



# La Trobe Australian Credit Fund – 12 Month Term Account

This report has been prepared for financial advisers only



**Outstanding**

April 2023

# INTRODUCTION

## Key Principles

SQM Research considers (but is not restricted to) the following key review elements within its assessment:

1. Business profile - product strategies and future direction
2. Marketing strategies and capabilities, market access
3. Executive Management / Oversight of the investment management firm
4. Corporate Governance / fund compliance / risk management
5. Investment team and investment process
6. Fund performance, investment style, market conditions, investment market outlook
7. Recent material portfolio changes
8. Investment liquidity
9. Investment risks
10. Fund/Trust fees and expenses

## Currency of Reports

This Research Report is current as at the date on the report until it is replaced, updated or withdrawn. SQM Research reports are generally valid for a term of approximately 12 months but may be replaced, withdrawn or changed at any time as judged appropriate by SQM Research.

## Star Rating\*

Investment products are awarded a star rating out of a possible five stars and placed on the following website:  
[www.sqmresearch.com.au](http://www.sqmresearch.com.au)

Star Rating*	Description	Definition	
4½ stars and above	Outstanding	<b>Highly suitable for inclusion on APLs</b> <i>SQM Research believes the Fund has considerable potential to outperform over the medium-to-long term. Past returns have typically been quite strong. Product disclosure statement (PDS) compliance processes are of a high-calibre. There are no corporate governance concerns. Management is extremely experienced, highly skilled and has access to significant resources.</i>	High Investment grade
4¼ stars	Superior	<b>Suitable for inclusion on most APLs</b> <i>SQM Research considers the Fund has substantial potential to outperform over the medium-to-long term. Past returns have tended to be strong. PDS compliance processes are high-quality. There are no material corporate governance concerns. Management is of a very high calibre.</i>	High Investment grade
4 stars	Superior	<b>Suitable for inclusion on most APLs</b> <i>In SQM Research's view, the Fund has an appreciable potential to outperform over the medium-to-long term. Historical performance has tended to be meaningful. PDS compliance processes are strong. There are very little to no corporate governance concerns. Management is of a high calibre.</i>	High Investment grade
3¾ stars	Favourable	<b>Consider for APL inclusion</b> <i>SQM Research concludes the Fund has a moderate potential to outperform over the medium-to-long term. Past performance has tended to be reasonable. Management is experienced and displays investment-grade quality. There are no corporate governance concerns, or they are of a minor nature.</i>	Approved
3½ stars	Acceptable	<b>Consider for APL inclusion</b> <i>In SQM Research's view, the potential for future outperformance in the medium-to-long term is somewhat uncertain. Historical performance has tended to be modest or patchy. Management is generally experienced and capable. SQM Research has identified weaknesses which need addressing in order to improve confidence in the Manager.</i>	Low Investment grade
3¼ stars	Caution Required	<b>Not suitable for most APLs</b> <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is very uncertain. Historical returns have tended to be disappointing or materially below expectations. PDS compliance processes are potential substandard. There are possible corporate governance concerns. Management quality is not of investment-grade standard.</i>	Unapproved
3 stars	Strong Caution Required	<b>Not suitable for most APLs</b> <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is unlikely. Historical performance has tended to be unacceptable. There may be some material corporate governance concerns. SQM Research has a number of concerns regarding management.</i>	Unapproved
Below 3 stars	Avoid or redeem	<b>Not suitable for most APL inclusion</b>	Unapproved

Event-driven Rating	Definition
<b>Hold</b>	<i>Rating is suspended until SQM Research receives further information. A rating is typically put on hold for a period of two days to four weeks.</i>
<b>Withdrawn</b>	<i>Rating no longer applies. Significant issues have arisen since the last report date. Investors should consider avoiding or redeeming units in the fund.</i>

\* The definitions in the table above are not all encompassing and not all individual items mentioned will necessarily be relevant to the rated Fund. Users should read the current rating report for a comprehensive assessment.

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SQM Research has received a fee from the fund manager for this report and rating.

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This advice will not take into account you, or your clients, objectives, financial situation or needs and will not be provided in respect of any other financial products. Accordingly, it is up to you and your clients to consider whether specific financial products are suitable for your objectives, financial situations or needs.

**Report Date: 28 April 2023**

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**SQM Rating** ★★★★★

*Outstanding. Highly suitable for inclusion on APLs.*

<b>Fund Description</b>	
Fund Name	La Trobe Australian Credit Fund - 12 Month Term Account
APIR code	LTC0002AU
Asset Class	Mortgage Trusts (Pooled) / Fixed Interest
<b>Management and Service Providers</b>	
Fund Manager	La Trobe Financial Services Pty Limited
Responsible Entity	La Trobe Financial Asset Management Limited
<b>Fund Information</b>	
Fund Inception Date	1 Oct 2002
Fund Size	\$7.05 billion (Dec. 2022)
Return Objective (as per PDS)	Exceed benchmark with regular stable returns
Internal Return Objective	As above
Risk Level (per PDS)	Low to Medium
Internal Risk Objective	Not Applicable
Benchmark	Bloomberg Ausbond Bank Bill Index + 1.5%
Number of Loans/positions	Approximately 10,500-11,000 loans
Fund Leverage	Not Applicable
Turnover	Not Applicable
Top 10 Holdings Weight	Approximately 2-3%
<b>Investor Information</b>	
Management Fee	1.80% p.a.
TCR (Total Cost Ratio)	1.52% p.a. (30 June 2022)
Buy Spread	Not Applicable
Sell Spread	Not Applicable
Performance Fee Rate	Not Applicable
Minimum Application	\$10
Redemption Policy	30 days written notice is required, prior to the maturity date. Refer to the PDS for details.
Distribution Frequency	Monthly
Investment Horizon (per PDS)	12 months
Currency Hedging Policy	Not Applicable

## SUMMARY

### Fund Summary

#### Description

The **La Trobe Australian Credit Fund – 12 Month Term Account (the “Fund”)** is an open-ended unlisted Mortgage Fund.

The La Trobe Australian Credit Fund (the umbrella fund) offers investments in **7** structured Investment Accounts, with exposure to loans secured by registered first-ranking mortgages over real property in Australia. In this report, SQM Research will be reviewing one of those 7, the La Trobe Australian Credit Fund – 12 Month Term Account (the Fund). **All key Fund statistics in this report will refer to the ‘12 Month Term Account’.**

The investment objective of the Fund is to provide investors with regular income streams coupled with low-to-medium levels of risk while aiming to outperform the **Bloomberg AusBond Bank Bill Index (BAUBIL) by 1.50%**. The objective is to be fully invested in an appropriately diversified portfolio of mortgages offering an alternative rate of return to investors.

The Fund is a **Pooled Mortgage scheme** aimed at investors seeking exposure to mortgage loans. All underlying loans in the Fund are registered **first mortgages** spread across the major property sectors, including Commercial, Retail, Industrial, Residential, and Development Finance.

Unlike the traditional Mortgage Trusts, investors with an interest in the Fund hold their interest as ‘tenants in common’. Instead of a unitised structure, an investor’s interest is simply recorded as a dollar amount and not as units at a par value of \$1.00. The investment term of the Fund is set at **12 months**.

Loans made by the Fund are primarily short-term, interest-only and are assessed in accordance with the Fund’s standards. A majority of loans are assessed on an **Alternative Income Verification (AIV)** basis. La Trobe believes it can deliver superior returns due to a constant flow of mortgages through the larger La Trobe Financial Services Group operations, its diverse range of mortgage origination sources and its disciplined approach to the underwriting of loans.

### Fund Rating

The Fund has achieved the following rating:

Star Rating	Description	Definition	Investment Grading
<b>4.50 stars</b>	<b>Outstanding</b>	<b>Highly suitable for inclusion on APLs</b>	<b>High Investment Grade</b>

**Previous Rating: 4.50 stars (Issued March 2022)**



### SQM Research’s Review & Key Observations

#### 1. People and Resources

##### About the Fund Manager

La Trobe Financial Group was founded in **1952** and since then has operated with a focus on Asset Management, specialising in mortgage credit. La Trobe manages about **\$17 billion** in AUM and employs more than **500** staff members, spread across its head office in Melbourne and offices in Sydney and Shanghai.

Corporate update (as noted last year): “On **19 March 2022**, La Trobe Financial announced that its shareholders (Blackstone and interests associated with outgoing CEO, **Greg O’Neill OAM**) had agreed to sell 100% of the business to global alternative asset manager, **Brookfield**. Deputy CEO and long-standing Chief Investment Officer, **Chris Andrews**, will be succeeding Greg O’Neill OAM as CEO with full effect on completion. Other than this long-anticipated CEO succession and transition of shareholder Board representatives, no changes are expected to the business, its strategy or operations as a result of this transaction.” **This transition was completed in 2022, as planned, with Chris Paton succeeding Chris Andrews as Chief Investment Officer, and SQM Research notes that there have not been any material changes to the business.**

LFS, as the investment manager, maintains its own Asset Management division with a well-resourced team. Products include Real Estate Credit (loans for properties), Fixed Interest & Investment Grade Credit, Funds Management and Insurance Services.

##### Investment Team

The Board of Directors of the La Trobe Financial Group has delegated the day-to-day management of the Fund to a formal executive committee structure comprised of **5 committees**:

1. Origination & Credit Committee
2. Asset and Liability Committee
3. Audit & Risk Committee
4. Executive Committee
5. IT & Data Committee

The investment processes in place at the Fund are designed to encourage team-based decision-making, effectively reducing the reliance on any one key individual. While the overall strategic decisions for the Fund are determined at the Board level, the responsibility

for ensuring that these decisions are implemented and maintained lies with the Origination & Credit Committee and the Asset and Liability Committee.

*Considering the investment/lending process and the size of the team, **SQM Research is of the opinion that the Key Person risk is 'low'.***

**2. Investment Philosophy and Process**

**Investable Universe**

The Fund primarily invests in short-term registered first mortgages. The Fund provides funding to all major property sectors, including Residential, Commercial, Retail, Industrial, Development Finance and Rural property. Mortgage loans are only made or acquired where a first mortgage security is held, generally with a maximum LVR of 75%, and where borrowers have demonstrated their ability to meet the loan commitments.

**Process / Philosophy / Style**

The Fund aims to provide consistent performance across a range of market conditions by ensuring that the Fund's mortgage portfolio is diversified across several elements, including sector, interest type, geographic location, and size.

Loans made by the Fund are primarily short-term, interest-only and are assessed in accordance with the Fund's standards. The majority of loans are assessed using an '**Alternative Income Verification (AIV)**' basis. AIV Documentation loans allow borrowers to provide alternative income verification, which is acceptable under responsible lending guidelines issued by ASIC (the national credit regulator). The Fund manager believes it can deliver superior returns due to a constant flow of mortgages through the larger La Trobe Financial Services Group operations, its diverse range of mortgage origination sources and its experienced approach to the underwriting of loans.

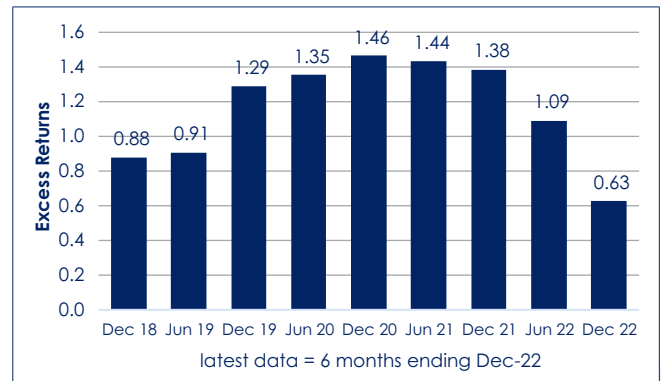
**3. Performance & Risk**

**Return Objective**

The return objective stated in the PDS is that the Fund aims to "outperform the Bloomberg Ausbond Bank Bill Index by 1.5%."

The Fund's formal benchmark is the **Bloomberg Ausbond Bank Bill Index + 1.5%**.

**Fund Excess Returns %: Half-yearly (net of fees)**



**Length of Track Record**

The Fund has a history of **20.2 years (since 2002)**. Observations and analysis of returns will have substantial statistical meaning as a result of the sample size of observations.

**Risk Objective**

The Fund's PDS states that the *indicative* risk level of the Fund is "Low to Medium".

*As a general comment on the sector, the true overall risk level in Mortgage Funds is determined by a range of risks, including (but not limited to): default/capital loss, liquidity, concentration, and interest rates risk. Advisers/ Investors should read the 'Risks' section of the PDS to understand those risks.*

*SQM Research holds the view that the low volatility of returns often displayed by Mortgage Funds should not be interpreted as implying that these Funds have a low level of risk. Low volatility of returns (in this sector) is an artificial construct caused by an absence of frequent mark-to-market valuation of a Mortgage Fund's assets and the accrual nature of these products.*

*Therefore, Fund metrics such as Volatility, Tracking Error, Information Ratio, and Sharpe Ratio add little statistical value (within the Mortgage Funds sector).*

**Performance**

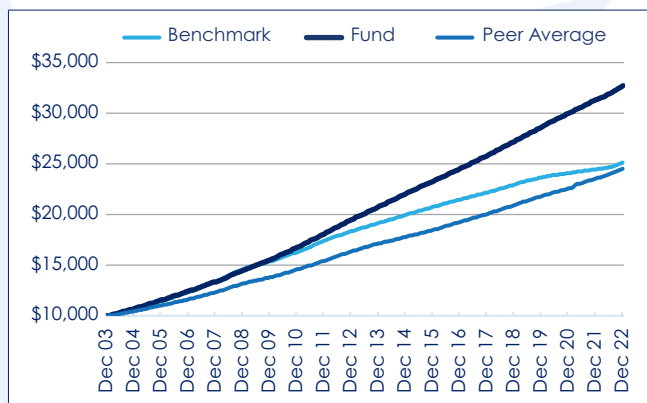
Fund Performance to 31 December 2022 (% p.a.)							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	0.46	1.36	2.55	4.52	4.55	4.84	6.45
Benchmark	0.37	1.12	1.92	2.77	2.05	2.53	4.99
Peer Average	0.37	1.18	2.26	4.15	4.64	4.83	3.23
Alpha	0.09	0.25	0.63	1.75	2.49	2.32	1.46

With dividends reinvested. Returns beyond one year are annualised. Return history starts Nov-2002

Benchmark: Bloomberg AusBond Bank + 1.5%pa AUD

Note: There may be very minor differences in the returns data, based on the rounding of numbers and the start date used.

**Growth of \$10,000**



**Strengths of the Fund**

- La Trobe Financial has built up a strong network, and a niche market in the Mortgage industry since 1952, particularly the lite-documentation (AIV) sector since 1990. The Group now has AUM of about **\$17 billion**. It is amongst the largest players in this sector, and one of the largest in the non-bank residential property lending space.
- The Fund is run by very knowledgeable and experienced staff, with access to various resources in the Real Estate Credit and Asset Management teams. The Group has over **500** staff members.
- The Fund is well diversified across geographical regions (states) and a very large number of borrowers.
- Arrears are managed effectively by working with the borrower and taking the required steps in order to bring them back in line with the payment schedule.
- AUM growth has been very strong.
- The Fund's (total) returns have been solid.

**Weaknesses of the Fund**

- The Fund is primarily involved in AIV documentation loans, which can have a negative perception regarding the quality of a borrower. However, the Fund's experience, track record and stringent criteria for such AIV borrowers since 1990, mitigates this risk.
- The Board of Directors of the Responsible Entity (La Trobe Financial Asset Management Limited) does not have any independent directors. However, the Compliance Committee is majority independent.

**Other Considerations**

- The Fund is a Pooled Mortgage Scheme.
- Some of the **Key Portfolio Metrics** (at the overall Fund level) as of **31 Dec. 2022** are:
  - AIV/Low-doc loans are about 64.3% of the book
  - Weighted Average LVR is about 63.6%
  - Loan maturity: about 19.4% of the book is <3 years and about 80.6% is >3 years
  - Interest rate type split is 90.4% Variable & 9.6% Fixed
  - Arrears / Non-performing loans (NPL) > 30 days are at 2.1% of the book or \$147 million (191 loans)
  - The residential sub-sector represents a large part of the book, at about 67.8%
- The minimum investment period is 12 months. If the investor wishes to withdraw their funds prior to the completion of the investment term, a fee may apply.



- The Mortgage Funds sector is dependent on certain key macroeconomic variables like economic growth (GDP), unemployment, and interest rates. Any significant deterioration in these variables can impact the property market and the borrower's ability to repay a loan.

### **Key Changes since the Last Review**

- No material changes to the investment process or the team since the previous review.



## Process Description

### Investment Process

#### Research and Portfolio Construction Process

#### Loan Origination

La Trobe Financial Group has established and developed relationships with some of the largest aggregation groups and recognised mortgage aggregators, such as AFG, PLAN, Fast, Connective, Lendi Group, Mortgage Choice and Smartline, covering over **3,400** finance brokers. Additionally, La Trobe Financial Group deals with approximately **60** directly accredited finance brokers. In total, La Trobe Financial Group has access to over **10,000** referral sources nationwide.

The amount of due diligence conducted on each broker before the establishment of the relationship is dependent on the referral source. La Trobe Financial Group will rely on the due diligence conducted on brokers by its mortgage aggregators while undertaking its own due diligence on directly accredited mortgage brokers not associated with larger mortgage aggregators. All brokers are required to be a member of the MFAA (Mortgage & Finance Association of Australia) and/or the FBAA (Finance Brokers Association of Australia), ensuring the meeting of appropriate standards of prudence and insurance.

La Trobe Financial Group continuously monitors and reviews the performance of the finance brokers by measuring the volume of applications received, loans settled and the performance of the loans. La Trobe Financial Group's Origination & Credit Committee oversees the client relationship program in conjunction with **Cory Bannister**, Chief Lending Officer, and a team of state-based Business Development Managers. Regular reports and reviews are provided to the Origination & Credit Committee to appraise the overall origination process.

#### Loan Approval

The lending process can be summarised in five steps.

1. *Initial Application* – Loans are traditionally sourced via independent mortgage brokers, mortgage aggregation groups and La Trobe Financials' dedicated sales and marketing team. The diverse loan origination sources ensure that the Fund is not highly dependent on a particular source.
2. *Loan Assessment* – Once relevant supporting documents and the loan applications are received, all documentation is verified by the underwriters of the Real Estate Credit team. The underwriter certifies that the loan has been assessed and complies with the 'loan acceptance' policies, which are built around the industry-standard "5Cs of Credit". This includes a credit check (through Equifax, Australia's largest credit bureau) on each borrower file and an assessment of the income and asset figures.
3. *Property Valuation* – an independent valuation is conducted by a member of La Trobe Financials' Panel of Valuers. La Trobe Financial staff do not conduct on-site visits. This is done through their independent and registered property valuers. La Trobe conducts interviews with all borrowers before issuing Letters of Offer. A further interview is also conducted post-approval at pre-settlement. Valuations from qualified and independent valuers are employed to ensure that property values are appropriate.

### Investment Process

#### Research and Portfolio Construction Process

...continued

4. *Final Check and Loan Approval* – An assessment is made as to whether the loan complies with the 'loan acceptance' policies. A recommendation is made by the underwriter of the Real Estate Credit team, who submits the application to the delegated approval officer. Each approval officer is delegated to approve loans up to a capped amount according to an approval sign-off matrix. La Trobe Financial has delegated responsibility for loan approval/rejection to delegated officers depending on each officer's loan approval experience. Each Approval Officer is delegated to approve loans up to a specified capped loan amount, based on the experience of the relevant credit analyst. No delegate has the authority to make further delegations. All loans or aggregate exposures to a borrower above **\$7.5 million** are considered and approved or rejected by the Group's Large Loan Sub-Committee, a sub-committee of the Origination and Credit Committee, which is comprised of the most senior credit staff at La Trobe Financial.
5. *Settlement* – The Settlement team is responsible for ensuring the transition of loans from approval to settlement. The timeline from approval to settlement is generally accepted to be 90 days, although it should be noted that some loans can settle earlier than this timeline, depending on the type and complexity of the loan. On approval of a loan application, the Fund will instruct an independent solicitor (from its panel of solicitors) to act in preparation, execution, and registration of security.

#### Valuation Standards

La Trobe Financial Group has specific guidelines that must be met before a valuer can become a member of the panel of valuers, including, the valuer must:

- Be a professional person currently registered with the Australian Property Institute ('API')
- Have specialised in their chosen field for at least five years
- Have academic qualifications relevant to the nature of the valuation work to be undertaken
- Either be or have access to directors and principals of the firm
- Be included on the panel of other major lenders (the other lenders are contacted when assessing inclusion on La Trobe Financials' panel to verify performance)

La Trobe Financial Group has an extensive valuation panel for both residential and commercial securities. The residential valuation process has been outsourced to ValEx, a company that provides valuation and process management services, including maintaining La Trobe Financials' own selected valuer panel. Commercial valuations are managed by La Trobe Financials' Real Estate Credit team. Commercial valuations of less than **\$3.0m** are instructed using Valocity, which is a Commercial Property Valuation Platform.

Final approval for appointment to the panel of valuers rests with the Chief Lending Officer, in conjunction with the Origination and Credit Committee. Any perceived conflict of interest would preclude a valuer's involvement in any particular transaction.

All valuations must conform to the La Trobe Financial Group's Standing Instructions. To ensure compliance with the Standing Instructions, all valuation reports must be completed using the Standard Ordering Form.

## Investment Process

### Research and Portfolio Construction Process

*...continued*

Once La Trobe Financial has received a valuation from a panel valuer, the specific underwriter, under a set of strict guidelines, will review it. Additionally, panel valuers must comply with the relevant practice standards.

It is important to note La Trobe Financial conducts a full credit assessment of every loan and does not rely on automated credit processing or desktop valuation.

La Trobe Financial conducts the management of all loan files in-house. Individual accounts for each loan approved are maintained on La Trobe Financials' proprietary computer system. Each loan account is continually managed on a day-to-day basis, ensuring the system is up to date, and information obtained from the system is in real-time.

La Trobe Financials' proprietary system allows it to target and review key elements of the Fund loan portfolio on an ongoing basis. These evaluations include detailed reviews regarding the ongoing performance and adequacy of the security of:

- All loans in arrears
- All expired loans
- All loans over \$7.5m (additional oversight by group Origination & Credit Committee)
- All loans under \$7.5m involving a borrower or guarantor to whom the La Trobe Financial Group has a greater than \$7.5m exposure (additional oversight by group Origination & Credit Committee)
- All construction and development loans

The Group's Special Servicing Sub-committee (a subcommittee of the Audit & Risk Committee) oversees the workout of any more complex arrears loans.

### Risk Management

#### General criteria

Funding will only be provided for first registered mortgages. The Fund will not undertake related-party lending.

Funding can be provided for both full documentation and AIV-documentation loans. AIV-documentation loans allow borrowers to provide alternative income verification, principally accountant certificates and six-month trading statements. Loans based on self-verification alone are outside the Fund's investment mandate. It should be noted that the alternative income verification used by the Fund is acceptable under responsible lending guidelines issued by ASIC as the national credit regulator.

Loans are provided on either a fixed or floating rate basis. The Board of Directors (Investment Committee) of La Trobe Financial determines the allocation range of fixed and variable rate mortgages based on investor appetite and endeavours to maintain the supply of quality loans through the provision of commercially competitive interest rates.

## Investment Process

### Research and Portfolio Construction Process

...continued

#### Maximum LVRs

LVR limits for asset classes generally range from 50% to 75%. Limits are specified below:

- Residential – 75%
- Commercial and Retail – 70%
- Industrial – 70%
- Rural – 55%
- Development Finance – 70%
- Vacant Land – 50%

#### Exposures

The Fund applies several constraints to minimise its risk exposure. They include:

- Maximum investment per loan - 2.50% of AUM
- Maximum loan period - up to 40 years (generally for residential loans)
- Target loan size
- Maximum exposure to Residential loans - 80%
- Maximum exposure to Vacant Land - 10%
- Maximum exposure to Commercial - 40%
- Maximum exposure to Industrial - 30%
- Maximum exposure to Rural - 15%
- Maximum exposure to Construction and Development - 15%

#### Arrears Management

The Mortgage Help team (formerly known as Asset Management) within the Risk & Governance division is responsible for all default management and negotiations with arrears customers and loan workouts. The team is led by the Head of Mortgage Help, **Jacqui Giuliani**, who are based in the Melbourne office.

SQM Research acknowledges that the Mortgage Help function is segregated from the Real Estate Credit division, with lending staff unable to make alternative repayment arrangements for borrowers experiencing difficulties. This acts as a strong risk measure in terms of arrears management.

The Fund defines arrears as a loan that is anything greater than \$0.01 short on the loan payment. Arrears are calculated by measuring the total amount of all outstanding interest and charges on all loans that are in arrears. The Fund will aim to recover the outstanding amount in full if arrears occur. If the full amount cannot be recovered immediately, the Fund will accept an arrangement for the balance to be paid over a period (ideally over a maximum of three months). If a borrower is unable or unwilling to enter into an acceptable repayment arrangement (or is unable to comply with an agreed-upon arrangement including, potentially, time to sell the security property to repay the debt), generally, legal action to recover will follow.

## Investment Process

### Research and Portfolio Construction Process

...continued

Non-performing loans are monitored daily, while a formal arrears report is provided to the Board on a quarterly basis.

The arrears management process is divided into **three** teams, all reporting through to the Head of Mortgage Help, **Jacqui Giuliani**, and in turn, to the Chief Operations and Risk Officer, **Rowan Donohoue**. The early arrears team (comprised of **17** team members) works on early intervention (generally zero to 90 days in arrears), with telephone calls and emails/letters aiming to bring the borrower up to date. If the loan does not cure, the loan in question is passed onto the second team being, Legal Action (**8** team members), which oversees the legal process that results in possession being taken, and MIP (Mortgagee In Possession) (**4** team members), who concentrate on managing the MIP process and sale of the property. Legal counsels then work with external solicitors on any remaining recovery issues, including proceedings against borrowers, guarantors, and relevant third parties, to recover any MIP shortfalls.

## Portfolio Characteristics

### Portfolio Turnover

Not Applicable

### Liquidity

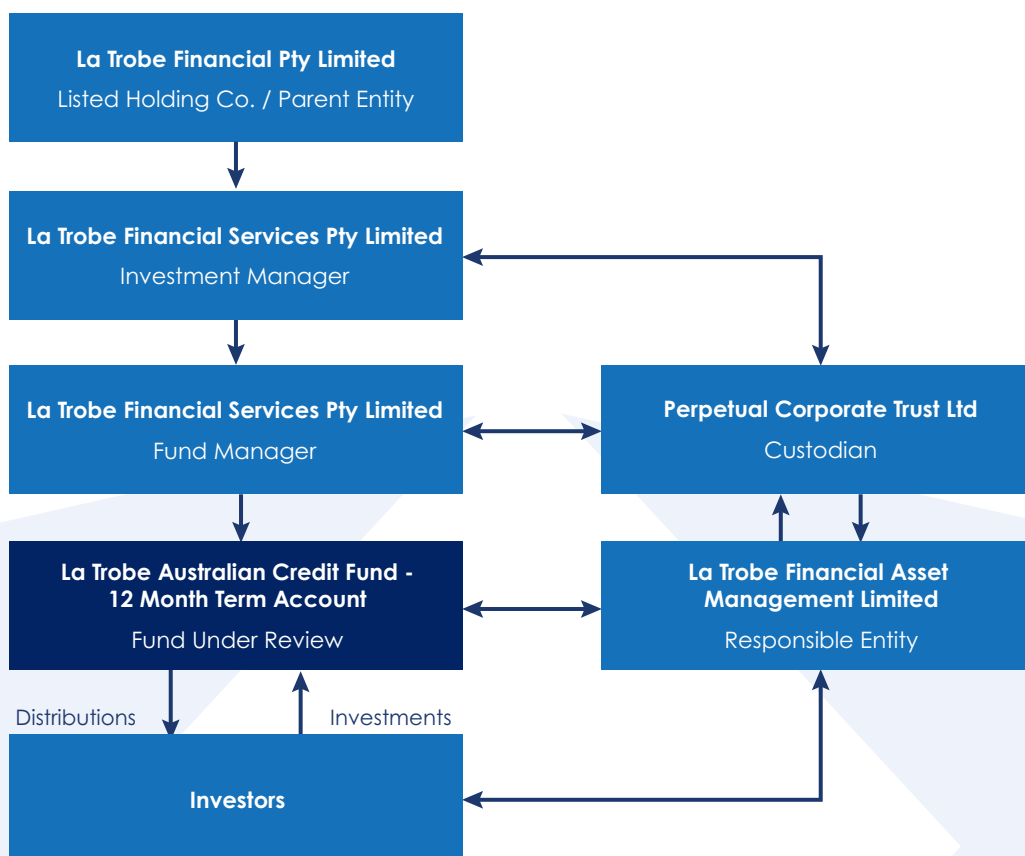
As per the PDS: "A key objective of the Fund is to invest in loans that are secured by real estate mortgages, which are, by their very nature, long-term investments. This may, in some circumstances, potentially impact the ability of the Fund to pay withdrawal requests within the time frames provided for in the Constitution and disclosed in this PDS."

"Withdrawals from the Fund are generally available only: for Investors in the 12 Month Term Account, where the initial 12-month investment term has expired and 30 days' written prior notice has been given, or the withdrawal request is in accordance with the Regular Access Investment provisions or where the withdrawal request relates to reinvested distributions and 30 days written notice has been given, and there is sufficient cash for the Fund to meet all withdrawal requests (noting the alternate arrangements for platform investors)". *Advisers/Investors should refer to the PDS for details.*

### Leverage

This Fund does not employ direct leverage (through borrowing by the Fund) **or** economic leverage (through the use of derivatives).

## Key Counterparties



## Parent Company

La Trobe Financial Group was founded in **1952** and since then has operated with a focus on Asset Management, specialising in mortgage credit. La Trobe manages about **\$17 billion** in AUM and employs more than **500** staff members, spread across its head office in Melbourne and offices in Sydney and Shanghai.

Corporate update (as noted last year): "On **19 March 2022**, La Trobe Financial announced that its shareholders (Blackstone and interests associated with outgoing CEO, **Greg O'Neill** OAM) had agreed to sell 100% of the business to global alternative asset manager, **Brookfield**. Deputy CEO and long-standing Chief Investment Officer, **Chris Andrews**, will be succeeding Greg O'Neill OAM as CEO with full effect on completion. Other than this long-anticipated CEO succession and transition of shareholder Board representatives, no changes are expected to the business, its strategy or operations as a result of this transaction." **This transition was completed in 2022, as planned, with Chris Paton succeeding Chris Andrews as Chief Investment Officer, and SQM Research notes that there have not been any material changes to the business.**

## Investment Manager / Fund Manager

La Trobe Financial Services Pty Ltd (LFS), as the investment manager, maintains its own Asset Management division with a well-resourced team. Products include Real Estate Credit (loans for properties), Fixed Interest & Investment Grade Credit, Funds Management and Insurance Services.

The La Trobe Financial Group **sources funds for its lending operations from three key sources:**

1. Wholesale Institutions: **23.4%**
2. Capital Markets/Term RMBS Securitisations: **23.4%**
3. Asset Management (La Trobe Australian Credit Fund) – c90,000 investors: **53.2%**

## Responsible Entity

The **Board of Directors** of the Responsible Entity (**La Trobe Financial Asset Management Limited**) consists of **4** directors, **none** of whom are independent. SQM Research prefers the inclusion of independent members on the Board of Directors – it is a meaningful way to

enhance governance and oversight. Board members have an average of **22** years of industry experience.

At the **La Trobe Group level**, **0** of the **3** directors of the Board are independent.

The Responsible Entity's **Compliance Committee** (*which oversees the Board*) is composed of **3** members, **2** of whom are independent. The Chair **is** independent. SQM Research views independence in a RE oversight body such as the Compliance Committee as a strong and favourable factor in Fund governance. Compliance Committee members have an average of **35** years of industry experience.

### Management Risk

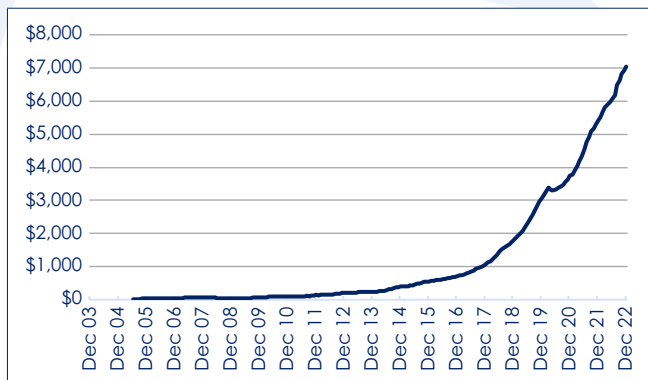
Funds management businesses rely on the operational capabilities of key counterparties. A critical element is the ability of the Responsible Entity to monitor operational performance and to meet the regulatory and statutory responsibilities required. For any investment fund, there is a risk that a weak financial position or management performance deterioration of key counterparties could temporarily or permanently compromise their performance and competency. This can adversely affect financial or regulatory outcomes for the Fund or associated entities.

*Based on the materials reviewed, SQM Research believes that La Trobe Financial and associated key counterparties are highly qualified to carry out their assigned responsibilities. Management risk is rated as 'low'.*

### Funds under Management (AUM)

The Fund is approximately **\$7.05** billion in size as of **Dec-2022**. The overall **Strategy/Asset Class** AUM is approximately **\$17** billion.

#### AUM for Fund under Review (\$mill)





Name	Responsibility / Position	Location	Years at Firm	Years in Industry
Chris Paton	SVP - Chief Investment Officer	Melbourne	6.0	15.0
Martin Barry	SVP - Chief Financial Officer	Sydney	9.0	27.0
Michael Watson	Director - Head of Distribution	Melbourne	9.0	20.0
Lilian Chin	Director of Client Partnerships	Melbourne	2.0	14.0
Gary Bell	Chief Liquidity Officer	Melbourne	4.0	32.0
Richard Parry	VP - Director of Finance	Melbourne	16.0	18.0
Michelle Dai	Head of Group Portfolio Management	Melbourne	7.0	7.0
Paul Brown	Treasurer	Melbourne	3.0	22.0
Chen Ma	Group Portfolio Manager	Melbourne	6.0	10.0
Daniel Sharrock	Portfolio Analyst	Sydney	2.0	9.0
Luke Endall	Portfolio Analyst	Melbourne	2.0	2.0
Boris Guo	Graduate Portfolio Analyst	Sydney	1.0	3.0
Sandy Singh	Head of Fund Portfolio Management	Melbourne	11.0	12.0
Shannon Ritchie	Manager – Portfolio Management	Melbourne	2.0	5.0
David Smith	Senior Portfolio Analyst	Melbourne	1.0	5.0
Will Sloane	Portfolio Analyst	Melbourne	1.0	4.0
Tony Nguyen	Portfolio Analyst	Melbourne	3.0	3.0
Hayden Peek	Portfolio Analyst	Melbourne	1.0	7.0

## Investment Team

The Board of Directors of the La Trobe Financial Group has delegated the day-to-day management of the Fund to a formal executive committee structure comprised of **5 committees**:

1. Origination & Credit Committee
2. Asset and Liability Committee
3. Audit & Risk Committee
4. Executive Committee
5. IT & Data Committee

The investment processes in place at the Fund are designed to encourage team-based decision-making, effectively reducing the reliance on any one key individual. While the overall strategic decisions for the Fund are determined at the Board level via the Investment Committee, the responsibility for ensuring that these decisions are implemented and maintained lies with the Origination & Credit Committee and the Asset and Liability Committee.

## Staffing Changes

Staff turnover over the **last 3-4 years** is listed below.

Departures			
Date	Name	Responsibility	Reason for Departure
07-Jun-19	Katherine Lewis-Bampton	Head of Lending Ops	Resignation
25-Jul-19	Jason Gidman	Head of Commercial Lending	Resignation
30-Aug-19	Ryan Harkness	VP - Deputy CLO	Resignation
28-Apr-20	Stephen Lawrence	VP - Head of Commercial	Resignation
14-May-21	Fran Autolitano	Deputy Head of Credit	Resignation
17-Dec-21	Grant Earney	Director of Finance	Resignation
20-May-22	Troy Stratton	Deputy Chief Investment Officer	Resignation
28-Oct-22	Caterina Nesci	Director of ESG & International Partnerships	Resignation

Additions / Hires			
Date	Name	New Responsibility	Previous Position / Employer
27-May-19	Antonietta Sestito	Head of Platforms & Investment Operations	-
27-May-19	Brian Makuluni	Head of Internal Audit (Exec)	-
15-Jul-19	Rick Drury	Chief Lending Officer - Commercial	-
30-Sep-20	Troy Stratton	Deputy Chief Investment Office	-
04-Nov-19	Nicole Spratt	Deputy Head of Credit	-
06-Apr-20	Jacqueline Guilianni	Head of Collections	-
27-Jul-20	Paul Brown	Head of Group Portfolio Management	-
19-Apr-21	Lilian Chin	Director of Client Partnerships	-
11-Jan-21	Slav Ilic	Head of Resi Operations	-
15-Jun-22	Tanya Hoshek	National Manager - Sales	-
12-Sep-22	Trish Cavallo	Head of Transformation and Strategy	-
06-Feb-23	Daniel Muchow	Head of Cyber Risk & Security	-

*SQM Research observes that the levels of investment experience and company tenure are strong across the investment team. The size and nature of staff turnover are not an issue of concern, in SQM's view.*

## Remuneration and Incentives

The La Trobe Financial Group aims to pay market-based remuneration, and the base remuneration is subject to yearly reviews across the organisation. In 2013, the La Trobe Financial Group introduced an executive incentives-based program, paid out on an individual basis. This incentive program presently covers the Executives within the La Trobe Financial Group and the Distribution and Sales teams. The Manager has advised that the purpose of the program is to retain, recognise, incentivise, and reward high performers.

*SQM Research believes remuneration in the form of firm equity and client-focused performance bonuses act as strong incentives for optimising staff engagement, retention, and productivity. The intention (and SQM believes, the effect) is to align staff performance with client and shareholder objectives. It focuses on the customers' needs and medium to long-term results.*

Fees and Costs	Fund	Peer Avg
Management Fee (% p.a.)	1.80%	1.64%
Expense Recovery (% p.a.)	Nil	–
Performance Fee (%)	Nil	0.00%
Total Cost Ratio TCR (% p.a.)	1.52%	1.57%
Buy Spread (%)	0.00%	0.00%
Sell Spread (%)	0.00%	0.00%

### Management Fees

Management fee includes GST and is net of any applicable Reduced Input Tax Credits (RITC).

### Performance Fees

The Fund does not charge a performance fee

### Overall Fees

As above

#### *SQM Research observes that:*

- *The Total TCR is 5 basis points lower than the peer group average, and*
- *The Fund management fee is 16 basis points higher than the peer group average.*

Risk/Return Data to 31 December 2022							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	0.46	1.36	2.55	4.52	4.55	4.84	6.45
Benchmark	0.37	1.12	1.92	2.77	2.05	2.53	4.99
Peer Average	0.37	1.18	2.26	4.15	4.64	4.83	3.23
Alpha	0.09	0.25	0.63	1.75	2.49	2.32	1.46
Metrics				1-Year	3-Year	5-Year	Inception
Tracking Error (% p.a.) - Fund				0.16	0.18	0.17	0.32
Tracking Error (% p.a.) - Peer Average				0.26	0.68	0.56	0.76
Volatility - Fund (% p.a.)				0.22	0.13	0.14	0.36
Volatility - Peer Average (% p.a.)				0.18	0.63	0.56	0.49
Volatility - Benchmark (% p.a.)				0.36	0.26	0.27	0.62

Distributions reinvested. Returns beyond one year are annualised. Return history starts Nov-2002

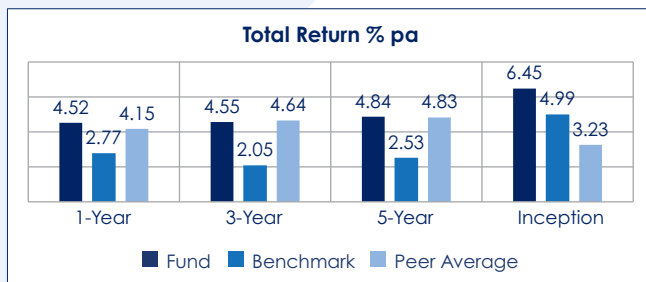
Benchmark: Bloomberg AusBond Bank + 1.5%pa AUD

Note: There may be very minor differences in the returns data, based on the rounding of numbers and the start date used.

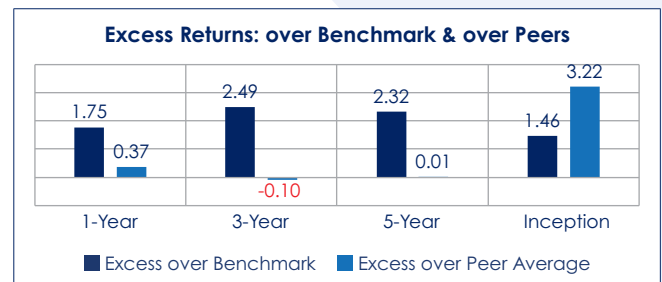
### Quantitative Insight<sup>1</sup>

Note: Unless otherwise stated, all return and risk data reported in this section are **after-fees** and for **periods ending Dec-2022**.

#### Returns



#### Excess Returns (Alpha)



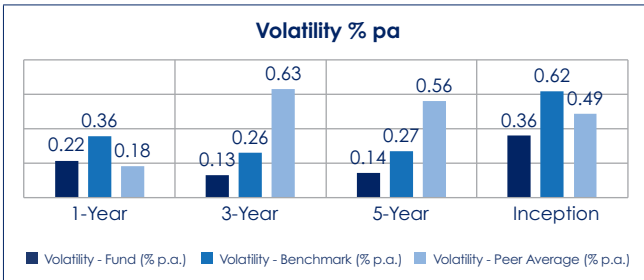
The Fund has displayed strong performance on a since inception basis when compared with the Benchmark and the Peers. Performance has been similar to peers in recent years.

**SQM Research notes** that the Trust's performance (on an absolute returns basis), like most other Mortgage Funds, has been very resilient during the **COVID-19 pandemic** (since March 2020). The Mortgage/Property construction & development sector did see some challenges during that period, but the Australian Government's stimulus and the loan repayment deferrals by the Banks/Non-Banks helped the sector to remain resilient during this challenging period. Also, the performance has been very resilient since the volatility (across asset classes) caused by **Russia's invasion of Ukraine** in February 2022.

The **return outcomes** as described above are higher than the PDS objective and are in line with SQM's expectations for the Fund relative to its fee level and volatility.

<sup>1</sup> Note: Sharpe and Information Ratios are not reliable comparison tools in periods where both the Fund and its peers/benchmark record a negative result

Risk



The Fund's **volatility** (standard deviation of monthly returns) has tended to be slightly lower than the peers on a since inception basis. However, it has been materially lower in recent years. The **risk outcomes** as described above regarding volatility are consistent with the PDS statements about risk and also SQM's expectations for this Fund.

*As a general comment on the sector, the true overall risk level in Mortgage Funds is determined by a range of risks, including (but not limited to): default/capital loss, liquidity, concentration, and interest rates risk. Advisers/ Investors should read the 'Risks' section of the PDS to understand those risks.*

*SQM Research holds the view that the low volatility of returns often displayed by Mortgage Funds should not be interpreted as implying that these Funds have a low level of risk. Low volatility of returns (in this sector) is an artificial construct caused by an absence of frequent mark-to-market valuation of a Mortgage Fund's assets and the accrual nature of these products.*

*Therefore, Fund metrics such as Volatility, Tracking Error, Information Ratio, and Sharpe Ratio add little statistical value (within the Mortgage Funds sector).*

The table below outlines the limits on the Fund's asset allocation and other risk parameters:

Property Type	
Residential	30.00% - 80.00%
Commercial	0.00% - 40.00%
Industrial	0.00% - 30.00%
Retail	n/a
Development Finance	0.00% - 15.00%
Rural	0.00% - 15.00%
Vacant Land	0.00% - 10.00%
Cash	0.00% - 10.00%
Interest-bearing securities	n/a
State/Region	
NSW	0.00% - 50.00%
QLD	0.00% - 40.00%
VIC	0.00% - 50.00%
WA	0.00% - 20.00%
Other	0.00% - 30.00%
Loan Type	
Conforming	n/a
Non-conforming	\$0
Low-doc	n/a
Full-doc	n/a
First Mortgage	n/a
Second Mortgage	\$0
Loan Value	
Size for single loan	\$10,000 - 2.5% of FUM
LVR for a single loan	75%

**Drawdown**

A drawdown tracks the path of the Fund's accumulated NAV (with dividends reinvested). It is measured over the period of a peak-to-trough decline and the subsequent recovery back to that previous peak level. The total return over that entire period is, of course, zero. The metric of interest, the drawdown itself, is quoted as the percentage change between the peak and the trough over that period. Funds typically have multiple drawdowns of varying size and length over their lifetime. The table above shows how many drawdowns have occurred and their average peak-to-trough size.

**Alpha**

SQM defines **Alpha** as the excess return compared to the Benchmark and is calculated as

$$\text{Alpha} = \text{Fund Return} - \text{Benchmark Return}$$

**A General Note on Distributions for Managed Funds**

The Responsible Entity of a Managed Fund will provide for a regular schedule of distributions, such as monthly/quarterly/semi-annual or annual. This is subject to the Fund having a sufficient distributable income. The official total distributable income available to pay to investors is determined for the period of that Fund's financial year. By distributing the net taxable income of the Fund to investors each year, a Fund itself should not be liable for tax on its net earnings.

If a Fund makes distributions more frequently than once over the financial year, those distributions will be based on estimates of the distributable income for that distribution period. The final total amount of distributable income available for passing on to investors can only be calculated after the close of the financial year, based on the Fund's taxable income for that year.

If the total distributions a Fund pays out exceed total taxable income for that particular financial year, the excess amount may be treated as a return of capital rather than income. This will possibly have tax implications for the investor.

Due to the considerations outlined above, there may be periods in which no distributions are made, or a Fund may make additional distributions

A Fund's ability to distribute income is determined by the performance of the Fund and general market conditions. Accordingly, there is no guarantee that a Fund will make a distribution in any distribution period.

**Total Cost Ratio (TCR)**

Managed Investment Schemes: The TCR for Managed Investment Schemes, Exchange Traded Products, and Investment Bond funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, and the impact of dollar-based fees.

Superannuation funds: The TCR for Superannuation and Pension funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, Administration Fees and Costs, the impact of dollar-based fees and a deduction of Super OTC Derivative Costs.



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**SQM**  
RESEARCH

**Address:**

Level 16, 275 Alfred Street  
North Sydney, New South Wales, 2060

**Contacts:**

Louis Christopher 02 9220 4666  
Rob da Silva 02 9220 4606

**Analyst:**

Chetan Trehan

**Central Contacts:**

Phone: 1800 766 651  
Email: [info@sqmresearch.com.au](mailto:info@sqmresearch.com.au)  
Web: [www.sqmresearch.com.au](http://www.sqmresearch.com.au)