

# SUPERIOR

## FORESIGHT ANALYTICS OCA RANKING

	Key Operational Capability Strengths	Key Risk Factors
<p><b>Operational Capability Assessment 'SUPERIOR'</b></p> <p>An assessment of 'Superior' reflects the superior capacity of an operating party to perform its operational role and assist the issuer or fund in meeting its financial obligations promptly.</p>	<ul style="list-style-type: none"> <li>Extensive operational and financial support from the AU\$18BN La Trobe Financial Group of Companies, owned by the US\$850BN Brookfield Asset Management Group, by AUM.</li> <li>Diligent and experienced staff with clear accountability and a focus on broadening the leadership team and internal expertise.</li> <li>Clear, consistent, and embedded governance, risk management, and compliance frameworks that support La-Trobe Financial Asset Management's operations and focus on protecting investor interests.</li> </ul>	<ul style="list-style-type: none"> <li>LFAM is a lender and manager of a range of residential and commercial specialist mortgages. Management of arrears is essential in protecting members' investments.</li> <li>As expected, given the recent 13 interest rate rises, arrears have increased over the last 12 months, reverting to historical norms. In the 12-month term account, total arrears were close to 4% as at September 2023. We note that LFAM has prudently increased its loan provision amount, offering an enhanced safeguard against potential losses.</li> </ul>

### OPERATIONAL CAPABILITY – SUPERIOR

La Trobe Financial Asset Management Limited ('LFAM') is the Responsible Entity for the La Trobe Australian Credit Fund (the 'Fund'). Foresight Analytics has maintained LFAM's Operational Capability Assessment Rating of 'Superior'.

Our assessment reflects the operating relationships LFAM has with the wider La Trobe Financial Group ('LFG'), the support it receives from an aligned shareholder in the Brookfield Asset Management Group ('Brookfield'), and a further strengthening in its corporate financial performance. We considered the operational and financial profiles of all 3 organisations and the profile and performance of the Fund itself, given that they reflect LFAM's performance as the Responsible Entity.

The Superior assessment is underpinned by LFAM's ability to grow. With FUM almost doubling over the last 3 years, it represents one of the fastest-growing funds in Australia. The Fund is well positioned for future growth whilst maintaining investment performance and preserving investor capital and redemption liquidity.

Due to the 13 interest rate increases to date, arrears have increased as expected over the last 12 months, reverting to historical norms. Arrears on loans (past due by performing assets) and defaults (non-performing assets) are a key risk for the Fund, given its allocation of near-prime mortgages. However, LFAM's policy of managing asset quality and performance has ensured its rate of arrears and defaults currently sit below the industry average.

Foresight Analytics' assessment of LFAM included a review and ranking of LFAM's operational components. The rankings of each operational component are outlined in Table 1.

**Table 1: Ranking of LFAM's operational components**

Ownership, Performance, Outlook	Superior
Experience & Skill of Management & Staff	Superior
Governance	Very Strong
Risk Management & Compliance	Very Strong
Asset and Data Security	Very Strong
Data Systems & Technology	Very Strong
Financial Adequacy & Stability	Superior

## LA TROBE AUSTRALIAN CREDIT FUND

The Fund is a registered managed investment scheme, historically invested in mortgages, cash and notes in La Trobe Financial RMBS issuances. It is available to retail and wholesale investors by way of a Product Disclosure Statement and has been operating since 1989.

The Fund currently has 7 separate investment accounts to choose from:

- (a) Classic Notice Account (48-hour notice for redemptions)
- (b) 90-Day Notice Account
- (c) 6-Month Notice Account
- (d) 12-Month Term Account
- (e) 2-Year Account
- (f) 4-Year Account
- (g) Select Investment Account

The Fund's overall objective is to provide investors with low volatility and a regular income. Each of the Fund investment accounts has a specific objective and level of investment risk, providing a commensurate return.

Investors in the Classic Notice, 90-Day Notice, 6-Month Notice, 12-Month Term Account and 2-Year Accounts benefit from the diversification of the pooled loans. In contrast, investors in the Select Investment Account have direct exposure to their selected investments. 4-Year Account investors have reduced exposure to concentration risk relative to the Select Investment Account investors, given their investment in a portfolio comprised primarily of securitised mortgages via notes.

LFAM strategically diversifies the Fund on many levels, including the following:

- Number of loans
- Size of loans
- Loan sector (e.g., residential, commercial, industrial, construction, rural and land)
- Loan geography (broadly in line with the Australian economy and population)
- Maturity/duration profile.

**Table 2: La Trobe Australian Credit Fund Metrics**

Period ended:	30 Sept 2023	30 Sept 2022	30 Sept 2021	30 Sept 2020
Total funds under management (AU\$M)	9,670.0	8,314.0	6,692.0	4,921.8
Total number of mortgages	11,800.0	12,219.0	9437.0	7,500.0
Total value of mortgages (AU\$M)	\$9,072.0	\$7,805.0	\$5,178.0	4,282.6
Weighted average LVR (%)	64.6	65.0	63.8	62.8
Investment in mortgages (% of FUM)	93.6	93.9	77.4	86.3
Investment in cash and liquidity (% of FUM)	2.4	3.0	19.1	9.0
<b>Investment in credit assets (% of FUM)</b>	<b>3.8</b>	<b>2.8</b>	<b>3.0</b>	<b>4.0</b>

The Fund also has a 'co-investment model', which means that mortgages can be funded by more than one of the Fund's investment accounts. This decreases the average size of each account's investment and increases the total number of investments in each account. A default of a mortgage funded by more than one investment account would still affect investors in each account, but their loss of income would be limited to their proportional investment in that particular mortgage. Returns from other mortgages within the respective accounts would continue.

The Fund's total FUM have increased rapidly over recent years and reached \$9.7BN. Table 2 summarises the Fund's profile as at 30 September 2023, with comparative data dating back to September 2020.

## OWNERSHIP, PERFORMANCE, OUTLOOK

LFAM's ownership, performance and outlook provide robust support for LFAM's operational capability and, in turn, support for the Fund.

LFAM is wholly owned by La Trobe Financial Pty. Ltd. and forms part of the La Trobe Financial Group of companies. On 31 May 2022, entities associated with Brookfield Asset Management acquired the La Trobe Financial Group from its former shareholders. The LFG is now 100% owned by Brookfield. Brookfield is a leading global alternative asset manager with approximately US\$850BN of assets under management. In 2019, Brookfield acquired a majority stake in Oaktree Capital, one of the largest players in global private debt markets.

We regard this ownership structure as a credit-and-ratings positive for the operational capability of LFAM. It is perhaps telling of the nature of the relationship between the 2 parties that the transaction is described as a 'strategic relationship'. Clearly, it's in both parties' interests that the LFG continues its recent track record of very strong FUM growth. On this topic, we note that since the transaction, the LFG's growth has accelerated. As part of the transaction, there have been no material changes to the LFG's day-to-day operations, credit process or investment strategy. Chris Andrews, previously Deputy CEO, succeeded Greg O'Neill as CEO and 5 new board members were appointed to the board of the holding company (three Brookfield directors, two independents). 3 Blackstone Directors and the previous Managing Director, Greg O'Neill, retired from the company.

The LFG's key business as an asset manager and credit specialist is to originate loans and offer investors (institutional and retail) an opportunity to invest in those loans secured by registered mortgages and other credit assets.

The 2 relevant operating entities of the LFG are LFAM and La Trobe Financial Services Pty. Ltd. ('LFS'). LFAM is the Responsible Entity for the Fund. LFS is the Investment Manager for the Fund and is responsible for group administration and asset servicing, third-party outsourcing services, group insurance sales, and wholesale institutional funding mandates. LFAM and LFS each hold an Australian Credit Licence, and LFAM holds an Australian Financial Services Licence (AFSL).

The LFG provides reliable support to LFAM by sourcing sufficient and relevant mortgage assets to meet the Fund's asset requirements and investors' appetites.

LFAM's performance has been consistent and positively supports the Fund's constitution. The Fund had over \$9.7BN of FUM on 30 September 2023 across 7 investment products with approximately 93,000 retail and wholesale investors. The last 12 months have seen strong growth in AUM and investor numbers (+12,000 new investors) despite the macroeconomic headwinds. The Fund's growth profile is expected to remain strong over the next 12 months, partly given its continued expansion in its broker and financial advisor network (+900 new advisors). Not only has there been material growth, but there has been a material improvement in asset quality. This reflects the broader market footprint of the LFG over time, the discipline in borrower execution, and specifically LFAM's niche focus on the 'complex Prime' borrower cohort.

In relation to AUM volume and quality, LFAM has also been assisted by a contraction in the credit appetite of the banks. A combination of Basel III, macro-prudential regulation, and the Hayne Royal Commission have shifted banks' focus towards the cohort of vanilla prime loans. In short, this has led to an ever-increasing addressable market for LFAM.

On the topic of asset quality, we note that LFAM is taking particular care in the current environment, settling on particularly high-quality assets. We note that the quality of LFAM's borrowers closely tracks that of the Big 4 banks and is materially above the non-ADI lender peer average, as sourced from the independent data provider, Equifax.

Supporting this strong lending pipeline is LFAM's diverse funding, which is particularly important during periods of macro volatility. Maintaining this diversity has enabled LFAM to break through the funding capacity that constrained many other originators and is very important for LFAM's relationships with its network of third-party brokers.

LFAM has 3 key sources of funding:

- 1) It has strong relationships with institutional funding partners, both Australian and global financial institutions
- 2) LFAM is a regular issuer of Australian RMBS notes, typically issuing 2 to 3 per year
- 3) It has a fully scaled asset management business – that is, investor demand for its products – from one of the largest investor bases in the country

Foresight Analytics ranks LFAM's ownership, performance and outlook as **Superior**.

## EXPERIENCE AND SKILL OF MANAGEMENT AND STAFF

LFAM has been managing retail investment funds successfully for over 30 years within the broader group, which has been operating in the space since 1952. This success is attributable to a combination of factors, including the experience and culture of its people to undertake their respective roles ethically and in line with documented processes and procedures.

LFAM has 4 internal directors (Rowan Donohoue, Chris Paton, Martin Barry and Chris Andrews) and a majority-external Independent Compliance Committee (John Marriot, Chairman, Gerard Parlevliet and Chris Paton). Though aspects of LFAM's operations are overseen by each of La Trobe Financial's divisions, the retail funds management operations reside within the Asset Management Division, led by Chris Paton, Chief Investment Officer (joined La Trobe Financial in 2017).

The La Trobe Financial Group has a 59-strong executive team with a high average tenure, indicative of strong team stability.

The La Trobe Financial Group has continued to make new appointments (17 over the last financial year) to broaden the leadership team and internal expertise. Key appointments include Chris Andrews (Chief Executive Officer) and Chris Paton (Chief Investment Officer). The Asset Management Division continues to be supported by Gary Bell (Chief Liquidity Officer, joined 2019), Martin Barry (Chief Financial Officer, joined 2014), Michael Watson (Head of Distribution, joined 2013) and Sandy Singh (Head of Portfolio Management, joined 2011).

The LFG has a comprehensive succession plan to mitigate key person risk and minimise the risks associated with filling vacant roles. This was manifest in the promotions of several key executives over the last 12 months, including Chris Paton as CIO and Senior Vice President. Each key manager in the group is aware of the succession plan, which is reviewed regularly to ensure staff backup.

There is a clear separation of duties and responsibilities. Staff members are informed of all role requirements, procedures and processes at induction training and undertake ongoing training as required. Support is offered via access to relevant policy and procedure manuals as well as experienced team members. Internal firewalls are used to prevent conflicts of interest and other unethical activities. This segregation and rotation of duties remove single-point dependence.

The combination of skills and experience of the La Trobe Financial staff underlies LFAM's strong performance and is considered a **Superior** factor of LFAM's Operational Capability Assessment by Foresight Analytics.

## GOVERNANCE

LFAM has an executive board structure comprised of the CEO, CIO, CFO, and CO&RO, with a majority independent board structure, including 3 Brookfield directors, being in place at the ultimate LFG holding company level. Over the last 12 months, we noted the appointment of 2 new independent and highly experienced non-executive directors, Arlene Tansey and Dr Brett Cairns. The LFG board is supported by a number of committees, particularly the Board Audit & Risk Committee, the Board Remuneration & Nomination Committee, the Board Operating Committee and the more recently formed Board Operating Committee. The latter comprises the 3 Brookfield directors who meet with the management team monthly to deal with the operating matters of the business. These 4 committees are in addition to the LFG's management committee structure.

The La Trobe Financial Group has no formal internal or external Board performance processes. Still, discussions about ongoing improvement occur in practice and are expected to be formalised over time as a part of the remit of the Board Remuneration & Nomination Committee.

The LFAM Board is supported by an independent Compliance Committee in accordance with the requirements of the Corporations Act 2001, given the nature of its role as RE of the Fund. The CIO sits on the Compliance Committee, along with 2 external members who are classified as independent directors on the LFG's holding company board.

In addition, the La Trobe Financial Group has a mature management committee governance and an oversight structure in place, including an Executive Committee (ExCo), Origination and Credit Committee (OCC), Asset and Liability Committee (ALCO), Audit and Risk Committee (ARC), IT and Data Committee (ITDC), Remuneration Sub-committee, Large Loan Sub-Committee (LLC) and Special Servicing Sub-committee (SSC). LFAM is subject to the LFG's policies that stem from these committees. Independent board directors attend these committees from time to time.

Over the last 12 months, the LFG has been closely attuned to all things in relation to its design and distribution obligations, which is currently an area of focus for ASIC. The LFG has received external legal advice from 2 parties to ensure it is maintaining the highest standard in the marketplace. The focus here has been on the LFG's Target Market Determination guidance and ensuring they are appropriately designed for the regulatory environment.

Foresight Analytics ranks Governance as **Very Strong**, owing to its clear direction and supportive framework through which LFAM can operate prudently.

## RISK MANAGEMENT AND COMPLIANCE

Foresight Analytics ranks LFAM's Risk Management and Compliance policies and procedures as **Very Strong**. In line with the policies of the wider La Trobe Financial Group of companies, LFAM has established clear, consistent, and prudent processes to ensure that its operations as RE are in accordance with legal, regulatory, and licensing requirements. Furthermore, LFAM maintains regular monitoring and reporting of all its risks and undertakes periodic reviews for improvement, ensuring accountability and tie-in of its senior managers.

The Fund has a Compliance Plan that sets out the key processes, systems, and structures that LFAM (and its contracted parties) must follow. The Fund Compliance Plan aims to ensure the protection of all Fund members and compliance with the Fund's constitution, AFS Licence and Corporations Act 2001. It has been prepared following ASIC's Regulatory Guide 132 – Managed Investments: Compliance Plans. The Plan sets out reporting obligations for compliance and non-compliance. Moreover, it specifies what compliance is required for the key facets and risks of managing the Fund, and how and by whom that compliance is monitored and reported. The Plan is updated annually.

Adherence to the Plan is monitored through a system of certifications and random reviews of internal files and business practices. The Plan and its compliance are audited annually by the external auditor, and any material breaches must be reported to the Compliance Committee and ASIC.

LFAM's approach to risk management is in accordance with the La Trobe Financial Group's Risk Management Policy. All material risks must be recorded in the group risk register, which is supported by business-unit-level risk registers and reviewed annually through risk workshop processes.

La Trobe Financial has implemented the Protecht governance, risk, and compliance system to support the implementation of its risk and compliance frameworks and automate the attestation and reporting processes.

The Chief Operating & Risk Officer, Rowan Donohue, joined the La Trobe Financial Group in 2009 as Chief Legal Counsel. The CO&RO is supported by Rick Drury, Deputy Chief Risk & Assurance Officer, Ken Lin, Chief Legal Counsel, and Brian Makuluni, Head of Internal Audit, with a team of over 26 personnel in the legal, compliance, risk & assurance and internal audit functions.

The Head of Internal Audit directly reports to the LFAM Compliance Committee and the Board Audit and Risk committees. The CO&RO also has direct reports across customer operations, asset management (i.e. mortgage help) and collections.

La Trobe Financial has undertaken detailed benchmarking of its risk management framework against ASIC Regulatory Guide 259 Risk Management (RG 259) and APRA Prudential Standard CPS 220 Risk Management (CPS 220) to strive for better practice in this respect. During 2020, an independent review of the adequacy and effectiveness of the risk and compliance frameworks was undertaken, with no material weaknesses being identified.

### INVESTMENT MANAGEMENT

Despite the challenges of investing in the near-prime mortgage market, LFAM's appointment of LFS (an experienced specialist lender who originates over \$17BN of loan applications annually) as the Investment Manager has proven effective in matching investments to the Fund's requirements.

LFAM has demonstrated continued strong investment performance of the Fund relative to its benchmark returns over recent years, including throughout the COVID-19 pandemic. The 12 Month Term Account achieved a return of 5.95% p.a. compounded over the year to 30 September 2023, outperforming the Bloomberg Ausbond BBI + 1.5% benchmark by 0.83% p.a. The Classic Notice Account achieved a return of 4.44% p.a. compounded over the year to 30 September 2022, with outperformance of the Official Cash Rate + 0.5% benchmark by 0.33% p.a.

LFS' role as Investment Manager is outlined under a commercial agreement with LFAM. The agreement outlines the management services required by the Responsible Entity for the retail fund. It is linked to the Fund Constitution and the Fund Compliance Plan to ensure LFS undertakes its services with a focus on supporting LFAM in achieving the relevant objectives of the Fund. LFS has no right to terminate the agreement but can retire by giving 3 months' notice.

LFS manages not only the assets of the Fund but also the group's institutional funds. It has demonstrated a good operating capability, contributing to the La Trobe Financial Group's successful track record of 70 years, covering many economic cycles, including the financial crisis of 2008 and the COVID-19 pandemic. The key to LFS's sound operation is the experience and knowledge of its management, together with its approach to choosing the right investments to match investor appetite.

LFS' approach in undertaking its investment management role is aligned with the Fund's general investment mandate and the specific investment mandates of each account within the Fund.

LFS undertakes its own credit analysis of each loan application. When assessing a loan application, there are 2 questions that LFS must positively satisfy:

1. Does the asset meet its lending criteria?



## 2. Is the loan suitable for inclusion in the Fund?

The decision-making for these 2 assessments is undertaken by separate teams. If the loan satisfies the credit lending criteria, it will be reviewed by the Portfolio Management team in light of the funding appetite, investment mandate and existing allocations. If the loan applications do not meet both requirements, the loans are declined.

LFS has allocated responsibility for different stages of its asset origination to different teams. One team is responsible for originating loans, another for underwriting the risk of loans, a third for documenting the loan, and the fourth for closing loans and advancing monies to borrowers. This segregation of responsibilities maintains the independence of each team and can help to mitigate fraud and conflicts of interest.

Property valuations are undertaken only by external valuers that form part of La Trobe Financial Group's Panel of Valuers. All valuations are conducted by independent property valuations, with each mortgage asset subject to a full 'turn-key' valuation.

Substantial focus is placed on the performance of assets. The Mortgage Help Team is responsible for all credit management and negotiations with arrears control and loan workouts and reports significant matters to the board quarterly.

Foresight Analytics periodically monitors the Fund's levels of arrears as an indicator of LFAM's ongoing capability to execute its role. Given the nature of the specialist mortgages within the Fund, the Fund is exposed to a higher level of loan arrears than industry averages for prime residential mortgages. However, the Fund's levels of arrears are comparable to arrears on non-conforming loans in the market. As at 30 September 2023, total loan arrears were at 3.8% of FUM for the 12 Month Term Account and 3.5% for the Classic Notice Account.

LFAM has also managed any shortfalls arising effectively, with no investors in any of the Fund's portfolio accounts incurring any capital losses since inception. Shortfalls have been relatively low and met through cash holdings or the Investor Reserve. Over the last ten years, shortfalls on loans in the 12 Month Term Account have averaged 0.08% per annum, and in the Classic Notice Account, 0.14% per annum. Investors in the Classic Notice, 90 Day Notice, 6 Month Notice, 12 Month Term and 2 Year Accounts benefit from an Investor Reserve maintained by the Responsible Entity. In the case of the 12 Month Term Account, the Investor Reserve represents the difference between earnings on the pool of mortgages and income payments to investors after the management fee (a fixed 0.25% contribution is made in relation to the balance of those accounts with an Investor Reserve during their establishment phase, and as determined by the Asset & Liability Committee otherwise in accordance with the LFG's Investor Reserve Policy Statement). This Investor Reserve provides 3 levels of accumulated support to investors. The first is to provide income smoothing between different interest periods, thereby providing stable income paid to investors monthly. The second is that it can be called upon to make good any decline in the value of the assets, thereby covering any capital losses. Finally, it provides a more equitable matching of the risk and reward profile of the investment account over time.

LFS undertakes its role effectively and identifies assets with qualities that match Fund requirements and investors' risk appetites. The formal and clear segregation of duties in originating, pricing, and documenting loans and valuing properties are key factors supporting the ranking. Loan arrears and shortfalls require continued prudent management and review to protect Fund investors' capital and expected return.

## ESG CONSIDERATIONS

Broadly speaking, La Trobe Financial Group has made significant progress in the development and implementation of a comprehensive ESG framework in recent years and, to a degree, unmatched in the non-bank lending segment. We would also note that LFS has now integrated ESG risk into its 6 risk buckets and into the broader risk taxonomy for the LFG.

We detail a number of the initiatives in each of the 3 'silos' below.

### Environmental

La Trobe Financial Group considers the environmental component in 2 parts: its corporate environment and its lending processes.

In relation to the former, in 2020, the LFG announced and implemented a carbon audit process with the objective of achieving carbon neutrality. In 2021, it achieved that goal and was certified as such by Carbon Neutral in 2022. The LFG continues to believe that there are opportunities for further progress in sustainability via renewable energy, supply-chain efficiencies and recycling initiatives. To that end, the LFG has initiatives in flight for each of these objectives in 2023 and beyond.

LFG is actively innovating and seeking to drive investor demand for green products. In 2021, it established a task force for the establishment of green loans and green RMBS bonds. It has developed a Sustainability Bond Framework and Sustainability Mortgages Framework, which provide a pathway towards the development of green mortgage products and green assets for investment. The Sustainability Bond Framework and the Sustainability Mortgages Framework complement La Trobe Financial's ESG framework together with other ESG-related frameworks governing different business functions of the La Trobe Financial Group.

Turning to the environmental impact on the LFAM portfolio, the main issue is the risk of natural disasters affecting the collateral value of any given property. When disasters occur, new valuation reports are expected to be extremely conservative in areas affected by natural disasters until a new

market level is established. Damage caused by bushfires and floods are typically covered by building insurance provided by all major insurers in Australia. But insurers are increasingly stepping away from certain areas deemed high-risk. The risk is potential buyers not being able to gain finance, assets becoming 'stranded' and a consequent downward adjustment in property prices.

The 'good news' from a LFAM perspective is that the impact of any natural disasters on its loan portfolios has historically been low and is expected to stay that way since LFAM's lending activities focus on metro areas near the major cities, and natural disasters tend to occur in regional areas. The proportion of metro loans in the LFG's recent RMBS issuances is higher than the market average and is noted by rating agencies as one of its credit strengths. The non-metro portion of the LFG's residential mortgage pools is spread across different states and territories, limiting the exposure to any region-specific natural disasters. LFAM's maximum LVR is 80%, and the LFG apply a lower LVR based on security location and population. An LVR cap of 75% exists for residential rural loans.

LFAM's borrowers must provide a copy of their building insurance certificate of currency with LFAM noted as the interested party before their loan can proceed to settlement. Insurance expiry dates are recorded in LFAM's core system. A designated insurance team regularly reviews the insurance expiry dates and reminds borrowers to renew when necessary. LFAM also carries an umbrella mortgage impairment policy, which provides cover for instances where the borrower has failed to renew insurance, but LFAM was not on notice regarding this expiration. When damages occur, insurance claims are paid to LFAM with funds disbursed to assist in reconstruction or to pay down debt where the borrower does not wish to reconstruct. In the event of a subsisting loan default, LFAM will hold these funds.

More broadly, we note the impressive degree of analysis LFAM has conducted in relation to Value-at-Risk (VaR) data published by the RBA. This analysis indicates a decline in house prices due to climate risks. It concludes that only \$48M of LFAM's current portfolio should be considered high risk due to associated climate change risks.

In assessing environmental risks to property values, LFAM utilises a series of screens to decide whether to extend financing. Natural disasters such as flood, fire, wind, desertification, rising sea levels and extreme heat are all taken into consideration. Industry impacts, such as exposure to tourism, hospitality and mining, are also factored into the screening process.

### **Social**

The social component can also be divided into 2 parts: the LFG's corporate activities and its lending practices.

In relation to the former, the LFG supports a range of charities, foundations and social causes. A comprehensive list can be found on the LFG's website under the ESG section. Additionally, and as expected, there is a commitment to inclusion and diversity in relation to the LFG's employment policies.

In terms of lending, its social license is largely gained by serving an under-serviced borrower cohort, specifically servicing many credit-worthy borrowers who are often overlooked by mainstream lenders. These borrowers often fail conventional bank lending criteria due to factors such as bank appetite, the credit profile of the borrower, the form of income verification, the borrower's age, past minor default history due to missed bills, the borrower's newly employed status or recent arrival into Australia. However, these borrowers have proven to be a strong, reliable and low-default asset class, as evidenced by the LFG's financial results over successive years.

The LFG has shown a commitment to offering market-leading solutions to customers whose needs are not met by the traditional banking sector. Examples include pioneering Lite Doc® lending in Australia in 1990 and recognising frontline emergency service workers in 2020 with its Everyday Heroes Loan.

### **Governance**

Governance was covered above in detail, but just to close the loop, we summarise that the LFG's governance framework is particularly strong. It benefits from an investment manager that has been lending for over 7 decades, a particularly experienced and qualified board, and a very strong culture of compliance organisation-wide.

## **FUND LIQUIDITY**

The illiquid nature of the Fund's assets can expose investors to high risk. However, LFAM has continued to meet its ongoing liquidity needs, maintain additional asset reserves, and preserve investors' capital.

Fund liquidity is managed in accordance with the Fund's Constitution and investment mandates and more than meets its current regulatory requirements. The illiquid nature of the Fund assets can pose a liquidity issue if investors are seeking withdrawal from the Fund. However, LFAM has clearly spelt out members' rights to withdraw from the Fund in the Fund's Constitution and PDS. In the circumstance where the Fund is not liquid, LFAM has the right to suspend redemption requests.

From a liquidity perspective, the Peer-to-peer Select Investment Account carries the least liquidity risk for the Fund, given that investors have no right of early withdrawal (matched to loan term investment) from the underlying mortgage assets. The Fund's Product Disclosure Statement informs

all investors that withdrawals are not available for Select Investment investors during the agreed term of each selected asset. Liquidity in this investment account simply lies with the borrower's legal obligation to repay the loan. The Fund does not have to provide any further liquidity. When a loan matures, investors are legally entitled to redeem their investment, subject to the borrower repaying the loan.

From a process perspective, LFAM has a designated team of 3 people solely focused on liquidity management, led by the Chief Liquidity Officer, Gary Bell. Every day, this team presents a liquidity forecast for the next 24 hours, 48 hours, and the next fortnight. At 11am, the team will meet with the Treasury team to discuss liquidity positions and any actions that may be required. There has been an enhancement and streamlining to the forecasting process over the last 12 months, specifically migrating from what was a manual input process (more prone to human error and more time-consuming) to a new automated process managed through Anaplan, allowing the team to focus on more value-add tasks in relation to liquidity management.

## ASSET AND DATA SECURITY

LFAM has appointed Perpetual Corporate Trust Limited as custodian for the Fund's mortgage investments. The Custodian Agreement is a commercial agreement between the 2 parties that incorporates the matters required by ASIC Regulatory Guide 133 (Managed Investments: Scheme Property Arrangements).

The custodian holds all the certificates of title of the mortgaged properties in a dedicated vault located on Collins Street, Melbourne. LFS audits security packets to ensure that the packets are physically held and that the security seals on the packets have not been tampered with.

Part of the Fund Compliance Plan requires the performance of Perpetual as custodian to be overseen and reported on periodically. Perpetual prepares a quarterly Custodian's Compliance Report detailing insurance coverage, adherence to RG 133, and service standards for safeguarding Fund property. The Compliance Plan Auditor will review these records as part of its audit of the Plan. In addition to this, Perpetual has its annual reporting requirements under GS007.

The group has a privacy policy and physical access controls in place to safeguard the security of personal and confidential data stored at office premises. The strengths of La Trobe Financials' cyber security arrangements are considered within the data systems and technology component.

Foresight Analytics considers the asset and data security measures implemented by LFAM to be **Very Strong**, driven by the comprehensive audit and oversight of the activities of the independent custody service provider, supported by the group's in-house custody experience and expertise.

## DATA SYSTEMS AND TECHNOLOGY

Information Technology (IT) software is wholly owned by La Trobe Financial, and its IT requirements are managed in-house. The newly minted Business Optimisation Division is headed by Rob Clough (SVP – Chief Business Optimisation Officer). The division has a laser-like focus on all things data and data integrity.

The Fund administration system, called PASSPORT, handles all daily data processing for the Fund and maintains the data required to service the investors in the Fund. This software is separate from all other accounting applications of the Investment Manager and the Responsible Entity.

LFS uses a proprietary borrower system called CLASS to record, track, and monitor all servicing assets. An account number is allocated to each borrower during their loan assessment and serves as their unique identifier for the duration of the loan.

The IT platform assists with risk management and compliance. The system contains a specially designed compliance to ensure all mortgage portfolios satisfy commercial, regulatory, and corporate policy obligations. Internal auditors also test these controls regularly, while external auditors test the controls annually.

La Trobe Financial continues to invest in developing its data systems and technology, with Apply Online and IDYou DigiDocs being implemented in 2020 as third-party platforms to assist with the full, direct and intermediate loan application process. In late 2023, the business implemented 'LOIS' (Loan Origination & Information System), its proprietary loan origination workflow tool which is expected to deliver time efficiencies in the loan assessment process. Additional internal business intelligence resources were also appointed in 2019. The LFG has implemented a treasury management system to assist with the management of its LFG Treasury function, transitioning away from its former manual spreadsheet approach. La Trobe Financial has a documented technology roadmap to guide its ongoing technology development process.

Backup and disaster recovery procedures are in place and are regularly tested and documented. Detailed policies and procedures concerning disaster recovery and business continuation have been developed by LFS and reviewed by LFAM. Testing under a disaster scenario concludes that LFAM can continue its operations from the Sydney office or its disaster recovery centre provided by Interactive Systems Availability, located in Port Melbourne, with minimal disruption to business should the Head Office in Melbourne be disrupted. The business continuity, disaster recovery, and pandemic plans have all been recently tested and have stood up well, with no significant improvement opportunities being identified.



La Trobe Financial has undertaken extensive benchmarking analysis against relevant industry standards, including ASIC Report 429 Cyber Resilience (Report 429) and Australian Prudential Regulation Authority (APRA) standards and prudential practice guides, even though La Trobe Financial is not subject to APRA supervision. This includes APRA Cross Industry Prudential Standard 232 Business Continuity Management (CPS 232), CPS 234 Information Security (CPS 234), Cross Industry Prudential Practice Guide 234 Management of Security Risk in Information and Information Technology (CPG 234), and CPG 235 Managing Data Risk (CPG 235). This benchmarking shows a systems and risk controls environment of high standard and professionalism.

LFS considers cyber security its primary source of business risk and describes its focus on protecting data as 'laser-like'. The La Trobe Financial Group works with 'white hat' hackers to test the cybersecurity system quarterly. It also uses UpGuard's services to independently assess LFAM's cybersecurity capabilities. UpGuard has rated LFAM's capabilities higher than any other non-bank lender in the domestic market. LFS also keeps a watch on all relevant third-party service providers, with which, upon LFAM's instructions, UpGuard will also rate. All relevant third-party providers must score above a specified level.

Foresight Analytics' assessment of LFAM's Systems Technology as **Very Strong** reflects the following key aspects:

- Complementary yet independent in-house computer systems to store and match asset information and investor data
- Formal, consistent security processes and protocols to manage relevant systems and data risks
- Sound business continuity practices that are tested annually to ensure they meet LFAM's prescribed operational requirements and principles
- Comprehensive and industry-benchmarked cyber risk management systems supported by internal specialist resources

## FINANCIAL ADEQUACY AND STABILITY

Foresight Analytics ranks LFAM's financial viability and stability as **Superior**. LFAM has demonstrated sound financial performance and continually manages its finances to ensure all regulatory requirements are satisfied and to protect investors' returns. LFAM benefits from the financial strength and support of the wider La Trobe Financial group. Unlike most other non-bank lenders in the residential mortgage sector, which are ex-growth, LFAM continues to go from strength to strength. We also note the net interest margin (NIM) LFAM recorded over the last 12 months in contrast to the widespread compression recorded in the sector (including the Big 4 banks).

As of 30 September 2023, the Fund's FUM reached over \$9.7BN, up 17% year-on-year. Strong growth in revenue and net profits was achieved in the 2023 financial year, as shown in Table 3 below. Financial accounts for the Fund and LFAM for the year ended 30 June 2023 have been audited with no qualifications.

**Table 3: Key Financial Statistics – La Trobe Financial Asset Management (\$ million)**

Financial Year	2023	2022	2021	2020	2019	2018
Gross Revenue	290.9	195.4	134.4	135.9	104.0	67.9
Total Expenses	154.7	110.9	87.7	81.0	70.6	45.2
Net Profit After Tax	95.4	58.1	32.7	38.4	23.4	15.9
Total Assets	91.0	61.3	68.6	52.3	50.0	33.6
Total Liabilities	37.5	22.7	27.5	24.0	23.6	15.6
Equity	53.4	38.6	41.0	28.3	24.4	17.9

Owing to LFAM's reliance on LFS as an Investment Manager, Foresight Analytics also assessed the financial adequacy and stability of LFS. Foresight Analytics is satisfied that LFS can financially support and fulfil its role over the medium term.

## CONTACT DETAILS

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## OPERATIONAL CAPABILITY ASSESSMENT RANKING SCALE

Assessment	Definition
Superior	An assessment of 'Superior' reflects the superior capacity of an operating party to perform its operational role and assist the issuer or fund to meet financial obligations in a timely manner. An operating party's superior capacity is supported by many superior and reliable operational abilities and strong financial status.
Very Strong	An assessment of 'Very Strong' reflects the very strong capacity of an operating party to perform its operational role and assist the issuer or fund to meet financial obligations in a timely manner. An operating party's very strong capacity is supported by many very strong and reliable operational abilities and some superior qualities.
Strong	An assessment of 'Strong' reflects the strong capacity of an operational party to perform its operational role and assist the issuer or fund to meet financial obligations in a timely manner. An operating party's strong capacity is supported by many strong and reliable operational abilities and some very strong qualities.
Adequate	An assessment of 'Adequate' reflects the adequate capacity of an operational party to perform its operational role and assist the issuer or fund to meet financial obligations in a timely manner. The operating party's adequate capacity will support its role, but its resilience to expected operational or financial changes is limited.
Weak	An assessment of 'Weak' reflects the weak capacity of an operational party to perform its operational role and assist the issuer or fund to meet financial obligations in a timely manner. The operating party's weak capacity displays material, operational, financial or risk management and compliance deficiencies.
Failure to perform	Assigned when a party contracted to perform an operational role has failed to meet the required standards and terms and conditions of the contract.