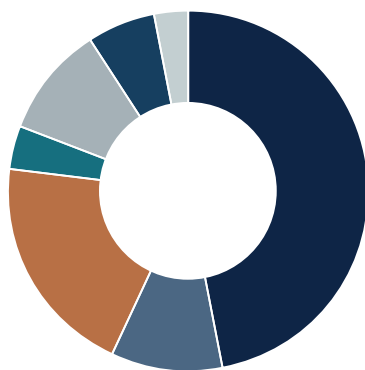
## Returns

	1M	3M	6M	12M	Incep
RBA Cash Yield	0.36%	1.08%	2.17%	<b>4.35%</b>	4.21%
<b>Gross Return</b>					
Target gross return	0.87%	2.60%	5.26%	<b>10.70%</b>	10.56%
Gross return	1.27%	3.34%	6.60%	<b>13.39%</b>	13.35%
<b>Net Return</b>					
Target net return	0.76%	2.28%	4.61%	<b>9.35%</b>	9.21%
Net return <sup>1</sup>	1.11%	2.91%	5.81%	<b>11.75%</b>	11.73%

<sup>1</sup>Net Return (after management fees and performance fees) is calculated based on the private management fee and performance fee rates.

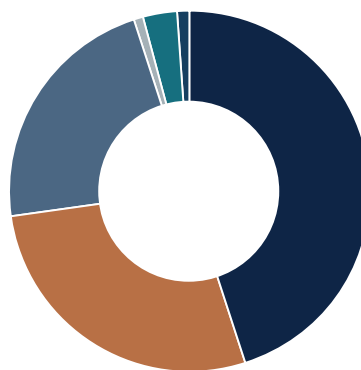
## Exposure<sup>2</sup>

GRAPH 1: SECTOR



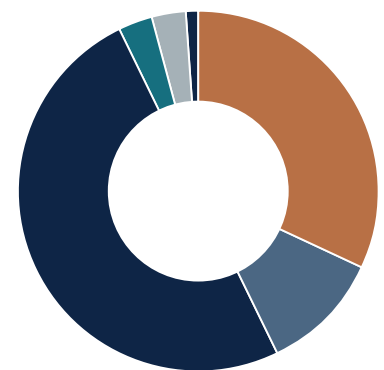
Residential	(47%)	Office	(10%)
Retail	(20%)	Industrial	(4%)
Hotel	(10%)	Medical and Life Sciences	(6%)
Mixed-Use	(3%)		

GRAPH 2: GEOGRAPHY



VIC	(45%)	NSW	(28%)
QLD	(22%)	WA	(1%)
ACT	(3%)	NZ	(1%)

GRAPH 3: LOAN TYPE



Construction	(32%)	Investment	(11%)
Site Acquisition	(50%)	Residual Stock	(3%)
Value Add	(3%)	Subdivision	(1%)

<sup>2</sup>Exposures are based on the outstanding balance of the reporting date.



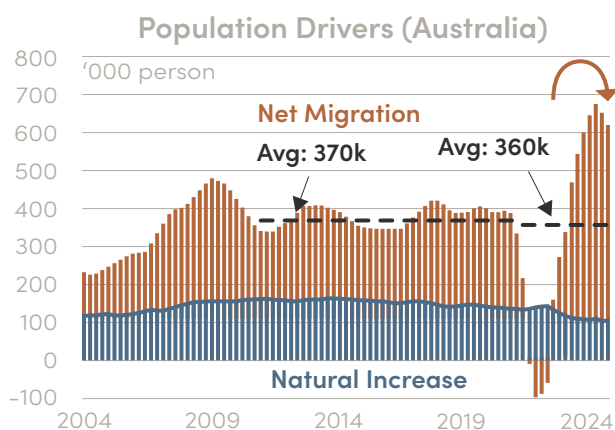
# Economic And Market Update

## Economic slowdown yet more clarity on global interest rates

### Difficult economic climate drives slower growth.

- Global economic growth has continued to lag, staying below its long-term trend as elevated interest rates and weak confidence weigh on markets. While certain economies have exited recession, growth remains fragile under the strain of persistent inflation, which heightens cost pressures and dims hopes of stronger outlooks. Geopolitical tensions remain significant, acting to destabilise energy markets and supply chains. This uncertain climate has kept global economic growth at low levels.
- Australia's economy has seen meagre growth of 0.3% in the last quarter, and activity is projected to stay muted through 2025 as high mortgage rates put pressure on household savings and limit discretionary spending. The Reserve Bank of Australia is likely to keep interest rates higher than their global counterparts, amid fears of reaccelerating inflation. As the federal election approaches, there is scope for new economic policies, targeting critical issues such as housing affordability and fiscal sustainability.
- Similarly, New Zealand's economic growth remains subdued, posting double-dip recessionary figures in this last quarter. Furthermore, forward-looking indicators signal lingering fragility in the economy. Consumer sentiment remains subdued, reflecting declines in employment and sluggish wage growth. However, there is a silver lining: an uptick in goods and arable exports 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.



Source: ABS, MaxCap Group (January 2025)

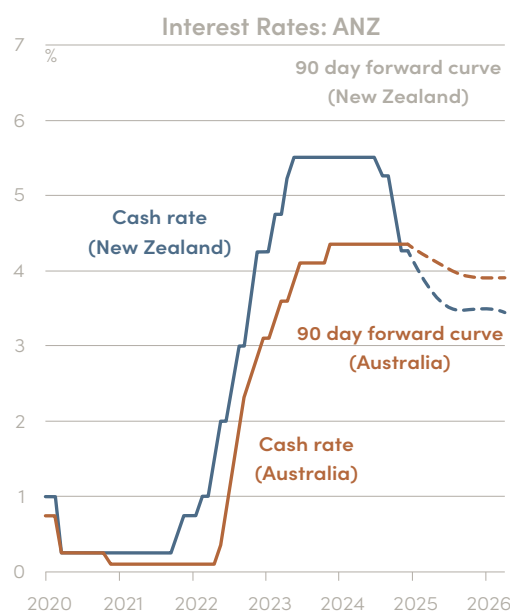
### Inflation has moderated to healthier levels.

- Inflation in Australia continues to moderate, but the risk of re-inflation continues to pose challenges for the central bank. Sustainable on-target inflation has been achieved, prompting expectations for gradual rate cuts ahead.
- 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 2025, as supply chain disruptions ease and material input costs stabilise.

### The RBA's rate cut profile is more gradual compared to many other economies.

- Fearing inflation reacceleration, the RBA rate cut profile is far more gradual, forecasting two cuts in 2025. Meanwhile, other central banks have also begun their policy easing cycles, with New Zealand and the United States joining the stimulus bandwagon in recent months.
- The US began its easing cycle with a 50bps rate cut in September 2024 and money markets are predicting further rate cuts in 2025. In Australia, markets are expecting rate cuts in the February of 2025. Meanwhile, the RBNZ is well set for aggressive rate cuts ahead, more in line with the US Federal 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 (January 2025)



### Capital markets are shifting clearly towards private credit.

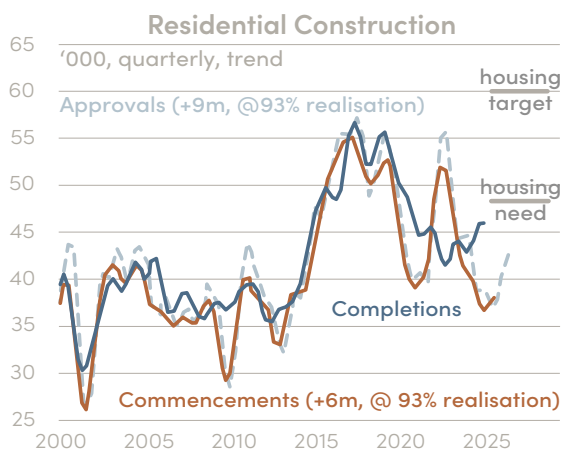
- The ongoing uncertainty around interest rates is driving recent fluctuations in global equity and bond markets. These shifts in rate expectations have led to notable volatility in stock prices. Furthermore, a slowdown in China's economy is casting a shadow over Australian sectors that depend on Chinese demand, contributing to a lackluster growth outlook in Australia.
- With the expectation of elevated interest rates over the longer term (even with some modest cuts 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.

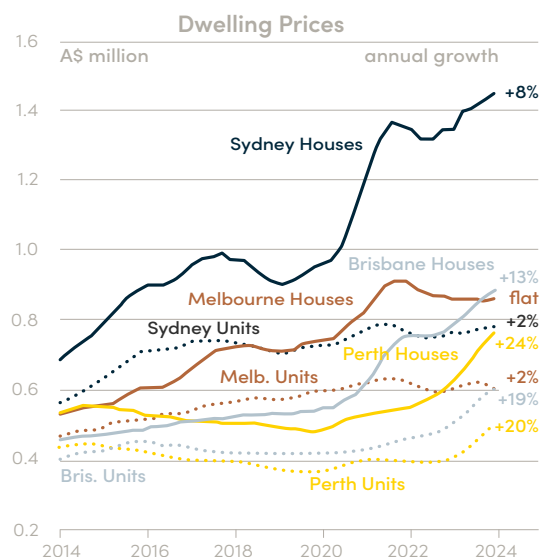


Source: ABS, MaxCap Group (January 2025)

#### Residential rents and prices are holding firm.

- In this quarter, housing remains a strong asset class delivering returns to investors, despite a slight seasonal downturn. Nationwide, residential rents have increased, driven by persistently low vacancy rates.
- Perth (+23% y/y) and Brisbane (+16%) have shown accelerated house price growth while Sydney (+5%) and Melbourne (+0.5%) 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 in Melbourne, while Perth and Brisbane are showing particularly accelerated growth



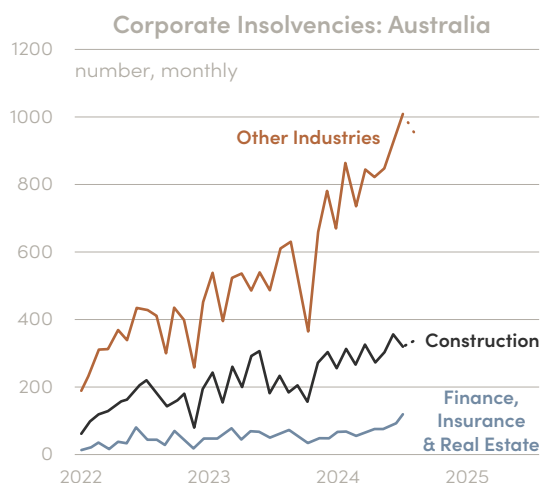
Source: Proptack, MaxCap Group (January 2025)

#### 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 2025, 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 into 2025.
- Nevertheless, the rate of insolvency among real estate developers remains low compared to other industries, 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



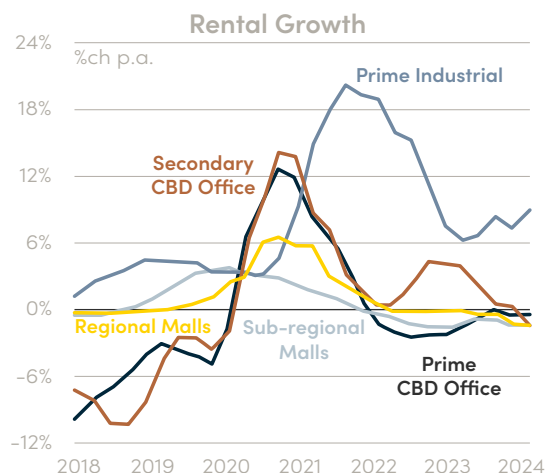
Source: ASIC, MaxCap Group (January 2025)

## 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.
- Signs of a turnaround in retail are looking more convincing, with capital value readjustments seemingly ending. However, with consumer spending constrained by elevated mortgage repayments and the ongoing shift towards e-commerce, full correction remains elusive. Notably, retail malls are showing signs of recovery, as occupancy rates stabilise, and rents increase modestly across national markets.
- Industrial markets are still 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.

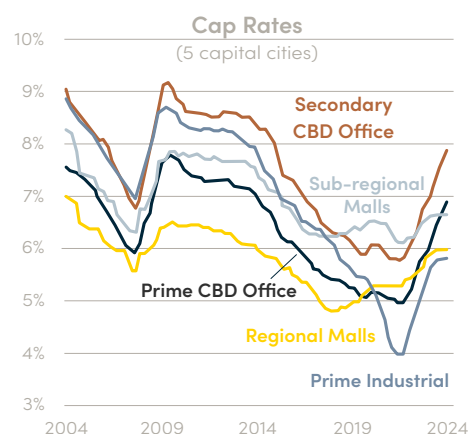


Source: JLL REIS, MaxCap Group (January 2025)

### Commercial capital markets are looking healthier.

- Valuations remain disturbed by the prevailing interest rate environment, however capital market forecasts are looking more optimistic as more real estate sectors move towards a desired cyclical turning point. Cap rates are expected to compress across the board reflecting this trend.
- Equity investors are continuing to adjust 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 (January 2025)



# MaxCap

Investment Management

## MAXCAP GROUP PTY. LTD.

### CONTACT US

[info@maxcapgroup.com.au](mailto:info@maxcapgroup.com.au)

#### HEAD OFFICE | MELBOURNE

Level 34, Queen & Collins Tower,  
376-390 Collins Street Melbourne, VIC 3000  
+613 9620 2220

#### SYDNEY

Level 27, Governor Phillip Tower,  
1 Farrer Place Sydney, NSW 2000  
+612 8397 7200

#### BRISBANE

Central Plaza 1, Level 22,  
345 Queen St, Brisbane QLD 4000  
+617 3303 0885

#### PERTH

Level 19, Exchange Tower 2  
The Esplanade, Perth 6000  
+618 6189 8629

#### AUCKLAND

Level 15, 1 Albert Street,  
Auckland 1010  
+64 21 995 2611

#### TRUSTEE

MaxCap Master Fund Nominee Pty Ltd  
ACN 663 210 875  
Level 34, 376-390 Collins Street  
Melbourne VIC 3000  
Tel +613 9620 2220  
Fax +613 9620 2221  
[legal@maxcapgroup.com.au](mailto:legal@maxcapgroup.com.au)

#### MANAGER

MaxCap Investment Management Pty Ltd  
ABN 68 169 902 005  
AFSL 462086  
Level 34, 376-390 Collins Street  
Melbourne VIC 3000  
Tel +613 9620 2220  
Fax +613 9620 2221  
[legal@maxcapgroup.com.au](mailto:legal@maxcapgroup.com.au)

[maxcapgroup.com.au](http://maxcapgroup.com.au)

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