

Product Assessment

La Trobe Australian Mortgage Fund - Pooled Option

Report data as at 31 Jul 2011
Rating issued on 08 Sep 2011

Viewpoint & Rating

The La Trobe Australian Mortgage Fund (the Fund) provides investors with an exposure to a diversified, Australia-wide portfolio of real estate mortgage securities. The Fund has 4 investment options with the Pooled Mortgages Option (PMO) being the subject of this Product Assessment. The PMO's objective is to deliver consistent monthly income returns to investors with capital stability and is suited to investors with medium to long-term investment horizons (3-4 years). The Fund is classified as a High Yield mortgage fund owing to its predominant focus on more aggressive lending than the average conservative mortgage fund with in excess of 90% of the loan book made up of low-doc loans. Although inherently a higher risk strategy, Zenith is confident that sufficient risk and control measures are in place to minimise impacts to investor capital while providing competitive returns in the long run. We see the lending processes as not being overly aggressive in comparison to other high yield funds operating in the market and risks are well controlled by employing stringent lending criteria, full credit and risk assessments and maintaining proactive and robust arrears management.

Zenith sees the PMO as being most suited to those seeking capital stability and an income return which should solidly exceed the cash rate through investment cycles. This means however that investors should only consider this fund if they have a higher risk tolerance. Investors should also be comfortable with the inherent risks of liquidity mismatches to which most mortgage funds are prone although we acknowledge that the initial 12 month term structure helps mitigate this. As a mortgage fund, the principal risks will be related to credit assessment processes, borrower defaults, property values and liquidity processes.

La Trobe Financial have carved out an impressive track record in this sector driven by their deep lending experience spanning 59 years as an organisation, the last 20 years of which has been spent building and refining their low-doc lending focus. Key structural advantages have aided the PMO in being able to sidestep most of the issues which have plagued the sector since 2008 which have resulted in frozen redemptions, constricted distributions and impaired operations. Zenith rates the La Trobe Australian Mortgage Fund - Pooled Mortgages Option **RECOMMENDED**.

Fund Facts

- La Trobe Financial was founded in 1952 and is wholly owned by Managing Director Greg O'Neill. With \$1.66 billion in funds under management and strong lending operations, the business is in a sufficient financial position to comfortably carry on for the foreseeable future.
- The Fund consists of mortgage securities primarily backed by residential, industrial and commercial assets. The investment manager seeks to find the optimal level of interest income, while taking into account regional and asset-type diversification, loan-to-value ratios, mortgage security, fixed or floating rate loans and the credit quality of the borrower.
- While engaging primarily in the low-doc lending market, credit assessment processes are robust and stringent. Historic levels of non-performing loans have been comparatively low and processes recently refined to reduce incidence of losses even further. Combined with a Interest Income Reserve to help fund losses, long term performance of the PMO has been excellent.
- The term nature of the PMO with an initial fixed term of 12 months has aided in buffering runs on redemptions and eliminating cash drag. The PMO is one of the few in the sector to not freeze redemptions during 2008/09 and has retained high distributions levels and fund inflows in comparison to the broader sector.

APIR Code

LTC0002AU

Asset Class

Mortgages

Sub-Asset Class

High Yield

Investment Style

Aggressive / Diverse

Investment Objective

To provide capital stability and monthly income returns in excess of the UBS Bank Bill Index + 1.5% from a diversified pool of real estate mortgages.

Zenith Assigned Benchmark

UBS Bank Bill Index

Key People

Jason Gidman
Portfolio Manager - Fund

Team Size

25

Net Returns (% p.a.)

	5 yrs	3 yrs	1 yr
Fund	7.76	7.78	8.03
Benchmark	5.60	4.69	4.98

Income (% p.a.)

	Income	Total
FY to 30 Jun 2011	7.74	7.74
FY to 30 Jun 2010	7.24	7.24
FY to 30 Jun 2009	7.60	7.60
FY to 30 Jun 2008	7.62	7.62
FY to 30 Jun 2007	7.29	7.29

Fees (% p.a.)

Management Fee: 1.50%
Performance Fee: Nil. Note: An early exit fee of up to 1.5% will apply in the first 12 months.

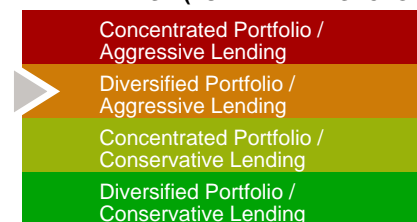
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ABSOLUTE RISK (SECTOR)



RELATIVE RISK (FUND WITHIN SECTOR)



INCOME DISTRIBUTIONS PER



INVESTMENT TIMEFRAME



APPLICATIONS OF INVESTMENT

SECTOR CHARACTERISTICS

Products in the mortgage sector are ideally designed for investors seeking a long term, stable-income yielding investment. Zenith's coverage of the mortgage sector seeks to identify funds invested purely in mortgage securities, employing robust lending and risk management controls to help reduce the risk of capital loss faced by investors, while providing competitive rates of return. Mortgage funds provide investors with a similar return profile to cash funds, however

carry a margin of risk and thus should provide investors with a commensurately superior level of return. As the portfolio will carry a range of securities, with a mix between fixed and floating rates and different maturities, changes in the current level of interest rates will take some time before they reflected in the returns from a Mortgage Fund, thus it is recommended investors take a longer view to investing in these products.

Zenith benchmarks these funds against the UBS Australia Bank Bill Index.

PORTFOLIO APPLICATIONS

From a portfolio perspective the PMO is best used as part of the defensive component of a well diversified portfolio however we do not advocate such a vehicle as the sole tool in this regard, instead we would advocate blending with other Australian fixed funds. Current conditions particularly suit the Fund in an environment where the appetite for real estate financing remains relatively subdued and a large number of dominant funds in the mortgage sector have either withdrawn or are currently unable to lend due to being frozen or suffering constrained fund inflows. We feel that these conditions have combined to create a relative 'sweet spot' for La Trobe Financial over and above the conditions which they have already proved they can navigate and produce high interest returns relative to the risk incurred.

Liquidity

The PMO differs from the bulk of peers in that it employs a 12-month fixed term of investor funds once an investor enters. Accordingly, investors should consider whether this structure suits their circumstances. La Trobe Financial has employed this mechanism to allow a more efficient matching of assets and liabilities and this provides a useful buffer to prevent extraneous events causing a sentiment led run of redemptions on the PMO. Zenith concurs with this view and notes that the PMO has been one of the comparatively few mortgage funds which did not place a freeze on investor redemptions in late 2008.

Once the initial 12-month period expires, investors seeking to continue their investment must choose a ongoing investment term. This will be the choice of either a new 12-month term or a 'Regular Access Cycle' whereby investors can elect a proportionate level of their capital to become available for redemption over each month, quarter or six monthly period. While these mechanisms somewhat limit easy access to funds, given the illiquid nature of the underlying asset class (ultimately real estate debt), Zenith does not oppose this structure as we

have long believed that mortgage funds should not be a substitute to cash and treated as a liquid place to park funds. It should also be noted that the presence of the term structure, while a strong positive in Zenith's view, does not preclude an unusually heavy run on redemptions requests interfering with the ability to withdraw. Ultimately a severe enough run on redemptions is an uncontrollable event for any managed fund operating in lower liquidity assets.

RISKS OF THE INVESTMENT

SECTOR RISKS

- Interest rate risk occurs when market interest rates rise and a mortgage book is locked into a lower level of interest income via fixed interest loans. La Trobe Financial proactively creates a mix of fixed & variable rates mortgages based on their market outlook for interest rate movements to allow maximum interest capture for the Fund. Since 2008 La Trobe Financial has progressively scaled back fixed interest loans in favour of variable rate loans and as at March 2011, 92% of their Pooled Mortgages were variable rate loans to take advantage of an environment of longer term interest rate rises.
- Capital risk occurs when loans default and the realisation of the security property is insufficient to repay the debt. This may occur due to real estate markets declining generally or due to a specific change affecting the property. These risks are managed by stringent formal credit assessment processes, proactive arrears management and using conservative lending ratios.
- Liquidity risk occurs when there is insufficient cash on hand to meet investor redemption requests. La Trobe Financial manages liquidity risk via its initial 12 month fixed term on investments in the PMO and proactive alignment of maturities between mortgages and redemptions. La Trobe Financial also aims to hold up to 5% cash to facilitate redemptions.

FUND RISKS

- Managing credit assessment risk is vital to La Trobe Financial given its strategy to focus on the provision of low-doc lending. Low-doc lending practices are inherently more exposed to default and security risk than full-doc lending. La Trobe Financial has specifically tailored their processes to apply a full-doc regime to low-doc lending to minimise this risk. As a result, Zenith believes that La Trobe Financial's credit assessment processes are robust and does not see their low-doc lending as being as risky as that of other service providers in the same space.
- Borrower default risk is heightened for mortgage providers undertaking low-doc lending. La Trobe Financial manages this risk by implementing robust arrears management processes and by not adopting overly aggressive lending limits. La Trobe Financial has continued to monitor and refine its arrears management processes with a noticeable reduction on non-performing loans over the past five years.
- La Trobe Financial undertakes some lending on development and construction projects (4.3% as at 30/6/11). Property development is by nature high risk where

a multitude of factors may impact a borrowers' ability to pay. While La Trobe Financial lacks in-house property expertise in the fields of building, construction and property development, Zenith feels that the combination of constrained limits on lending of this type, use of both 'as if complete' and 'current' valuations and quantity surveyor sign off on funds advanced on progress payments limits these risks.

- Management risk will continue to remain a key issue for the Fund as their processes rely on experienced staff, particularly on the operations side for the processes of credit assessment, lending and arrears management. La Trobe Financial is dependent of the commercial judgement and lending experience of the key individuals who undertake these roles as well as the staff in the investment management team.

QUALITATIVE DUE DILIGENCE

ORGANISATION

The La Trobe Group is a specialist mortgage lender which targets the niche segment of low-doc lending. La Trobe Financial was founded in 1952 and has two core businesses. Although both the businesses are involved with mortgage lending, the first sources funding from major national and international institutions on a wholesale basis using separate corporate structures to undertake the lending. The second business involves the Fund with monies for lending sourced via retail and wholesale investors. Investment management functions for both business lines are undertaken by La Trobe Financial Services Pty Ltd (LFS). As a Group, La Trobe Financial has total FUM of \$1.66bn with \$432 in the Fund as at August 2011. Of this, FUM in the PMO is \$119m with a broad target of \$500m in the next 3 years.

La Trobe Financial Asset Management Limited (LFAM) is the Responsible Entity (RE) for the Fund with no other managed funds operated. LFS is engaged as the Investment Manager for the Fund. The La Trobe Financial Group is wholly owned by Managing Director Greg O'Neill.

Internal Structure

The business employs 145 people across three divisions in 4 main locations, the head office in Melbourne, the National Administration Office in Traralgon, a satellite office in Sydney and a representative office in Shanghai, China. Operationally, the business is divided into three divisions: Business Development (Lending, Funds Management, International Desk); Administration & Financial Control (Customer Services, Collections, Financial Control, IT); and Corporate Governance. Each of these divisions is overseen by a series of committees, the most vital of which to the direct operation of the Fund are the Investment Committee, the Lending & Credit Committee and the Interest Rate Committee.

The Investment Committee comprises the two Independent members of the LFAM Board along with MD Greg O'Neill and meets quarterly. Their responsibility is to manage fund risks from a top down perspective with regard to asset allocation (asset and geographic spreads). Zenith sees this as a significant positive as it introduces a layer of objectivity into some of the higher level risk controls. Ideally we would prefer

to see a somewhat larger Board as we feel this would improve the robustness of this process given O'Neill's 100% ownership of the business and having only three Board members could potentially give O'Neill too much power. Overall however we feel that the system has worked since it was introduced in 2003.

The Lending & Credit Committee drives the business in setting the relevant policies and guidelines which shape the core aim of operating as a mortgage financier. The Committee meets quarterly and comprises Iain Pepper (Head of Credit/Chair), Chris Andrews (Head of Funds Management), Cory Bannister (Head of Credit - Insto), Steve Lawrence (Senior Commercial Lending Manager), Jason Gidman (Portfolio Manager - Fund), Justin Coates (Head of Collections) and Bev Christou (Head of Customer Operations). This Committee controls the flow of loans to the Fund and determines the lending guidelines with reference to the LFAM Board's risk appetite. The Committee also monitors non-performing loans which form a feedback loop to the overall lending policies and risk appetite. Analysis of the La Trobe Financial loan book over the past 5 years evidences these processes in action. Portfolio construction is managed by Jason Gidman with the oversight of the Lending & Credit Committee to ensure that the portfolio composition conforms with risk management limits.

The Interest Rate Committee meets monthly and is responsible for all mortgage pricing and managing interest rate risk for the Group as well as setting the distribution rate to investors. This Committee comprises Paul Wells (Head of Funding/Chair), Greg O'Neill (CEO), Brian Ford (COO), Iain Pepper, Rob Clough (CFO) and Chris Andrews.

INVESTMENT PERSONNEL

Name	Title	Tenure
Chris Andrews	Head of Funds Management	5 Yr(s)
Iain Pepper	Head of Lending	5 Yr(s)
Jason Gidman	Portfolio Manager - Fund	18 Yr(s)
Cheree Cain	Operations Manager - Fund	7 Yr(s)
Steve Lawrence	Senior Commercial Lending Manager	4 Yr(s)

La Trobe Financial uses a team based decision making process to reduce key person risk and bias. Overall strategic direction of the LFAM funds management business is driven at Board level. Operations at the Senior Management level is split into three related management teams. The senior Funds Management team comprises Chris Andrews, Jason Gidman and Cheree Cain as the Fund Operations Manager. With a full-time staff of 12 in the Funds Management team, Gidman and Cain are both experienced having worked for La Trobe Financial for 18 & 7 years respectively and Gidman has held the portfolio management role for the past 6 years.

Chris Andrews is a relatively more recent appointment having joined in 2006 as Senior Legal Counsel and was appointed to his current role as Head of Funds Management in 2009. Zenith

notes that his move into the Head of Funds Management role was accompanied by full authority for loan approval as part of the role. Given he would have had no authority for loan approvals previously, we might have preferred to see a more gradual easing into loan approvals however we acknowledge that Andrews is well supported by the other members of the Lending & Credit Committee and the dual approval process used by La Trobe Financial gives us a level of comfort in this regard. We see this issue as decreasing over time as Andrews' credit experience builds.

The Lending team is separated from Funds Management to prevent any potential conflict between portfolio and underwriting decisions. There are 12 full-time staff in the Lending team led by three senior members, Iain Pepper, Steve Lawrence and Leanne Seymour as Senior Settlement Officer. Iain Pepper has headed this team since 2008 and has over 20 years of mortgage lending experience, principally with GE Capital. The third key management team is Arrears Management which has 16 full-time staff to control arrears, litigation and loss recovery. The Arrears Management team has four senior staff members and is headed up by Justin Coates.

Overall Zenith is confident the organisation is sufficiently resourced across all facets of the mortgage management business, from lending and portfolio management, through to settlement operations and arrears management. Senior staff turnover has been limited over the last five years to three individuals, two from Funds Management (Head of Sales, National Relationship Manager) and one from the Lending team (Credit Manager - Fund). New appointments or changing responsibilities have addressed these issues and Zenith sees the operation as being adequately resourced. We also note the building up of human resources across the business as FUM has increased.

Remuneration structures utilised by La Trobe Financial generally rely on market based remuneration with no bonus structures. While somewhat unusual in the broader world of funds management, Zenith acknowledges that linking bonuses to performance for investors and the Manager in this asset class is difficult without rewarding risk taking behavior, generally an anathema to this type of investment.

INVESTMENT PROCESS

La Trobe Financial's process seeks to derive stable returns with predictable monthly income from a diversified pool of real estate mortgages. The value add proposal for La Trobe Financial is exploiting the higher value opportunities available outside prime lending. The philosophy of maintaining high quality credit processes and lending criteria allows La Trobe Financial to exploit the higher premiums associated with borrowers under serviced by mainstream financiers. La Trobe Financial believes that the combination of a robust loan selection criteria, conservative lending limits, disciplined underwriting process and rigorous recoveries on non-performing loans results in higher returns with controlled risk.

Zenith tends to concur with this approach as it differentiates itself away from some of the more traditional high yield mortgage funds we have witnessed in the past which have used tactics such as lending to high risk sectors or low-doc lending approaches substituting higher interest rates

and penalties for borrowers with low quality credit as a way to generate higher returns. Such approaches tend to be hampered by high default rates and higher risks of mortgage securities being insufficient to cover lent funds. Zenith sees the La Trobe Financial approach as being a considered balance between generating higher returns without significantly higher risk.

Zenith found processes and policies to be clearly documented, in depth and in our opinion, appropriate to the nature of La Trobe Financial's operations and consistent with best practice.

SECURITY SELECTION

La Trobe Financial's mortgage investment selection process comprises three distinct stages;

- Loan origination;
- Loan approval & underwriting; and
- Portfolio construction

La Trobe Financial's loan origination process utilises networks of independent mortgage brokers, 22 of their own Authorised Representatives and their own internal Sales & Marketing team who deal with mortgage brokers. Deals with mortgage brokers tend to either be via established relationships with the larger groups or via direct accreditation, usually with smaller organisations. This represents a fairly diverse base and has been built by La Trobe Financial over past decades and tends to not include major commercial mortgage originators. La Trobe Financial has access to around 60 directly accredited brokers. It is important to note that loan approval sits with La Trobe Financial and that none of La Trobe Financial's Authorised Representatives or mortgage brokers approve loan applications. Deafflow for loan origination has remained solid over the last four years.

Regarding the loan assessment process, all loans are approved in-house by the lending department. Initial loan applications must be accompanied by a full set of supporting documents and be within the maximum constraints of a loan amount of <\$20m and that would not make up >10% of the total Fund value. A La Trobe Financial underwriter undertakes the loan assessment with complexity of the loan being matched to the skills and experience of the underwriter. Once processed by an underwriter, all applications are submitted for credit approval. Credit approval will require at minimum a dual sign-off and again the complexity (and size) of the loan will govern the experience and seniority of the lending team members required for authorised sign-off on the loan.

La Trobe Financial's assessment of creditworthiness focuses on the borrowers credit history and stability, savings record (or equity available), loan serviceability and collateral security. Borrowers' creditworthiness is assessed using credit checks (Veda Advantage) for both new loans and renewals. Financial information on income and assets are verified by the borrowers' accountant and debt serviceability assessed. An independent valuation is also required from La Trobe Financial's panel of valuers and the Fund's panel of solicitors will also undertake legal due diligence and provide certification of each loan. On reviewing the credit approval process, Zenith sees it as being robust and generally typical of the practices found in quality mortgage operators. When taken in the context

of the focus on low-doc borrowing, this provides a strong level of robustness to other high yield mortgage funds in the market.

PORTFOLIO CONSTRUCTION

The La Trobe Australian Mortgage Fund has four investor options over a central loan book;

- Cash & Mortgages;
- Pooled Mortgages (the subject of this Product Assessment)
- Select Mortgages; and
- Special Situation Mortgages

All loans in the in the Fund are initially treated as select mortgages and the portfolio manager will undertake mortgage selection from this pool of mortgages (either wholly or in part) to construct the PMO portfolio. In this way the portfolio manager can generally 'dial up' a higher return than a traditional 'single' style portfolio where the onus would be wholly on loan selection.

Loans are first assessed by the underwriting team to ensure that they meet the Fund's eligible loan criteria. If a loan receives underwriter approval, the Portfolio Manager will determine its funding composition amongst the four options in the Fund based on the investment criteria and appetite applicable to each option. If the loan does not fit these criteria and appetites, it will be declined funding. Zenith sees the ability of the Fund to 'mix & match' loans in the Pooled Mortgages Option as a key advantage, as it allows tailoring of the asset allocations and aids liquidity management. The diversity of funding sources assists the Pooled Mortgages Option to remain highly invested, rather than suffering the cash drag associated with having to hold high levels of cash for redemptions. This function also is attractive from the point of view that La Trobe Financial should be able to increase FUM while remaining close to fully invested in mortgages in the PMO thus avoiding cash drag on performance. Finally, the diversity of funding sources substantially decreases investment size and increases the number of investments for the Pooled Mortgages Option, resulting in smoother performance as a result of a more diversified loan book. Zenith assesses loan book diversification using a weighted matrix of criteria including number of loans, borrowers, sectors and geographic locations. Using this system, Zenith is of the opinion that the PMO loan book currently has the highest level of diversification in the mortgage fund sector.

Portfolio construction is done with a view to maximise as much as practicably the dispersion of loans across property types, geographic locations and borrowers while conforming to risk constraints. Sector allocation is generally based on historical performance of loans in each sector and is kept under review in association with reviews of prevailing property market conditions. While Zenith accepts that this approach is workable, we are aware of some mortgage fund operators who house internal specialist real estate teams (usually due to being operators of property funds in their own right), which we feel inherently gives an edge when forecasting property market movements. While La Trobe Financial does not have this capacity they believe that their access to external consultants and research provides adequate knowledge in this regard. Geographic dispersion is generally based on

population distribution and economic centres across Australia and is monitored to account for changing market conditions and demographics.

Portfolio construction is also done with an eye to maturity matching between assets and liabilities (mortgage maturity vs. redemption entitlements). Owing to the inherently illiquid nature of the underlying real estate, La Trobe Financial is highly aware of the potential for mis-matches to interrupt operations. Much of this potential disparity is managed via the structuring of the investment term where the initial 12 month fixed term flattens the maturity profile of redemptions (assuming that investment inflows are relatively constant from month-to-month). The maturity profile of the loan book also has a part to play however. The loan portfolio generally seems to have a generous proportion of shorter term loans and currently has 17% of the pooled mortgage loans having a maturity date of 1 year or less.

OPERATIONAL DUE DILIGENCE

RISK MANAGEMENT

Portfolio Constraints	Description
(Current values as at 30/6/11 shown in brackets)	
Cash or liquid securities (%)	Min. 1% (4.3%)
Maximum loan term	40 years
Max. LVR for Pooled Mortgages (%)	Max. 75% (61.29%)
Max. loan size (\$m)	\$1,000,000 (\$925,000)
Max. % to any one loan (%)	5% (0.83%)
Security - Residential (%)	30% - 80% (54.1%)
- Vacant land	0% - 10% (3.2%)
- Commercial	15% - 40% (27.9%)
- Industrial	5% - 20% (11.1%)
- Rural	5% - 15% (3.6%)
Construction & Development	0% - 15% (4.3%)
State - ACT, NT	0% - 10% (1.2%)
- NSW	0% - 45% (20.0%)
- QLD	0% - 40% (23.6%)
- SA	0% - 10% (9.0%)
- TAS	0% - 10% (4.3%)
- VIC	0% - 45% (32.5%)
- WA	0% - 20% (9.5%)
Interest rates - Fixed	Target 50% (7.8%)
Interest rates - Variable	Target 50% (92.2%)

La Trobe Financial's approach to risk management focuses on two main elements. Firstly, the combination of strict portfolio construction, credit and risk assessment and appropriate borrower security are utilised to control risks. Secondly, La Trobe Financial takes at face value the fact that there can be incidences of good loans falling behind and so applying robust recovery strategies to defaulting loans minimises negative impacts. Zenith recognises that La Trobe Financial's historical exposure to non-performing loans has been fairly small given the high exposure to low-doc lending and so we see this as evidence of robust systems in place. We also note that La Trobe Financial has recently applied greater resources to the collections side of the business and there has been a marked decrease in non-performing loans as a result.

Portfolio construction constraints while fairly wide, do limit riskier exposure to areas such as construction lending and high LVRs and excludes second mortgages. Risk is further limited by only using independent valuations on loan security, not financing specialised property types and prohibiting related party lending which have been issues central to some of the more spectacular mortgage fund implosions of the past.

As an additional layer of risk protection, the Fund maintains an Interest Income Reserve as a buffer against losses. While representing an opportunity cost to investors if they exit before any losses are realised, Zenith sees this as a prudent move given the higher risk nature of the lending operations. This Reserve is used to provision for loan arrears or doubtful debts that may be incurred by the mortgages in the Pooled Fund. The Reserve has been in place since 2002 and La Trobe Financial has stated that it has covered all capital losses incurred by the Fund in that time. La Trobe Financial has stated that the interest Income Reserve is sufficient to cover current doubtful debts. Despite the presence of the Reserve, investors must realise that this does not imply that funds are capital guaranteed in any way.

While not a risk management tool, Zenith notes that from mid 2009, La Trobe Financial has elected to receive no benefit from any Late Payment Fees (LPFs) incurred by borrowers who over-run their payment date of the loan principal. Instead these fees are entirely channeled to investors in the PMO. Zenith sees this as a benefit not only in terms of returns, this also is likely to limit the type of risk taking behavior where mortgage managers deliberately allow loans to default to reap penalty fees (an activity sometimes witnessed in low-doc/no-doc lending).

INVESTMENT FEES

La Trobe Financial charges investors an annual fee of 1.50% which is above our sector average of 1.37% for retail funds. While the average for Wholesale funds is lower, retail investors entering through an IDPS or similar will likely find the overall level of management fees roughly comparable. The PMO does not incur buy/sell spreads; however a fee of up to 1.50% may be levied in the event of withdrawal within the first 12 months of investment. While this is not common to mortgage funds, La Trobe Financial maintains the use of a fixed term period has played a large part in the Fund's stability compared to peers during the fallout experienced during 2008-09.

Fees Type	Fund	Sector Average (Wholesale Funds)
Management Fee	1.50% p.a.	1.30% p.a.
Description		
Performance Fee	Nil. Note: An early exit fee of up to 1.5% will apply in the first 12 months.	

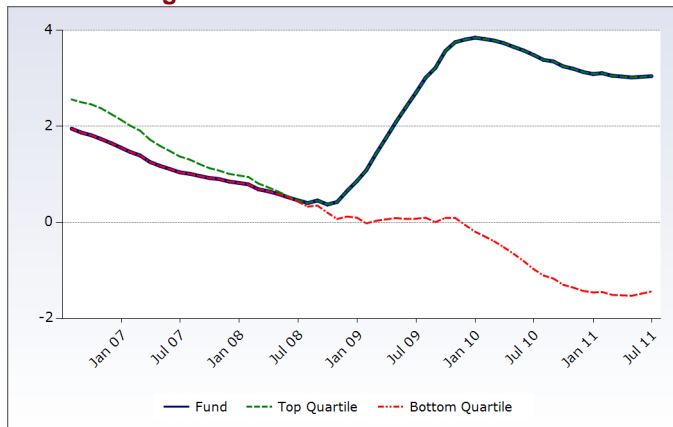
PERFORMANCE ANALYSIS

Report data as at 31 Jul 2011

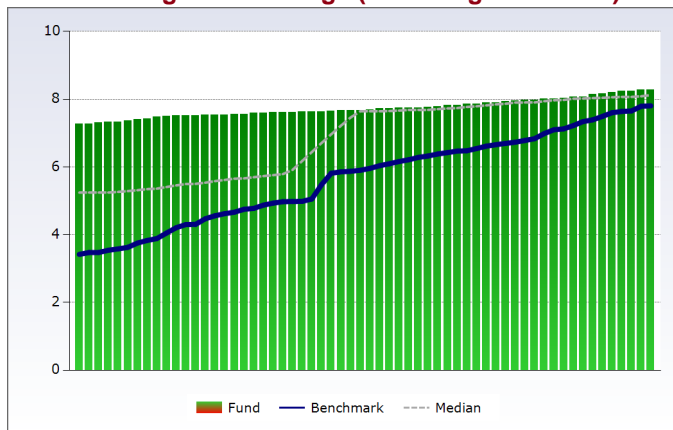
Monthly Performance History (%)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	FUND YTD	BENCHMARK YTD
2011	0.65	0.65	0.65	0.65	0.65	0.65	0.65						4.64	2.90
2010	0.61	0.61	0.61	0.61	0.63	0.64	0.64	0.64	0.64	0.64	0.64	0.65	7.82	4.66
2009	0.63	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.60	0.61	7.28	3.47
2008	0.63	0.63	0.65	0.67	0.67	0.67	0.69	0.69	0.69	0.69	0.66	0.66	8.29	7.60
2007	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.63	0.63	0.63	0.63	7.58	6.73

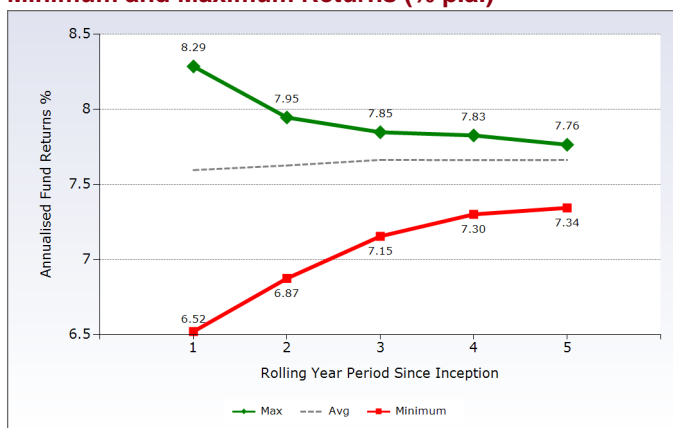
1 Yr % Rolling Excess Return



1 Yr % Rolling Return Range (Date range as above)



Minimum and Maximum Returns (% p.a.)



ABSOLUTE PERFORMANCE ANALYSIS

Return	5 yrs	3 yrs	1 yr
Fund (% p.a.)	7.76	7.78	8.03
Benchmark (% p.a.)	5.60	4.69	4.98
Return Ranking within Sector	5 yrs	3 yrs	1 yr
Fund Ranking	1 / 2	1 / 2	1 / 2
Quartile	1st	1st	1st
Standard Deviation	5 yrs	3 yrs	1 yr
Fund (% p.a.)	0.11	0.12	0.02

Readers should note that the La Trobe's Australian Mortgage Fund has four investment options and that only the PMO is the subject of this Product Assessment.

The PMO's performance over the longer term has been robust, showing solid returns over the fund's benchmark of the UBS Bank Bill Index + 1.5% pa (note that Zenith's own benchmark is the UBS bank Bill Index). The PMO has only recently moved to this benchmark (March 2011) which was previously the UBS Bank Bill Index only. Zenith agrees with this move as it more closely reflects the nature of the lending operations of the fund. Given the nature of La Trobe Financial's lending practices and their ability to reprice the loan book as official interest rates change, Zenith views the PMO's historical results positively. This is particularly noticeable in the context of the performance of the wider mortgage sector where a rush of redemption requests, slashing of official interest rates and a spike in non-performing loans during 2008-2010 has degraded loan performance in many funds. This has been compounded by the freezing of fund inflows across the wider sector precluding funds being able to lend and take advantage of higher interest rate margins in the market.

One key consideration in assessing La Trobe Financial's long-term performance is the fact that throughout the global financial crisis, the PMO was able to continue to provide investors with stable income streams, while meeting the liquidity requirements of investors withdrawing their funds. This is largely due to the PMO's minimum 12-month investment period allowing the portfolio management team to better match liquidity demand with the maturity of the underlying securities.

Investors need to be careful when reviewing the PMO's performance relative to the UBS Bank Bill Index and acknowledge the balance between excess return and excessive risk taking, thus it is important to take into account

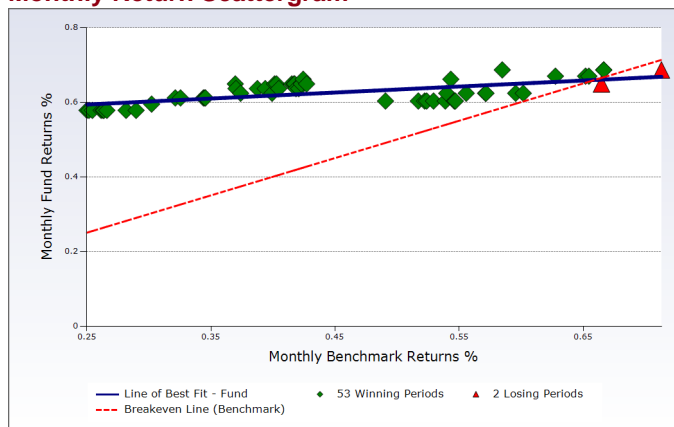
the level of arrears and number of defaults experienced. As at 31 March 2011, total loans in arrears by value was 5.4%. When taken in the context of the total amounts overdue divided by the balance outstanding, this figure decreases to <0.50%. Loans classified as mortgagee in possession was also low at 0.6% by value. Considering the PMO predominantly holds low-doc mortgages (90% of the portfolio as at 31 March 2011), Zenith sees this as an excellent track record. Loans past due have also fallen significantly, reflecting improved processes.

Zenith notes that the Manager has progressively refined their arrears processes (particularly over the last two years) as well as strengthened the team responsible for controlling arrears. This has been instrumental in a significant lowering of La Trobe Financial's level of non-performing loans and while this measure remains higher than evidenced among conservative mortgage funds, we see it as having reached a largely appropriate level for the PMO given the nature of operations. The PMO continues to hold its track record of not having ever returned a capital loss to investors, a feat which several prominent mortgage funds have been unable to replicate over the past three years.

RELATIVE PERFORMANCE ANALYSIS

Alpha Statistics	5 yrs	3 yrs	1 yr
Excess Return (% p.a.)	2.15	3.08	3.05
% Monthly Excess (All Mkts)	96.67	97.22	100.00
% Monthly Excess (Up Mkts)	96.67	97.22	100.00
% Monthly Excess (Down Mkts)	0.00	0.00	0.00
Beta Statistics	5 yrs	3 yrs	1 yr
Beta	0.15	0.29	0.10
R-Squared	0.38	0.84	0.10
Tracking Error (% p.a.)	0.38	0.27	0.06
Risk/Return	5 yrs	3 yrs	1 yr
Information Ratio	5.64	11.43	47.49

Monthly Return Scattergram



The Monthly Return Scattergram Chart above provides an insight into the skill of the manager, the risk profile of the manager (both absolute and relative) and the market

conditions which favour the manager. The dot points represent the monthly returns of the fund (y-axis) and benchmark (x-axis) since inception or the past five years for funds with long histories. As a guide:

- A green dot point indicates the fund has outperformed in that month. A red dot indicates the fund has underperformed in that month.
- The blue line is a line of best fit of the fund returns and the red line is the breakeven line or benchmark line of best fit.
- The slope of these lines provides an indication of the beta (market risk) of the investment and benchmark. The greater the slope the greater the risk.

Often the blue line will cross with the red line at some point and this indicates that investment outperformance is better in certain market conditions (and vice versa).

In our view the Monthly Scattergram Chart and associated regression analysis illustrates that the PMO has delivered solid alpha (excess returns), over our benchmark index. While there is an indication of two separate months of under-performance against the index, this has been due to a short lived upward spike in the Index rather than a deficiency on behalf of the PMO. While past returns are no guarantee of future performance this information provides some insight into how this fund may perform relative to benchmark in certain market environments.

INCOME/GROWTH ANALYSIS

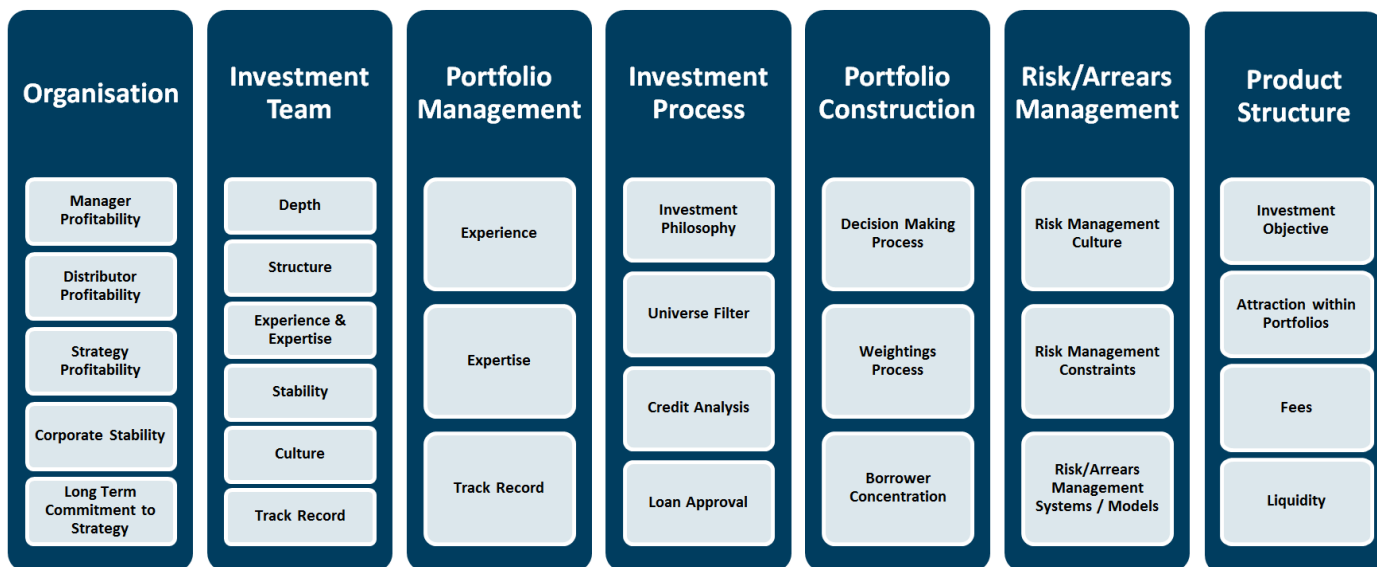
Income / Growth Returns	Income	Growth	Total
FY to 30 Jun 2011	7.74%	0.00%	7.74%
FY to 30 Jun 2010	7.24%	0.00%	7.24%
FY to 30 Jun 2009	7.60%	0.00%	7.60%
FY to 30 Jun 2008	7.62%	0.00%	7.62%
FY to 30 Jun 2007	7.29%	0.00%	7.29%

The PMO's objective is to provide consistent monthly income with capital stability. Income levels are targeted at outperforming the UBS Bank Bill Index + 1.5% pa on a rolling basis. Income returns have remained very steady which is to be expected from a well diversified, well managed mortgage pool. The loan book was able to be actively repriced during the steep fall in official interest rates during 2008-09, an advantage that the majority of their sector peers were unable to accomplish. The PMO also has an Interest Income Reserve which allows some smoothing of income returns.

METHODOLOGIES & DISCLAIMER

Ratings Methodology

Zenith’s ratings are based on the output of a proprietary scoring model. This model and its broad factors are shown in the following diagram. Please note we do not disclose the weightings of factors and sub-factors change for each sector. This information should be used as a guide only.



Ratings Bands

Based on the scores assigned by Zenith’s analysts for the above mentioned proprietary scoring model, a rating of Highly Recommended, Recommended, Approved or Not Approved is applied to all funds that have undergone full due diligence by the Zenith research team. As shown in the following table the ratings are determined based on the overall score out of 100. Funds may also be screened prior to conducting full due diligence based on qualitative or quantitative concerns as Zenith’s research model aims to focus on the best investments in each sector.

Rating	Scoring Output (%)	Zenith View of Standing within Peer Group (guide only)	Confidence in Meeting Objectives	Zenith Recommended List
Highly Recommended	> 80	Top Decile	Very High	YES
Recommended	> 70-80	Top Quartile	High	YES
Approved	> 55-70	Above Median	Moderate	NO
Redeem	=< 55	Below Median	Low	NO
Other Ratings				
Not Approved	In most cases these funds have failed a preliminary quantitative or qualitative screen which leads us to believe the fund will not achieve the minimum threshold required to receive a Recommended rating or above. In some cases funds may have passed the filter but managers declined the opportunity to be rated.			
Under Review	The fund rating has temporarily been placed under review due to qualitative and/or quantitative issues that need to be addressed by the Zenith Research Team.			

ABSOLUTE RISK RATING

The Absolute risk rankings should be viewed as a guide to potential capital volatility (in both gains and losses) of the relevant investment strategy (Zenith Asset Class / Sub Asset Class classification) of this product. A number of factors have been considered in setting this risk level. For liquid asset classes, we have typically used the underlying historical return volatility of the product’s benchmark if the benchmark is a reasonable proxy for returns for this strategy. Where the risk of an investment cannot be reasonably estimated by historical benchmark return analysis, we have made a qualitative assessment of absolute risk and considered factors such as illiquidity risk, transparency, strategy risk, operational risk etc.

VERY HIGH

Funds classified as Very High risk are exposed to sectors with very high historical absolute volatility (16+% p.a. plus standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Very High absolute risk level.

HIGH

Funds classified as High risk are exposed to sectors with high historical absolute volatility (12-16% p.a. standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a High absolute risk level.

MODERATE

Funds classified as Moderate risk are exposed to sectors with moderate historical absolute volatility (8-12% p.a. standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Moderate absolute risk level.

LOW

Funds classified as Low risk are exposed to sectors with low historical absolute volatility (4-8% p.a. standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Low absolute risk level.

VERY LOW

Funds classified as Very Low risk are exposed to sectors with very low historical absolute volatility (<4% p.a. standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Very Low absolute risk level.

RELATIVE RISK RATING

The relative risk rankings should be viewed as a guide to the relative risk of a product within its sector. The relative risk levels are listed from high to low and are intended to provide some insight into the potential divergence of the investment's return profile relative to its assigned benchmark.

RATING & REPORT DISCLAIMER

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