

## Only when the tide goes out...

'Only when the tide goes out do you discover who's been swimming naked,' is a famous quote from Warren Buffett about investing. And with so many recent entrants into Australia's investment landscape, it's important to understand the investment philosophies behind your asset manager or financial service provider. After all, should the tide go out, everything will be exposed!

At La Trobe Financial we have been talking for years about how, with due care and diligence, a manager can harness the best attributes of secured property credit to deliver low-volatility, monthly income for investors. With La Trobe Financial having some 70 years' of unbroken commitment to this asset class, we have a depth of experience unmatched in the market.

The La Trobe Australian Credit Fund (Fund) offers portfolio accounts that, since inception of the Fund in 1989, have declared no loss of investor capital, have paid all monthly income at the advertised rate and returned on time and in full all capital upon maturity. Owing to the deliberately conservative structures and philosophies we have in place, we were one of the few managers not to freeze or fail during the Global Financial Crisis.

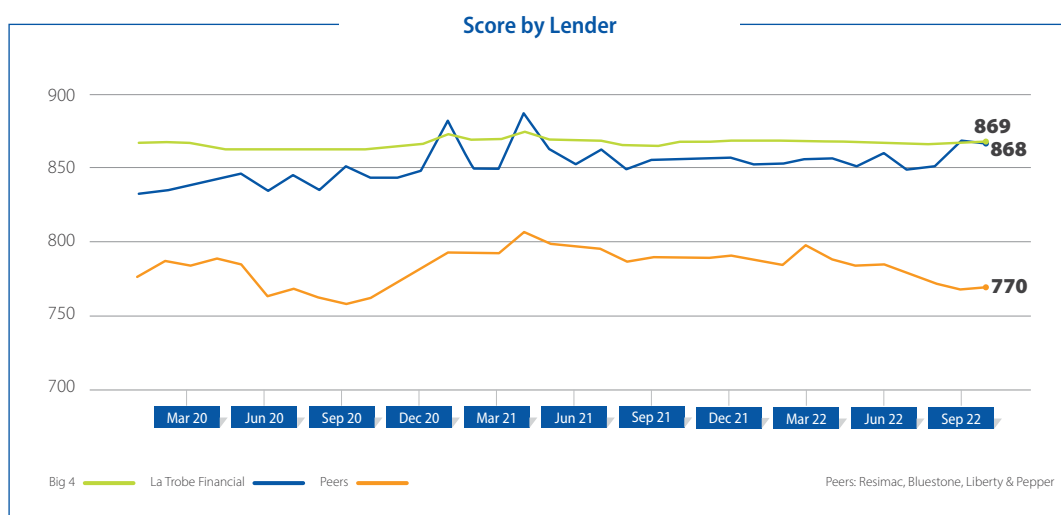
In fact the Fund and the performance of our portfolios have not only withstood, but performed through two "once in a generation" events: the Global Financial Crisis and the more recent Global Virus Crises. Each has been navigated with great care and diligence, and our impeccable performance history has been maintained throughout.

The asset class of secured property credit is broad, and deep. Significant opportunity exists for a manager to carefully select assets from an enormous base to suit a particular return profile. But success in this asset class goes far beyond this. At the macro level, we have long suggested that anyone considering investing into this sector, or indeed any sector, should reflect on the below points.

### The Assets

The assets of the fund are the driver of the returns and the volatility experienced by investors. Consider if the assets are comprised of lower-risk, broad and 'vanilla' style assets, or, are they comprised of niche segments of the industry?

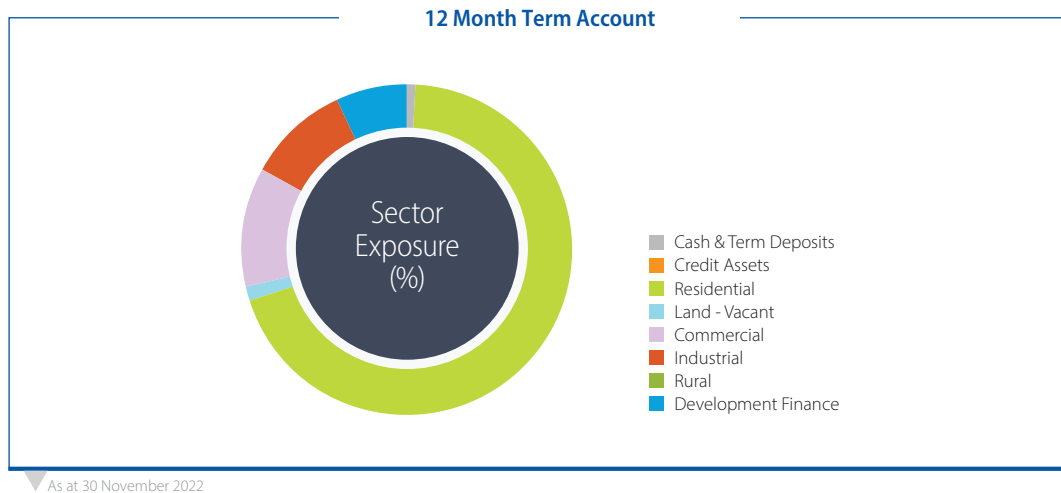
La Trobe Financial focuses on lending to high-quality borrowers who are either looking for an alternative to the banks to transact, or are not best served by highly automated underwriting models. We describe this sector as "complex prime". Consider our average borrower credit score as provided by Equifax. La Trobe Financial applicants demonstrate a credit score equivalent to that of the applicants of the Big 4 banks.



Source: Equifax

Ask yourself whether the manager is suitably diversified? Consider the number of loans in the portfolio, where they are located, and the mix of residential, commercial and other sectors. Geographic and sector concentration drives volatility in a portfolio, as do loan amounts. Is the portfolio a 'big number of smaller loans', or a 'small number of big loans'? The outcome will drive volatility and performance.

Consider La Trobe Financial, which has a granular asset profile with an average loan amount across the entire fund of just \$645,144 (as at October 2022). The location of the assets broadly follows the population, ensuring our assets are among the deepest pools of available stock at any point in time. For example, our 12 Month Term Account comprises 10,821 individual loans, diversified by sector and geography.



Another key factor of a fund's asset selection – which can be overlooked – is the importance of all lending transactions being at arm's length. Where the borrower and the lender share a common shareholding, a very real risk is introduced around the quality of the lending due diligence, and how that loan will be handled should it start to under-perform.

At La Trobe Financial we are a true-to-label asset manager. No employee, manager, or shareholder of La Trobe Financial can obtain mortgage finance through the Fund.

Finally, consider whether the manager obtains an independent valuation of each property to ensure they maintain an independent view of its quality and condition, its valuation, and how it aligns with the overall strategy. Every mortgage asset across the Group – including the Fund – is valued by an independent valuer, entirely at arm's length. Each valuation is a full 'turnkey' valuation, with an internal physical inspection conducted by an independent valuer, who is governed by industry standards.

### The Structure

If the assets of a fund drive the performance, the structure of the fund magnifies its results. Historically, a range of riskier structures such as debenture funds (long-term business debt not secured by any collateral) were in the market, but have largely been retired. Any investment structure should be transparent, intuitive, and easy to understand.

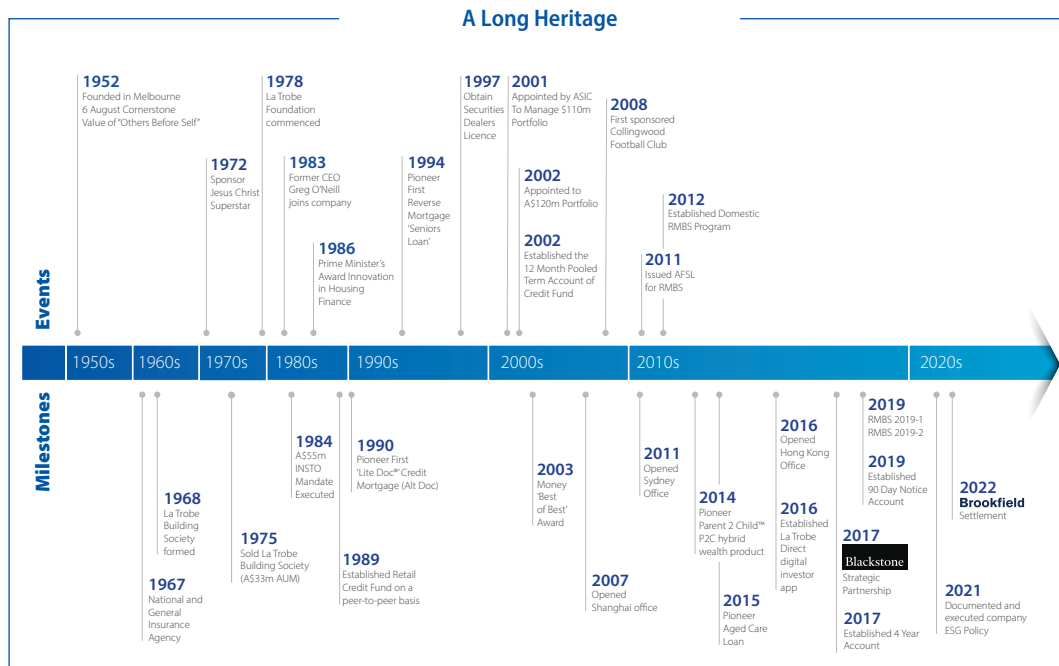
The La Trobe Australian Credit Fund is a registered, Australian Managed Investment Scheme. Where an investor is considering investing into our 12 Month Term Account, for example, they are investing into a pool of assets alongside other investors and have an equal, first-ranking interest in the underlying assets. It is intuitive and simple to understand with no sophisticated leverage or derivatives used to enhance returns.

Regarding transparency, we pride ourselves on open access to information. Our [Fund Investment Snapshot](#) is updated monthly and published to our website. As the ultimate hygiene test, it is not hidden behind a password or only provided to professional investors. The world at large can view, analyse, and make their own decisions. If a fund manager is reluctant to offer this level of granularity, consider why.

### The People

Managing this asset class is a real and specialised skill. It involves much more than just the technical ability to construct portfolios. To be successful in this sector, a strong knowledge of regulatory and legal obligations is required, as is a firm understanding of the property market and economic considerations. Additionally, a good fund manager has knowledge and consideration of the fact that in lending money to individuals, funds are often secured by their house or place of business. Managing a portfolio of borrowers requires a set of skills, unique to this sector.

Buying and selling assets in this asset class is not as simple as inputting a trade at a trading terminal. The soft and hard skills in approving or declining credit accumulate over time and through experience, and will ultimately set up future success or failure of a fund manager. The following is a list of key events and milestones in La Trobe Financial's long history:



Experienced fund managers will know that bad loans are written in good times. Boosting lending volumes by accepting lower quality borrowers is a huge risk. A fund manager's experience across multiple cycles is therefore an important consideration. For example, Australia saw a short recession through the pandemic, but on the whole, our economy has not created stress events for lenders in over a decade. Many new strategies and fund managers have not traded through a market stress event and it waits to be seen how these stack up.

At La Trobe Financial, we operate one global credit policy across our entire lending program. Our lending program dates back to the origin of the business in 1952. It has been tested and incrementally improved over many decades and cycles. Our credit policy has been reviewed and endorsed by our institutional funding partners, which include major domestic and international banks. Our management is comprised of long-term employees and industry professionals.

I trust this gives useful insight into our thinking and investment philosophies. Naturally, across the cycle funds and strategies will fall in – and out – of favour. The La Trobe Financial philosophy holds that a diversified portfolio of carefully selected mortgage assets, managed under a simple, transparent structure by a skilled team of professionals, will perform across the cycle, offering both downside protection and consistent income. Seventy years on, and we are yet to see this thesis disproved.

La Trobe Financial Asset Management Limited ACN 007 332 363 Australian Financial Services Licence 222213 Australian Credit Licence 222213 is the responsible entity of the La Trobe Australian Credit Fund ARSN 088 178 321. It is important for you to consider the Product Disclosure Statement for the Credit Fund in deciding whether to invest, or to continue to invest, in the Credit Fund. You can read the PDS and Target Market Determinations on our website [www.latrobefinancial.com](http://www.latrobefinancial.com), or ask for a copy by calling us on **1800 818 818**.

Past Performance is not a reliable indicator of future performance.

To the extent that any statement on this webpage constitutes financial product advice, that advice is general advice only and has been prepared without considering your objectives, financial situation or needs. You should, before deciding to acquire or to continue to hold an interest in the La Trobe Australian Credit Fund, consider the appropriateness of the advice having regard to your objectives, financial situation or needs and obtain and consider the Product Disclosure Statement for the Fund.

When considering whether to acquire or to continue to hold an interest in the Fund, you should remember that (1) an investment in the Fund is not a bank deposit or a term deposit, and is not covered by the Australian Government's deposit guarantee scheme. Investing in the Fund has a higher level of risk compared to investing in a term deposit issued by a bank and (2) there are other risks associated with an investment in the Fund. The key risks of investing in the Fund are explained in section 9 of the PDS.

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