MaxCap
Investment Management

MAXCAP INVESTMENT TRUST

High Yield

Quarterly Investor Report

MARCH 2025

Commercial In Confidence

Portfolio Manager Report

We are pleased to present the Quarterly Investor Report for the period 1 January 2025 to 31 March 2025 for the MaxCap Investment Trust – High Yield (Fund).

Fund Performance

In contrast to the heightened volatility recently observed in public markets, the Fund demonstrated consistent performance throughout the quarter, reinforcing the value of private CRE credit as a stable, income-generating component within a diversified investment portfolio. **The Manager is pleased to report a trailing 12-month net return of 12.27%, performing materially in line with its target of 12.32%.** This performance is particularly notable given our ongoing emphasis on prudent risk management, with the portfolio's Loan-to-Value Ratio (LVR) trending towards the bottom of the target range at 65.8%. We remain disciplined in our investment approach, focused on opportunities that offer strong downside protection and enhance the portfolios overall diversification and risk profile.

Fund Investments

During the quarter the Fund was deployed into, or was mandated on, 8 new investment opportunities, taking the portfolio to 72 loans. These investments were underwritten at an average LVR of 63.3% and a gross IRR of 12.2%. Deployment activity during the quarter was consistent with our portfolio construction strategy, with a strong emphasis on the Residential sector. Geographically, capital was primarily allocated to opportunities on Australia's Eastern Seaboard, reflecting our continued focus on markets with robust fundamentals and favourable risk-return dynamics.

Market Summary

The first quarter of 2025 was defined by contrasting dynamics, as initial signs of macroeconomic stabilisation were increasingly overshadowed by escalating geopolitical tensions. While investor sentiment has shown tentative improvement – supported by a more dovish tone from key central banks globally, including in Australia – an undercurrent of caution persists. Commercial property transaction volumes continued to build positive momentum into Q1 2025, marking the fifth consecutive quarter of rolling annual growth. Q1 volumes were the strongest first-quarter result since 2022, with the rolling 12-month total surpassing $40 billion for the first time since Q4 2022[1].

While market competition continues to exert downward pressure on pricing for high quality opportunities, we observed a noticeable uptick in market activity over the quarter, particularly following the RBA's cash rate reduction in February. The markets response to this policy shift has been encouraging, and we view it as a constructive development for Fund deployment. Should further cuts materialise, we anticipate an expansion in the pipeline of attractive opportunities available to the Fund, further supporting our ability to deploy capital selectively and on favorable terms.

Interest Rate Overview

Inflation appears to be under control, with key data indicators remaining within the RBA's target range since August 2024[2]. While Australia is yet to observe the more aggressive easing cycle seen in New Zealand - where the RBNZ has cut the OCR by 175 basis points since September 2024[3] - the return to target has provided the RBA with greater flexibility in setting monetary policy, evidenced by the cash rate reduction in February 2025. Looking ahead, consensus among economists' points to further easing, with 59% of respondents expecting at least a 25 basis point cut in Q2, and 86% anticipating a cut by Q3[4].

Despite the RBA's slightly more dovish tone, current geopolitical tensions present new risks to inflation, with an escalating trade war posing inflationary risks for the Australian economy. We expect that any near-term decisions by the RBA will be heavily influenced by how this situation unfolds over the months ahead.

Outlook and Strategy

While we anticipate ongoing market volatility in the near term, we expect market sentiment to gradually improve in line with current trends, supporting a broader pickup in activity. The Fund remains well positioned to capitalise on these emerging opportunities, and we remain confident that it represents a market-leading vehicle for investors seeking exposure to the private CRE credit market.

We thank investors for their ongoing support.

Baden Adams

Portfolio Manager

[1] *Cushman and Wakefield, Capital Markets Q1 2025*

[2] *Australia Bureau of Statistics, Monthly Consumer Price Index Indicator February 2025*
[3] *Reserve Bank of New Zealand: https://www.rbnz.govt.nz/monetary-policy/monetary-policy-decisions*
[4] *Bloomberg, 11 April 2025*

Returns And Portfolio Metrics

Net Monthly Returns since Inception

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023	–	–	1.21%	0.71%	0.66%	0.77%	0.93%	0.99%	0.98%	1.04%	1.03%	0.97%
2024	0.94%	1.01%	1.03%	0.98%	1.41%	0.83%	1.01%	1.01%	0.89%	1.03%	0.64%	1.21%
2025	1.06%	0.90%	0.99%	–	–	–	–	–	–	–	–	–

Portfolio Metrics

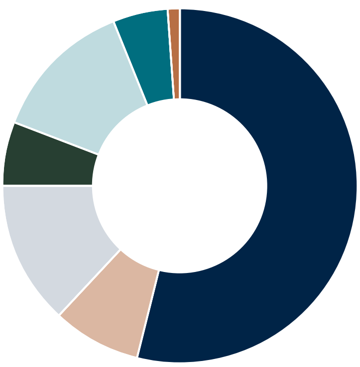
Weighted average LVR	65.8%
Weighted average term (months)	20
Weighted average time to maturity (months)	11
Number of loans	72
Sponsors	52
Largest sponsors exposure	4.3%
Fund leverage	9.3%
Percentage of floating rate investments	100%
Funds under management ($m)	220

Returns[1]

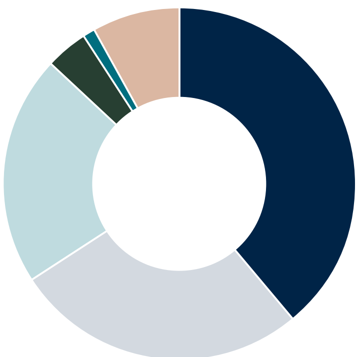
	1M	3M	6M	12M	Incep
RBA cash yield	0.34%	1.03%	2.12%	**4.32%**	4.21%
Gross Return					
Target gross return	1.11%	3.29%	6.79%	**14.12%**	14.01%
Gross return	1.12%	3.31%	6.81%	**14.12%**	14.11%
Net Return					
Target net return	0.97%	2.89%	5.95%	**12.32%**	12.21%
Net return[2]	0.99%	2.90%	5.91%	**12.27%**	12.24%
Monthly cash distribution[3]	0.99%	2.90%	5.89%		

Exposure[4]

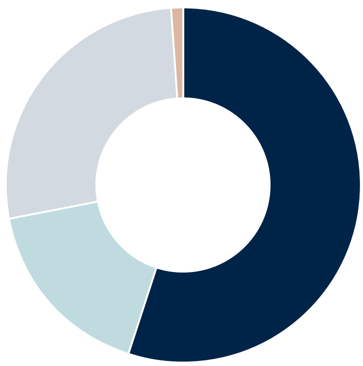
GRAPH 1: SECTOR



GRAPH 2: GEOGRAPHY



GRAPH 3: LOAN TYPE



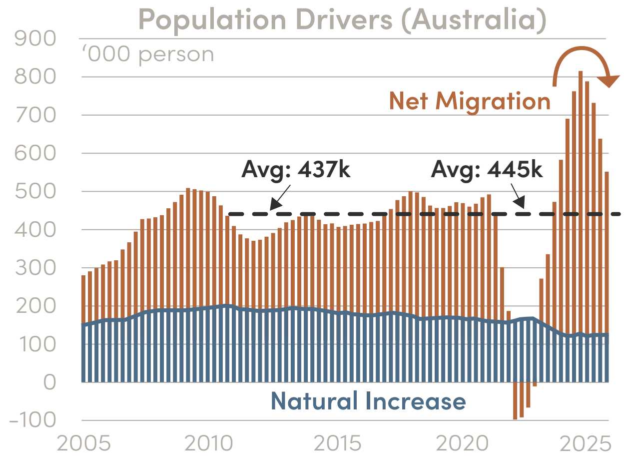
[1]*Returns are calculated using an IRR methodology.*
[2]*Net return (after management fees and performance fees) is calculated based on the private management fee and performance fee rates.*
[3]*Monthly distributions commenced from October 2024.*
[4]*Exposures are based on the outstanding balances as at the reporting date.*

Economic And Market Update

How are we reconciling the weakening global outlook, with the improving domestic economy?

- The global economic outlook has taken a dramatic turn for the worse. The US is imposing unilateral import tariffs across all trading partners, with varying degrees of severity and conviction. In turn, this is inviting reciprocal tariffs from China and other countries. All of this is causing significant volatility and losses in equity markets. This is increasingly filtering into the US bond market, where diminished demand and rising yields are threatening the status of US Treasury bonds as the default risk-free asset underpinning the entire financial market. Altogether, the US is shaping up for a sharp recession in 2025, with broad expectations of a contraction starting in Q1.
- Ahead of this external trade shock, the Australian economy has been on a clear path of improvement. The Q4 GDP figures were encouraging, having shown a modest reacceleration in activity growth and a rising per-capita GDP figure for the first time in two years. The economy has been responding positively to the prospect of lower interest rates, which translated into a supportive upswing in consumer spending and housing construction – the two most rate-sensitive sectors in the economy. In the near-term, there is a lot of focus on the forthcoming Federal Election due on 3 May 2025, although global market volatility has proven to be relatively more distracting.
- The New Zealand economy is facing a similar turning point, albeit from a more sluggish cyclical position. There are encouraging signs of improvement as the broader economy emerges from a recession in late 2024. That said, there are still notable signs of weakness, particularly in the Auckland housing market. As with Australia, we are expecting a recovery to take hold in 2025, given a similar scope for lower interest rates to support firmer activity.
- It is important to note that for Australia and New Zealand – both being small open economies – that there are important shock absorbers at work in the event of a global economic shock, like this US-instigated trade war. Lower interest rates and depreciating currencies have been very reliable support drivers for these markets, which greatly helped to dilute the worse impacts from these shocks, as we have seen in previous cycles, particularly during the Asian Financial Crisis and the Global Financial Crisis.

The population growth profile is clearly moderating, but it is still consistent with a robust pace of housing demand



Source: ABS, Stat NZ, MaxCap Group (April 2025)

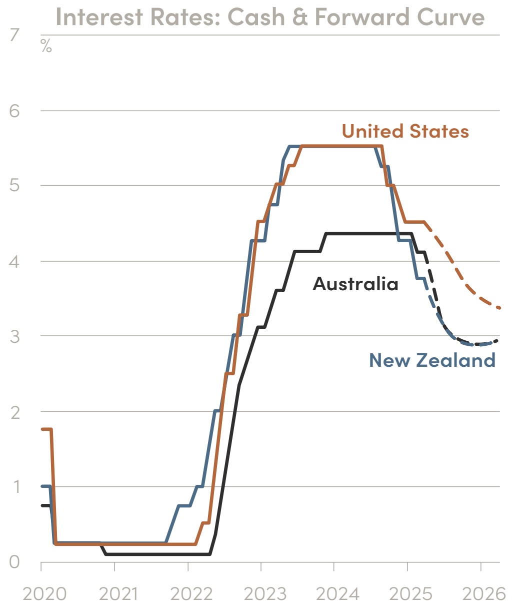
Inflation has returned to the official target band.

- There are more convincing signs that the worse of the pandemic supply chain disruption and runaway inflation shock from 2021 are clearly behind us. For both Australia and New Zealand, headline inflation indicators are pretty much back in the middle of their official target bands. That said, the forward outlook is far from sanguine, given the prospects of depreciating currencies and higher import prices lifting inflation through the tradable channels. For now, inflation has pulled back enough for central bankers to cut rates in support of the weaker global environment.
- Construction costs have also moved through a similar inflation cycle, to the point where we are seeing more stable pricing in 2025. Notably, builders have relatively less imported price pressures compared to the broader economy. Moreover, the primary sources of imported products are typically coming from China, where US tariffs may prompt cheaper pricing for Australian buyers.

Central banks are well poised to provide rate cuts to support the softening global economy.

- In the face of escalating fears about the forthcoming global economic slowdown and specifically a US recession,money markets are increasingly pricing in rate cuts in 2025 to support a flailing set of financial markets. The lingering concern relates to the inflationary effects of tariffs, which may force central bankers to cut less and to cut more slowly.
- For both Australia and New Zealand, both central banks are expected to make additional cuts, mostly to stave off the global economic slowdown. Concerns about import price inflation will be a key area of concern, again prompting a more cautious course of action on interest rates.

For most central bankers, there is a more dovish outlook for interest rates due to the escalating global trade war



Source: Bloomberg, MaxCap Group (April 2025)

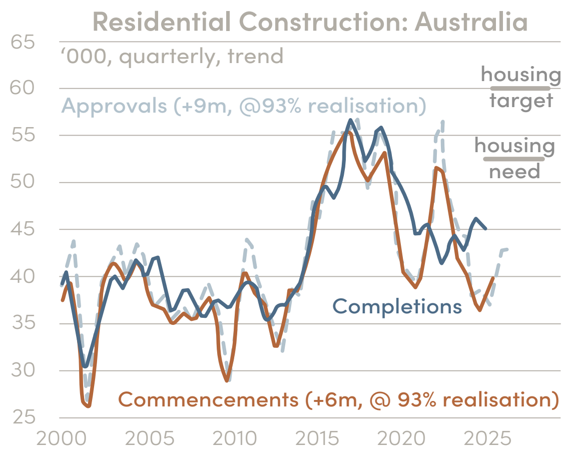
Capital markets have moved quickly from greed to fear in a highly uncertain environment.

- The impulsive imposition of trade tariffs will have long-running contractionary and inflationary impacts on the global economy, but also quite immediate and dramatic impacts in halting factory production and turning cargo-laden ships around mid-journey. For capital markets, this degree of uncertainty is highly toxic, which is why we have seen abrupt and sizeable price falls in global equity markets. Increasingly, this is also impacting on US bond yields – the default risk-free asset underpinning the global financial system.
- For Australia and New Zealand, these global market conditions have their pros and cons for Australian capital flows. As a headline, there is diminished wealth (in a bear equity market) and reduced confidence (given the uncertain outlook). At the same time, this region is looking relatively more attractive, given more rational and predictable policy making processes. We are well set to retain our reputation as islands of relative stability.
- Most importantly, the prospects of lower interest rates for both Australia and New Zealand will have well-understood impacts on these economies, in stimulating the most rate-sensitive sectors, which are consumer spending and housing construction.

Housing market remains undersupplied.

- There is still considerable momentum in the Australian housing market. The fundamental drivers remain well in place, in the form of robust population growth and housing demand, set against the lagging supply of new residential dwellings. We continue to see a persistent state of undersupply, across all major capital cities, particularly within the inner cores of each city.
- Amid the current round of political promises issued through a Federal Election campaign, there are some populist proposals to restrict the number of overseas migrants (and more specifically the number of foreign tertiary students). In our view, these polices do not present a dramatic shift in demand trends, partly as they align with a natural moderation in migration flows, from the post-pandemic peak as borders reopened, towards the longer-term averages that we have seen over the past two decades.

There is an encouraging pick-up in housing construction, but it continues to lag underlying housing demand

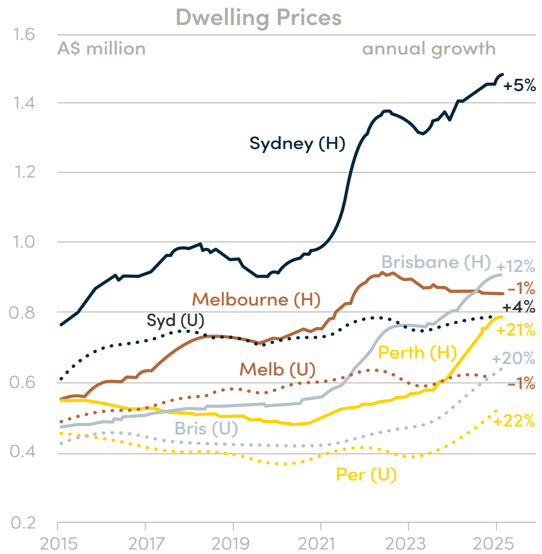


Source: ABS, MaxCap Group (Jaunary 2025)

Residential rents and prices are still rising.

- The persistent shortage of housing is playing out predictably in both the for-sale and for-rental segments of the residential market.
- Dwelling prices continue to grow, albeit more strongly in markets like Perth (+21% p.a.), Brisbane (+14%) and Adelaide (+13%). Looking at the larger cities, we see that Sydney continues to post respectable price gains (+6%), while Melbourne clearly lags behind in this cycle (-1%), given the adverse drag from higher state taxes and poorer investor sentiment.
- Meanwhile, the rental market continues to post moderate gains for Sydney, Melbourne and Brisbane, in line with the structurally low rates of vacancies in these markets (1-2%). Perth remains in an exceptionally strong position, as ultra-low vacancies are still driving robust rental growth.

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

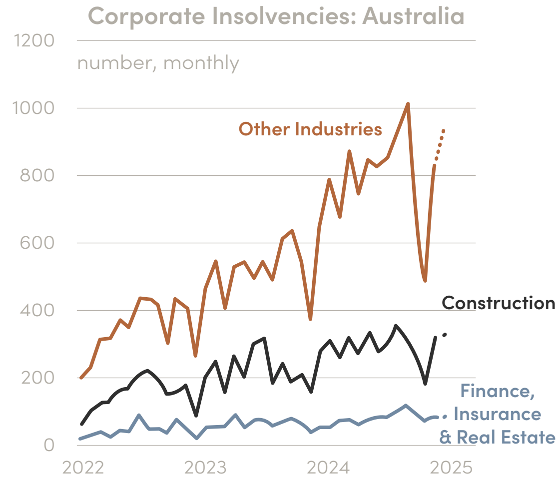


Source: Proptrack, MaxCap Group (April 2025)

Builder insolvencies remain a key watch point.

- Looking at the macroeconomic drivers, the period of maximum pressure for builder profits is well behind us, as we have moved beyond the cost inflation and interest rate shocks of 2022. In subsequent years, construction costs have stabilised, while interest rates have started to fall. Nevertheless, the insolvency cycle lags the economy by 1-2 years. While the broader economy is still working through a period of financial stress, we are likely to be past the peak of construction insolvencies in 2024.
- Certainly, we continue to keep a close watchful eye on builder distress and their capacity to repay outstanding loans. In our view, those risks should be steadily moderating over the course of 2025 and beyond.

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

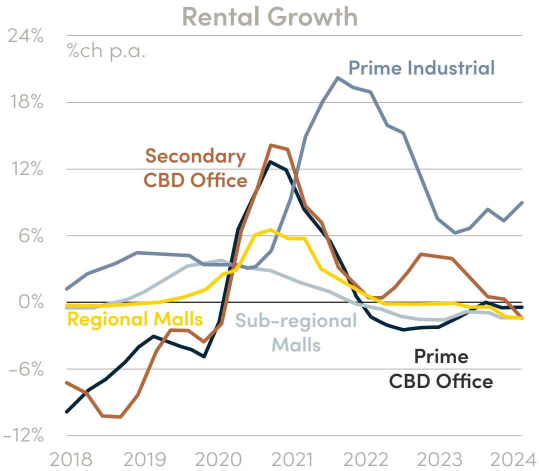


Source: ASIC, MaxCap Group (April 2025)

Commercial markets are set to improve in 2025.

- There are more positive signals for the office market in 2025. Asset values – across most office, industrial and retail sectors – are progressively moving past their cyclical low points in late 2024, although Melbourne office is the clear laggard in this commercial market cycle.
- Importantly, the big structural headwinds that have impeded demand (and discouraged investors) over the past several years have certainly subsided.
- Specifically, the work-from-home trend is no longer detracting from office space demand to the same extent. While this topic is still a matter of popular debate (and a temporary topic during the election before the promise was walked back), the forward demand profile is now better aligned with business conditions, without a persistent drag to leasing demand.
- Similarly, the shift from physical to online shopping looks to have run its natural course. The recent cut to mortgage interest rates is supporting a recovery in both online and offline retail spending growth. The structural trend for online substitution of spending is mostly done, as the retail market finds its new equilibrium.
- For now, the industrial sector looks to be the most attractive among the commercial segments, largely because the structural need for newer industrial warehouse capacity remains well in place, particularly for inner-ring, urban-infill facilities to serve last-mile logistics demand. With new supply additions, the shortage of stock and the uplift in rents are becoming slightly less urgent, but the sector is still well placed to deliver on stronger rental incomes in coming years.

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

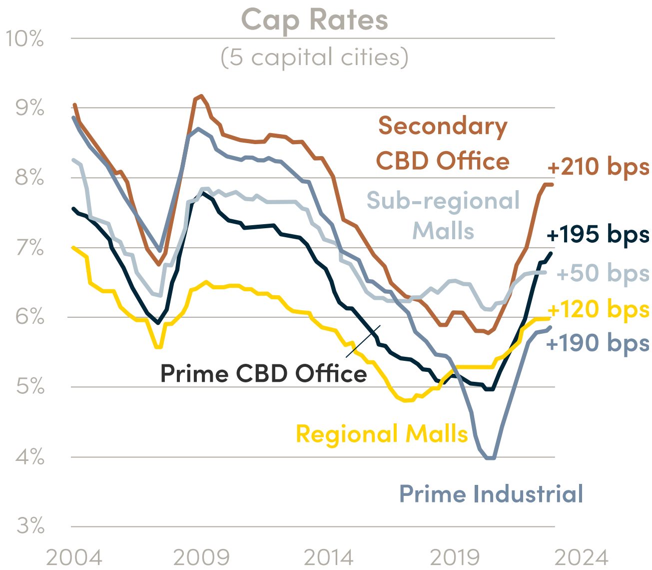


Source: JLL REIS, MaxCap Group (April 2025)

Commercial markets are set to lift as investors return.

- From the investor perspective, the market should be on track for some improvement in 2025. The drivers that led to a softening in cap rates – particularly higher interest rates – have turned decisively. Lower interest rates will be a key catalyst for deals to stack up better, driving an eventual phase of cap rate recompression to take hold sometime in 2025.
- Amid all the extraordinary volatility and turmoil in global public markets, we expect to see some structural reallocation of capital into private markets, including for real estate assets with consistent and reliable incomes.
- Equity investors in real estate are looking in better shape, again with lower interest rates being the key catalyst that support deal-making and asset valuation. For now, there is considerable investor appetite for the living sector, given the dramatic mismatch between housing demand and supply. At the same time, we are seeing resurgent interest across the commercial sector, with industrial in the lead, retail with a surprisingly resilient rebound and office lagging the other sectors this cycle.

Cap rates have likely reached their cyclical peak this cycle, with lower rates the key catalyst for the next recompression phase



Source: JLL REIS, MaxCap Group (April 2025)

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