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Investors in MA Financial's
Global Credit Solutions funds

'Predicting rain doesn't count'
Quarterly Global Credit Solutions investor letter (Q1 2025)

Dear Fellow Investors,

On behalf of the Global Credit Solutions (GCS) team at MA Financial, I'd like to thank you for your continued investment in our private credit funds.

This new quarterly letter is designed to provide you with regular and general updates on our GCS fund suite as well as thematic considerations about what matters in private credit. We hope you find this a helpful and insightful resource.

Reflections on the quarter

We often like to say at MA Financial, the most exciting updates in credit should sound fairly boring. Credit is a defensive asset class aimed at delivering consistent income returns while preserving the principal value of capital invested.

I'm pleased to say this was resoundingly the case across the GCS fund suite, particularly in our flagship MA Priority Income Fund and MA Credit Income fund products.

The MA Priority Income Fund has now delivered its priority return target of the RBA Cash Rate + 4.00% p.a. for 77 consecutive months since its inception. The Fund's differentiating feature – a 10% Capital Buffer provided by MA Financial (currently $187.5 million) – provides investors with a meaningful buffer against impairment of capital. It's an element of protection against the unpredictable.[1]

Our MA Credit Income fund suite,[2] which is designed to provide a single access point to all of MA Financial's flagship private credit strategies ($4.7 billion of our $5.6 billion total private credit AUM), has also achieved its return target for investors since inception.[3] These strategies are now available for investors to participate in both unlisted and listed formats, following the successful launch of our first ASX listed private credit fund, the MA Credit Income Trust (ASX:MA1).

Our portfolios are in good shape with low levels of arrears or delinquency. For example, only ~1% of the $4.7 billion underlying portfolio of our MA Credit Income fund suite is underperforming (in line with historical trends) and we believe our capital is well covered. We are holding ~$520 million in cash and tradeable fixed income in our underlying

[1] Past performance is not a reliable indicator of future performance. Refer to the Product Disclosure Statement and Target Market Determination available at www.mafinancial.com/invest/private-credit/ma-priority-income-fund for further information on the MA Priority Income Fund and its capital buffer and priority return features.

[2] MA Credit Income fund suite refers to the aggregate of the MA Credit Income Fund (Wholesale), MA Credit Income Fund and MA Credit Income Trust.

[3] Past performance is not a reliable indicator of future performance. The MA Credit Income Fund suite was incepted in November 2023 to provide a single access point to MA Financial's flagship private credit strategies. The underlying strategies have been operating since 2017-18.

portfolios, positioning us well to capitalise on new investment opportunities as they arise while being selective in our deployment.

We also launched our new US interval fund, the MA Specialty Credit Income Fund, which the US Securities and Exchange Commission declared effective in December 2024. It has achieved pleasing early momentum, already exceeding US$100 million (A$166 million) in deployed AUM.

Scale is a significant benefit in the business of lending. It not only allows you to maintain a large, well-diversified portfolio; it also allows you to lean into proprietary deal flow where you can directly originate, negotiate and structure your own loans. We can only maintain this advantage with the support of our clients.

During Q1 2025, net inflows (new client investments net of redemptions) in GCS managed funds totalled almost $540 million. This included the raising of MA1, although even without that our Q1 2025 net inflows were ~$250 million.

This is an incredible vote of confidence.

We recognise investing with us means you are trusting MA Financial with your capital in the defensive part of your portfolio, targeting consistent monthly income and capital stability. We take that responsibility seriously.

Predicting rain doesn't count

There's a great saying we've always liked at MA Financial:

"Predicting rain doesn't count. Building the ark does."[4]

Almost immediately after President Trump announced wide-sweeping global tariffs as part of his so-called 'Liberation Day', triggering this past week's dramatic global market sell off, the clairvoyants leapt from the shadows.

My LinkedIn feed and inbox were inundated with pronouncements from crystal-ball gazers with retrospective claims they *knew* this was going to happen and presciently *expected* the end of free trade was nigh. With such shrewd foresight, we must all heed their latest prediction about what to do from here, they said.

My guard goes up whenever I hear things like this, especially from money managers. Most of the time, the proponents are either stretching the truth (they didn't actually know) or – perhaps worse – deluding themselves (they think they actually knew, but of course they did not).

The reality is that there's a wide spectrum of possible outcomes. Trump's actions could be a short lived dynamic, the 'art of the deal' that leads to a negotiation between world powers and is resolved without major economic ructions. Or we could be entering a trade war on a global basis that undoes 90 years of momentum towards freer trade and globalisation. The last time that happened, the world was a very different place. There were different geopolitical alliances, different economic structures and a vastly different technological landscape. There are worse scenarios and more moderate scenarios I'm sure you can imagine. But which one is most likely to occur?

Fortunately, you don't need to be able to make accurate forecasts of an unknowable future to invest well.

You instead need to design a portfolio that can deliver acceptable returns over a sensible time horizon, in many different potential futures.

This is especially true in credit. We believe credit is about *avoiding losers, not picking winners*.

Our investment processes are therefore designed to minimise the probability that problems occur with our individual loans, but most importantly, avoid problems on a systemic basis at the portfolio level.

Build the ark by knowing What You Have To Believe

In our investment papers, we always include a section called *What You Have To Believe*. This requires our investment professionals to articulate the circumstances in which we would incur our first dollar of loss for any loan. The circumstances might seem remote, but we want to know what they are.

[4] This saying is widely attributed to Warren Buffett, although there is no verified record that he actually said it. Though it certainly seems to be within the spirit of a Buffett-ism.

We check this through a *Red Team* process, in which someone in the investment team who did not work on a deal is assigned as a contrarian perspective. Their role is to come to the Investment Committee and articulate why you *wouldn't* do the deal. The idea is to know what the counter-factual is and document it.

Thoroughly evaluating and documenting what can go wrong enables us to monitor our portfolios better, by actively looking for real world circumstances that could cause us an issue.

We will never know exactly what the catalyst could be in advance. It could be a borrower specific factor, an industry phenomenon, a macro cycle or a left field shock. It could be Trump's tariffs, a trade war, a health pandemic, the sovereign debt crises of the mid-2010's, a GFC, or the emergence of a disruptive technology.

The cause shouldn't matter.

A credit investment – one that is secured, asset-backed or otherwise has defensive features – shouldn't be the meat in the sandwich if we go through a rough patch in the world. As lenders, we are entitled to our contractual coupon from our borrowers and the repayment of our principal on agreed terms – no more and no less. The equity gets the upside. However, if things get shaky, the inverse is true. The equity bears the downside risk.

A good credit investment should therefore have structural features (such as security, collateral or other 'credit enhancements') that mean that our funds don't necessarily face an impairment of capital on a loan just because things get a bit tougher. If we do our job right, others – the equity – need to lose first before our funds, as lenders, lose money. But this requires more than a 'set and forget' approach.

What matters is that we know *what we have to believe* for each of our investments to perform fine, or to go bad and face an issue. Then, hopefully, we can be proactive in dealing with challenges early, while they are still manageable.

More than just making investments

At MA Financial, we believe making good investments is only one-third of the job of a good credit manager. You also need to *manage your portfolio well* and implement *effective risk management* (respectively, the other two thirds).

To enable this, our platform is deliberately structured with distinct but collaborative Investment and Portfolio Management teams. Setting up our teams this way empowers each function, enables focus and harnesses the specialised skill sets of different individuals. But it also has a powerful signalling effect. It creates a culture where making good investments and managing your portfolio well are equally respected as critical, symbiotic pillars to delivering for our clients.

Risk management, however, is everyone's responsibility. We test and re-test our theses on a regular basis. We do this through weekly credit meetings, monthly portfolio reviews and a semi-annual *War Games* exercise where we simulate three recessionary scenarios (moderate, severe and crisis/depression) along with a series of discrete and investment specific risks across every loan in our portfolio. (Yes, this year it will include tariffs and a trade war!)

The purpose of these exercises is to train ourselves to be ready to launch into defensive action if an unforeseen event occurs or if something doesn't quite go our way.

To build the ark, you need to understand the storm

Our investment performance has been pleasing since inception, consistently achieving our target returns, and our flagship funds have avoided capital impairments.

That doesn't mean we can never incur a loss or make a mistake. We can.

Our goal is to minimise the probability that occurs. However, sometimes low probability events happen, the world changes or something unforeseen eventuates.

What really matters is not just minimising the chance a problem arises, but minimising the severity of such a problem when it inevitably does occur.

These are the dark arts of credit, known as workouts capabilities. We believe MA Financial has a clear advantage in workouts, because our Corporate Advisory business, MA Moelis Australia, is one of Australia's leading debt restructuring advisers with over 50% market share[5] and our strategic alliance partner, Moelis & Company, is recognised as a leading global adviser in this discipline.[6] In addition, many of our senior-most credit executives have substantial prior career experience working in restructuring and special situations. This provides us with in-house expertise and a proprietary skillset that can be applied where we need to deal with a difficult lending situation.

In a recent insight, one of our Portfolio Managers, Elliott Etheridge, wrote about [Why debt restructuring experience is crucial in private credit investing]:

> *"Private credit managers with debt restructuring experience have a significant advantage across all areas of credit investing – from sourcing and underwriting to monitoring and recovering value in distressed situations.*
>
> *Restructuring experience provides investment managers with valuable historical data and the tools needed to avoid distressed investments. In the case a distress situation does occur, these managers have the knowledge and confidence to navigate challenging conditions, ensuring the best outcome for investors.*
>
> *While the recent benign economic climate may have allowed many managers to avoid losses, this environment is unlikely to last. Avoiding distressed situations today will be key to maintaining stable returns should economic conditions decline and default rates rise."*

Amid a trade war, market volatility and debate about whether private credit is built to last, we can't reiterate enough the importance of choosing an asset manager equipped with the right skills to minimise potential losses.

We care about this at MA Financial, because we are investors too. The firm and its staff have now co-invested over $220 million across all our private credit strategies with our clients. This is a substantial commitment, even in the context of the $5.6 billion in private credit and over $10.3 billion total AUM managed by MA Financial Group. We believe this is the highest level of alignment of any private credit fund manager in Australia.

We welcome the opportunity to talk to our investors about our credit processes and have last year created a video series to bring it to life, which you can view on our website: https://mafinancial.com/insights/private-credit-at-ma.

We will also host an annual Private Credit Investor Day later in 2025 as part of our commitment to investor engagement. Further details will be shared in due course.

Thank you again for your continued investment and trust in us.

Best regards

Frank Danieli
Managing Director
Head of Global Credit Solutions
MA Financial Group

[5] Based on value of restructuring advisory deals completed, MA Moelis Australia holds the leading market share as per Eikon SDC Platinum. Market share is calculated based on value of deals completed by each firm to total value of restructuring deals recorded by Eikon SDC Platinum since the inception of MA Moelis Australia.

[6] Based on value of restructuring advisory deals completed, Moelis & Company holds the leading market share as per LSEG (formerly Refinitiv). Based on Global Announced Restructurings excluding governments, FY 2023 by value.