INTERNATIONAL ACCOLADES

We are pleased to advise that on the 18th of November 2014, the International Finance Awards (IFM Awards) were held in London. The IFM Awards recognise individuals and organisations in international finance that have the highest standards of innovation and performance. These include path-breaking initiatives in corporate responsibility, better governance and other achievements that impact the global finance community.

The invitation only formal event, was held at the Jumeirah Carlton Towers in central London. In front of over 200 investment professionals from banking, fund management and insurance companies from 92 countries across the globe, La Trobe Financial picked up two prestigious awards. One for ‘Best Investment Management Company Australia’ and then one for ‘Best Mortgage Fund – Australasia’.

Up against much bigger global brands, these two IFM Awards represent a significant milestone for La Trobe Financial. Importantly they are a reflection of our dedicated staff who go about their business of being guardians of other peoples’ life savings – a role we take with great pride and responsibility. They are also a reflection of the consistent performance of our investment products.

Following this success in London we have been advised by Money magazine that La Trobe Financial’s Mortgage Fund (Pooled Option) has won a sixth consecutive gold medal for ‘Best Mortgage Fund in Australia’. No other mortgage fund in Australia has achieved such an accomplishment.

These awards follow our February efforts in China winning consecutive International Alternative Investment Review (IAIR) Global Awards for ‘Excellence in Mortgage Fund Management’. The Hong Kong IAIR Awards acknowledge some of the world’s best in wealth management, brokerage and asset management companies chosen through a survey of over 50,000 investors worldwide and then reviewed by a judging panel for global best practice.

We are very honoured by all these awards and this reaffirms our commitment to continue to serve our customers.
AUSTRALIAN RETIREES UNDER SIEGE?

Rupert Murdoch once famously said that economists were created to make weather forecasters look good. Certainly, it is striking how infrequently even very eminent economists make successful predictions. For that reason, we at La Trobe Financial have generally stayed out of the prediction game. After all, our investment strategy is fundamentally rooted in the insight that markets and economies are inherently volatile.

But they say that rules are made to be broken and in our October investor briefing we did just that. In discussing the interest rate environment, we noted that there were significant global and domestic forces that could ensure interest rates remain low for many years — even a decade. In this edition of Money Matters, we discuss some of the reasons that this could be the case and the threat that this poses to investors, particularly older Australians.

WHY ARE INTEREST RATES SO LOW?

First, it is important to remember why it is that we have such low rates. On 15 September 2008, the Lehman Brothers, one of the oldest and largest investment banks in the United States, collapsed and filed for bankruptcy. This was the symbolic epicentre of the global financial crisis (GFC) and was followed by years of dislocation in markets and economies across the world.

The causes of the GFC have been discussed at length and we will not repeat them here, but the aftermath of the GFC has been — for most of the developed world — quite brutal. Investors have remained stubbornly risk-averse and the entrepreneurial spirit that economies rely on for innovation and the creation of new assets and wealth have been markedly subdued. Nearly all developed economies experienced recessions — some for extended periods — and double digit unemployment rates became commonplace.

Whilst, for a range of reasons, Australia avoided a technical recession and the worst effects of the GFC, we have not been totally immune from its effects. We live in an interconnected world and the economic malaise afflicting the developed world has had an effect here. Non-mining investment has been persistently low, with corporations generally electing to hold cash or (particularly in more recent years) increase dividends to shareholders. Domestic consumption has also been weak, with household savings increasing to levels not seen since the 1980s.

A key policy response of governments and central banks, including our own Reserve Bank, has been to decrease interest rates. The theory is that lower interest rates will encourage economic growth by encouraging investors to move from low risk, yield-based investments towards investments in riskier assets that will drive growth.

This policy has been pursued with a gusto that is unprecedented in economic history. Interest rates are essentially zero in the US, UK, Japan and the Euro area. In Germany, investors are actually paying the government for the inestimable privilege of lending to it for terms of three years or so. The European Central Bank (ECB) is paying banks negative interest for their deposits and is lending money to them for up to four years for just 0.15% p.a.

The two graphs that follow tell the story well. The Australian official cash rate is at its lowest point in 50 years and, in real terms, is negative. US long term treasury yields are at their lowest levels in over 200 years. Truly, these are unusual times.

IMPLICATIONS OF SUCH LOW RATES

The pity of the current situation is that so much of the commentary on domestic interest rates seems one-sided. The mainstream media greet every interest rate drop with cheers and every increase with jeers. They seem to miss the fact that, whilst low interest rates are stimulatory, good for borrowers and perhaps even necessary, they reflect a soft economy, are ruinous for savers and have the potential to trigger imbalances in the composition of an economy. Indeed, more than one commentator has noted that current policy settings seem calibrated to transfer wealth from (predominantly retired) investors to (predominantly younger) borrowers.
The death of Gough Whitlam, Australia’s 21st Prime Minister, on 21 October 2014, gave many Australians the opportunity to reflect on one of his achievements.

When we look back, it is now clear that arguably one of his most significant actions was the recognition of the People’s Republic of China in 1972. Under his leadership, at the height of the Cold War, Australia became one of the first Western nations to recognise the Chinese Communist government as the legitimate rulers of that vast and, at the time, isolated country.

Then it was seen as radical; now it’s hailed as a visionary shift that paved the way for China to become Australia’s major trading partner.

Forty years later, Australia’s relationship with China goes from strength to strength, but there are a number of issues that have to be kept in focus to ensure that the current good relationship is maintained. We have identified three major issues that will impact the relationship:

1. SOVEREIGNTY

Australia is a proudly independent country, whose short history is inextricably linked with the Western world. The People’s Republic of China is an equally proud and independent East Asian country.

REFLECTIONS ON AUSTRALIA’S RELATIONSHIP WITH CHINA

This observation is not intended to spark an intergenerational war, but simply to point out that extended periods of unusual policy settings (like exceptionally low interest rates) will have a significant impact on the retirement outcomes of many hardworking Australians. When rates paid on bank deposits barely cover inflation, prudent, conservative investors are forced to look elsewhere for their retirement incomes.

HOW LONG WILL THIS PERSIST?

The question then becomes how long this state of affairs will persist. Whilst there is always the prospect of unexpected events (both positive and negative) intervening, we do not resile from our belief that there is a material risk that interest rates will remain around current levels for an extended period – perhaps even a decade or more. Whilst this might seem an exceptionally long time, it is worth noting that it is already around seven years since the onset of the GFC. Economic gloom can persist and, with the possible exception of the US, the developed world is yet to show any signs of a structural return to growth.

What’s more, we are not alone in holding this belief. The very day after our October investor briefing, the Chief Economist of the Bank of England (the Central Bank of the UK), Andy Haldane, predicted that real interest rates in the UK could remain negative for forty years. Then, in mid November, our own Reserve Bank Governor, Glenn Stevens, was reported in the Australian Financial Review as indicating that “interest rates may need to stay low for years...”

THE BOTTOM LINE FOR INVESTORS

So how should investors respond to this? First, don’t panic. There continue to be a range of investment options (including our own Fund) for investors looking for genuine, reliable income. Secondly, however, do consider how your investment portfolio should look in the event a low interest rate environment is here to stay. After all, when it comes to your retirement, no one is as invested as you are.
whose history spans millennia. Australia is a country of about 23 million people; China has a population of 1.3 billion. Proverbially, we are the flea, to China, the elephant.

The challenge in the years to come will be for Australia to maintain its sovereignty and its unique identity, while engaging positively with China.

2. ECONOMIC DEPENDENCE

China is Australia’s largest trading partner, and our economic dependence on China cannot be disputed. From Australia’s hard commodities, specifically iron ore and coal, to our soft commodities, such as wool and food products, we are economically dependent on China. And the extent of this economic dependence goes deeper and broader. For example, it would be no exaggeration to say that many of Australia’s universities would suffer significantly if China was to limit in some way the number of Chinese tertiary students studying in Australia, and we can only imagine the impact on the new apartment market in Melbourne and Sydney if the ability of Chinese citizens to buy apartments in Australia was restricted.

3. SECURITY ALLIANCES

On 1 September 1951, following the Second World War, when Japan had been defeated and China was emerging from a civil war, Australia, New Zealand and the United States entered into the ANZUS Treaty, a military alliance which binds Australia and New Zealand and, separately, Australia and the United States, to co-operate on defence matters predominantly in the Pacific Ocean area. For Australia, this represented a shift away from our traditional alliance with Great Britain, and confirmed that Australia and the United States would be close allies into the 20th century and beyond.

Then, during the 1950s and 1960s, Australia’s relationship with Japan began to strengthen, based on Japan’s need for Australia’s resources, particularly iron ore, to power Japan’s post World War Two industrialisation.

So, at the time of the Whitlam Government’s recognition of the People’s Republic of China in 1972, Australia’s alliances with the United States and Japan were well-entrenched.

The challenge for Australia in the 21st century, frequently referred to as the East Asian Century, will be to navigate the treacherous diplomatic waters of the Pacific Ocean – maintaining our existing relations with the United States and Japan while at the same time continuing to build our relationship with China.

LA TROBE FINANCIAL’S PROFESSIONAL PLACEMENT SCHOLARSHIP PROGRAM

We at La Trobe Financial are firm believers in the concept of the 21st century as the East Asian century – and as a consequence of this, we agree that the futures of China and Australia are inseparably connected. We therefore think that it is important for La Trobe Financial, as a growing financial services organisation, to play its part in helping to foster and to develop a closer and warmer relationship between our two countries. Relations between countries can be strengthened by the exchange of ideas and thoughts between their citizens and the sharing of common experiences.

It was with these thoughts in mind that La Trobe Financial developed its Professional Placement Scholarship Program, a 6 week educational program specifically designed for Chinese participants, generally “middle managers with potential”, who work in the banking, finance and wealth management industry in China, and who wish to gain an understanding of the corresponding Australian industries.

Now in its fifth year, we aim to show the Program’s participants the wide spectrum of the Australian banking, finance and wealth management industries, and in doing so, help develop stronger relations not only between Australia and China, but also between La Trobe Financial and a variety of Chinese financial institutions.
ONE SOLUTION TO THE HOUSING AFFORDABILITY CRISIS

Our investors frequently speak of the effect that rising house prices have on their families. Young adults are living at home longer than ever, finding it more difficult and costly to get onto the property ladder. And with median house prices surging nationally to a staggering five times income – and approaching an extraordinary $800,000 in Sydney, for example – it is harder than ever for them to afford a starter home without the assistance of family.

La Trobe Financial’s innovative ‘Parent to Child’ (P2C™) product looks to address this affordability gap. P2C™ facilitates parental assistance, whilst protecting the parents’ wealth. It removes the need for risky bank guarantees, co-ownership agreements and/or further mortgages against the parental primary or other residences.

The P2C™ product formalises the assistance process between parent and child, documenting the arrangement, registering a mortgage on the security property, and then independently managing the assistance to ensure that it is repaid in accordance with the agreed terms.

Parents have traditionally gifted monies to their child, leaving them exposed in the event of a subsequent marital or deceased estate dispute. The P2C™ product is specifically designed to protect the parents’ investment from these risks. It also ensures that their assets and credit history are not exposed to any of the risks associated with their child running into difficulty with repayments. The parents however can still provide the much needed assistance for their children with interest rates starting as low as 3.4 percent per annum.

Parents are able to assist their child with the full purchase amount, or they can assist in part to make up the balance behind the child’s own loan, possibly saving their child tens of thousands of dollars in Lender’s Mortgage Insurance premiums.

The parent can decide the amount they wish to lend and the interest rate they wish to set (a minimum of CPI + 0.5%). Then they make an investment in La Trobe Financial’s independently rated and licensed investment fund with over 10,500 other investors and $830m in funds under management. The parents’ investment might be for the full amount or just part of the property purchase price. The parents’ contribution will be secured by way of a registered mortgage, ensuring that they have rights to the money at all times in the event of non-payment by the child following a marital or deceased estate dispute.

In the case of a part funding, the parents’ investment will rank second behind La Trobe Financial Services first mortgage loan. Because the parents’ investment is formalised, and can be subsequently waived or enforced, there is no risk of loss from the child’s marital separation or dispute. A parent can make their investment individually, collectively with other family members and via company or family trust entities. They will need to obtain independent legal, taxation and financial advice.
In case some think the world is going to pot, it is well to remember that just 50 years ago in 1964:

- We didn’t live as long (67 years vs. 78 years for men and 84 for women)
- We were hung-up and embarrassed by anything to do with sex
- Septic tanks were still common, if not the norm
- No freeways, domestic jet planes, mobile phones or internet
- Only black and white TV, which cost over $2,800 in today’s money!
- The drink scene was awful (six o’clock pub swill)
- Shops closed Saturday afternoons, Sundays and public holidays
- There was slow-food but no fast-food outlets
- There was no universal superannuation scheme
- Few went to university (50,000 vs. 1.4 million today)
- There were no cures for cancer and lots of other health problems
- Who could you outsource household chores to?

A glance at the first chart reminds us how much better off we have become in economic and financial terms.

Our standard of living is nearly three times greater than it was in 1964, when the old Industrial Age was giving way to our new age. Some more items to think about:

**YESTERDAY’S LIFESTYLES (1865-1965)**

- Dad was at work, Mum was at home (with 3 to 6 kids)
- Church & the Sunday midday roast
- Christmas holidays staying with relatives or friends
- Strict rules about sex and blasphemy

**TODAY’S LIFESTYLES (1965-2050)**

- Dad & Mum both at work (with 1 to 3 kids)
- The internet, mobile phones, tablets & electronic devices
- Frequent holidays including overseas destinations
- Less divorce than four decades ago (yes, really)

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**CURRENT INVESTMENT RETURNS**

Our objective for the Fund is to provide investors with regular monthly income with a relatively low level of investment risk and volatility, and to outperform the UBSA (UBS Australia) Bank Bill Index over one year (after fees and charges) on all mortgage investments.

Please refer to the chart below for our investment performance and current returns. This information is updated monthly on our website – latrobefinancial.com.

### Investment Performance

<table>
<thead>
<tr>
<th>Investment Category</th>
<th>Oct 2014 Rate</th>
<th>Historical Performance (30-June-14)*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6 mths</td>
<td>1 yr</td>
</tr>
<tr>
<td>1. Cash &amp; Mortgages</td>
<td>4.00</td>
<td>4.24</td>
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<tr>
<td>2. Pooled Mortgages</td>
<td>6.00</td>
<td>6.18</td>
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<td>3. Select Mortgages</td>
<td>7.84</td>
<td>7.69</td>
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<tr>
<td>4. High Yield Mortgages</td>
<td>9.41</td>
<td>10.22</td>
</tr>
</tbody>
</table>

Notes: Returns are calculated after fees and expenses. The historical performance of the High Yield Mortgages Option is based on 2nd mortgages made by the Fund over the past five years. These rates represent the average rates payable on the mortgage portfolio of each Option and may not be indicative of the returns on investment selections of individual investors. *Past performance is no guarantee of future performance.* The rates of return from the Fund are not guaranteed and are determined by the future revenue of the Fund and may be lower than expected. Investors risk losing some or all of their principal investment. The investment is not a bank deposit. Withdrawal rights are subject to liquidity and may be delayed or suspended. La Trobe Financial Asset Management Limited ABN 27 007 332 363 & AFS Licence No. 222213 is the issuer and manager of the La Trobe Australian Mortgage Fund ARSN 088 178 321. It is important for you to read the Product Disclosure Statement for the Fund before you make an investment decision. You can get a copy of the PDS from our website at www.latrobefinancial.com or by calling 13 80 10. You should consider carefully whether or not investing in the Fund is appropriate for you.

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