



# La Trobe Australian Credit Fund – Select Investment Account

This report has been prepared for financial advisers  
and wholesale clients only



**Outstanding**

June 2024

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This Research Report is current as at the date on the report until it is replaced, updated or withdrawn. SQM Research reports are generally valid for a term of approximately 12 months but may be replaced, withdrawn or changed at any time as judged appropriate by SQM Research.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

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

## General Financial Product Advice

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: 18 June 2024**

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 Rating** ★★★★★

*Outstanding. Highly suitable for inclusion on APLs.*

<b>Fund Description</b>	
Fund Name	La Trobe Australian Credit Fund - Select Investment Account
APIR code	MFL0002AU
Asset Class	Mortgage Trust (Contributory / Peer to Peer)
<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	14-Jul-99 (return data from Jan-06)
Fund Size	\$261.9 (Apr-24)
Return Objective (per PDS)	Provide a reasonably stable and predictable income
Internal Return Objective	As above
Risk Level (per PDS)	Medium to High (indicative). Being a peer to peer mortgage product, the risk varies according to each investor's selection of investments (loans). Advisers/Investors should refer to the PDS/SPDS for details
Internal Risk Objective	Not applicable
Benchmark	No official benchmark
Number of stocks/positions	Varies. 463 as of April 2024
Fund Leverage	Nil
Portfolio Turnover	Not applicable
Top 10 Holdings Weight	16.3%
<b>Investor Information</b>	
Management Fee	Varies by individual investment. The average is 1.60%
TCR (Total Cost Ratio)	Varies by individual investment. The average is 2.00%
Buy Spread	Nil
Sell Spread	Nil
Performance Fee Rate	Nil
Minimum Application	\$1,000
Redemption Policy	Generally not available until maturity of individual investment
Distribution Frequency	Varies by individual investment - generally monthly
Investment Horizon	Varies by individual investment - usually 12-24 months
Currency Hedging Policy	Not applicable

SUMMARY

Fund Summary

Description

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

The La Trobe Australian Credit Fund offers investments in **seven** structured Investment Accounts, with exposure almost entirely to loans secured by registered first-ranking mortgages over real property in Australia. In this report, SQM Research reviews one of the seven, the La Trobe Australian Credit Fund – Select Investment Account (the Fund). **All key Fund statistics in this report refer to the ‘Select Investment Account’.**

**The Fund is a contributory / peer to peer (P2P) structured mortgage scheme (as opposed to a pooled mortgage scheme), offering direct exposure to investor-selected mortgage loans.** Underlying loans in the Fund are mostly secured by registered **first mortgages** (100% of the Fund by value as of April 2024) spread across the major property sectors, including commercial, retail, industrial, residential, and development finance. Loans not secured by a first mortgage will be secured by lower-ranking mortgages or have other arrangements. Most underlying loans are **short-term** loans (about **97.7%** have a maturity of one or two years).

All key characteristics of individual loans are spelled out in a Supplementary Product Disclosure Statement (SPDS) issued for each loan offered to investors. **Investors take responsibility for investment decisions and choose the specific mortgages they invest in.** This flexible P2P structure allows investors to maintain total control over their risk allocation and investment decisions. The trade-off to investor control over investment decisions is a potential lack of diversification. Numerous investments must be made to achieve diversification. The minimum investment for each mortgage is \$1,000.

The Fund is the single largest and longest operating secured P2P offering in Australia. La Trobe Financial commenced retail funds management in 1992, and the Fund in its current form commenced in 1999, following the introduction of the Managed Investments Act.

Unlike 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. Investors invest for the term of the selected loan, generally between 12 months and five years, although shorter terms are also available.

The investment objective of the Fund is to provide investors with a choice of loans that will enable them to achieve reasonably stable and predictable income over a set period, generally monthly. A majority of loans are assessed on an **alternative income verification (AIV)** basis. The Fund **does not** have a benchmark, given the dispersion of returns of the individual mortgages offered. **SQM Research has chosen to use the RBA Cash Rate plus 5% as a ‘Reference Index’ for performance comparison** in this report.

Fund Rating

The Fund has achieved the following rating:

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

Previous Rating: 4.50 stars (Issued April 2023)

SQM Research’s Review & Key Observations

About the Manager

La Trobe Financial Services Pty Limited is a wholly-owned subsidiary of La Trobe Financial Pty Ltd (collectively “La Trobe Financial Group”, “La Trobe”, the “Group”, the “Manager”). La Trobe was founded in 1952 and has since focused on asset management, specialising in mortgage credit. La Trobe was acquired in 2022 by global alternative asset manager Brookfield. SQM Research notes that there has been no material change to La Trobe’s business due to this change in ownership.

La Trobe manages over \$19 billion in assets under management (AUM) and employs more than 540 staff members spread across its head office in Melbourne and offices in Sydney. Around half of La Trobe’s total funding needs are met by the La Trobe Australian Credit Fund, with the rest provided by institutional investors via warehouse mandates and a residential mortgage-backed securities (RMBS) program. Approximately 50% of funds in the La Trobe Australian Credit Fund as a whole are sourced directly from retail investors, with the remaining 50% coming through financial advisers (including via investment platforms).

La Trobe recently established the La Trobe Global Asset Management (LGAM) strategy which aims to introduce unique investment products to Australian investors. Its first offering, the La Trobe US Private Credit Fund, was launched in December 2023.



SUMMARY

**Investment Team**

La Trobe has a governance and management committee structure comprised of senior officers and executives who oversee all of the Group's operations. This structure has been operating for more than 30 years, creating benefits identified by La Trobe that include a strong governance framework and embedded succession plan for each business unit within the Group. The structure has five committees plus three sub-committees.

Among La Trobe's key executives are Chief Executive Officer (CEO) Chris Andrews and Chief Investment Officer (CIO) Chris Paton who have been with La Trobe for 18 and 8 years respectively.

The investment processes employed by the Manager are designed to encourage team-based decision-making, effectively reducing the reliance on any one key individual. *Considering the investment/lending process and the size of the team, SQM Research is of the opinion that key person risk is 'low'*. While there has been some turnover among senior employees in recent years, SQM Research believes this is at normal levels and of no concern.

**1. Investment Philosophy and Process**

**Investable Universe**

The Fund provides loans to all major property sectors, including residential, commercial, vacant land, industrial, development finance, and rural property. Loans are mostly secured by a first mortgage and generally have a maximum loan-to-valuation ratio (LVR) of 80%, though LVR may be greater than this. Most underlying loans are short-term loans (about 97.7% have a maturity of one or two years). As previously noted, Fund investors choose to invest in individual loans, the characteristics of which are disclosed in the specific SPDS created for each loan offered.

**Philosophy / Process / Style**

The Fund aims to provide investors with a range of quality investment-grade property credit assets from which to choose to meet their specific investment objectives. La Trobe offers investors a choice of diversified loans across several levels, including sector, interest type, geographic location, and size.

Around 98% of loan applications come through independent mortgage originators and finance brokers. La Trobe's loan approval processes are governed by its Credit Risk Policy. Key steps in loan assessment include verifying all documentation, considering serviceability,

character, and credit issues, and valuing the security property. A majority of loans are assessed on an AIV basis.

All loans are approved in-house by the credit teams on a minimum 'dual sign-off' basis. Loans will generally be granted for personal or investment purposes, including the purchase or construction of a residential property or unit for owner-occupancy or rental investment; purchase or construction of select industrial, rural and commercial properties; purchase of land; alteration or extension of dwelling or unit; and refinancing, including equity release.

The general terms and characteristics of the Fund are detailed in the PDS for the La Trobe Australian Credit Fund, which covers all investment options, including the Select Investment Account. As a P2P fund in which investors choose individual loans, an SPDS is also issued for each loan, disclosing information such as the borrower, the location and other details of the security property, the interest rate, and the term of the investment. Investors should, therefore, read both the PDS and the SPDS before investing in a mortgage loan.

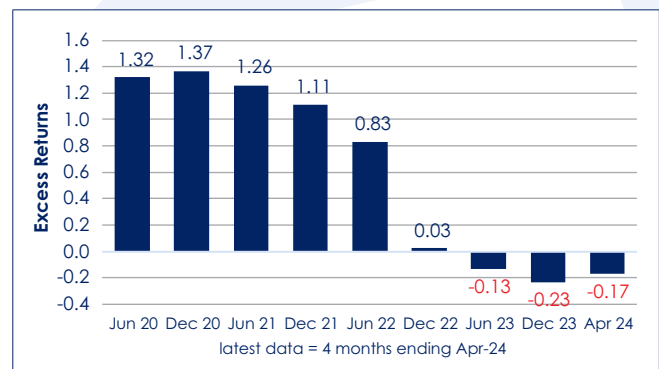
**2. Performance & Risk**

**Return Objective**

The return objective stated in the PDS is: the Fund "aims to provide Investors with reasonably stable and predictable income over a set period on a monthly basis, investing in loans".

The Fund **does not** have a benchmark, given the dispersion of returns of the individual mortgages offered. **SQM Research has chosen to use the RBA Cash Rate plus 5% as a 'Reference Index' for performance comparison only** in this report.

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



SUMMARY

**Length of Track Record**

The Fund has a history of 25 years (from 1999). The return data used in this report is from January 2006. 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 "Medium to High". Being a P2P mortgage product, the risk varies according to each investor's selection of investments (loans).

*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 rate risk. Advisers/Investors should read the PDS's 'Investment Risks' section 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).*

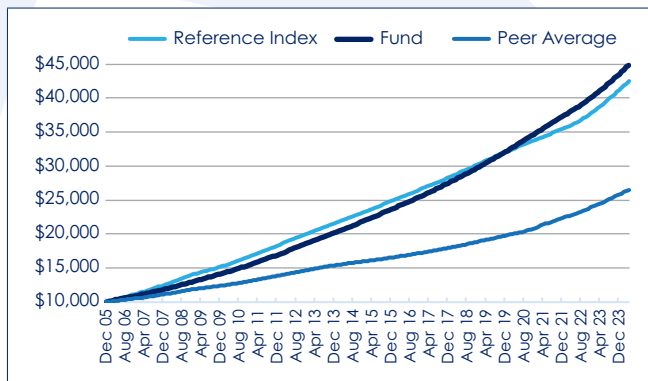
Fund Performance to 30 April 2024 (% p.a.)							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception*
Fund	0.73	2.21	4.47	9.07	8.04	8.05	8.53
Reference Index	0.77	2.33	4.74	9.57	7.39	6.65	8.21
Peer Average	0.64	1.99	3.72	7.87	7.00	5.46	3.02
Alpha	-0.04	-0.12	-0.27	-0.50	0.65	1.40	0.32

With dividends reinvested. Returns beyond one year are annualised. \* Return history starts Jan-2006  
Reference Index: RBA Cash Rate plus 5.00%

**Note:** These are indicative returns at the notional Fund level. Being a P2P mortgage product, the risks and returns vary according to each investor's selection of loans.

**Note:** The Fund does not have a benchmark, given the dispersion of interest rate returns of the individual mortgages offered, which are specified in their SPDs. SQM Research has chosen to use the RBA Cash Rate plus 5% p.a. as a 'Reference Index', for performance comparison purposes only.

**Growth of \$10,000**



**Strengths**

- La Trobe Financial Group 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 \$19 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 540 staff members.
- The Fund is diversified across geographical regions and borrowers. That said, the level of diversification for individual investors is dependent on their selection of loans.



- Arrears are managed effectively by working with the borrower and taking the required steps to bring them back in line with the payment schedule.
- The indicative total and risk-adjusted returns (at the Fund level) have been solid.
- The mortgage funds sector is also dependent on certain key macroeconomic variables like economic growth, unemployment, and interest rates. Any significant downturn can impact the property market and the borrower's ability to repay a loan.

### Weaknesses

The Fund is primarily involved in AIV documentation loans, which can be negatively perceived regarding the quality of a borrower. However, the Fund's experience, track record and stringent criteria for such AIV borrowers since 1990, mitigate this risk.

The Responsible Entity Board of Directors (La Trobe Financial Asset Management Limited) has no independent directors. However, the Compliance Committee is majority independent.

### Other Considerations

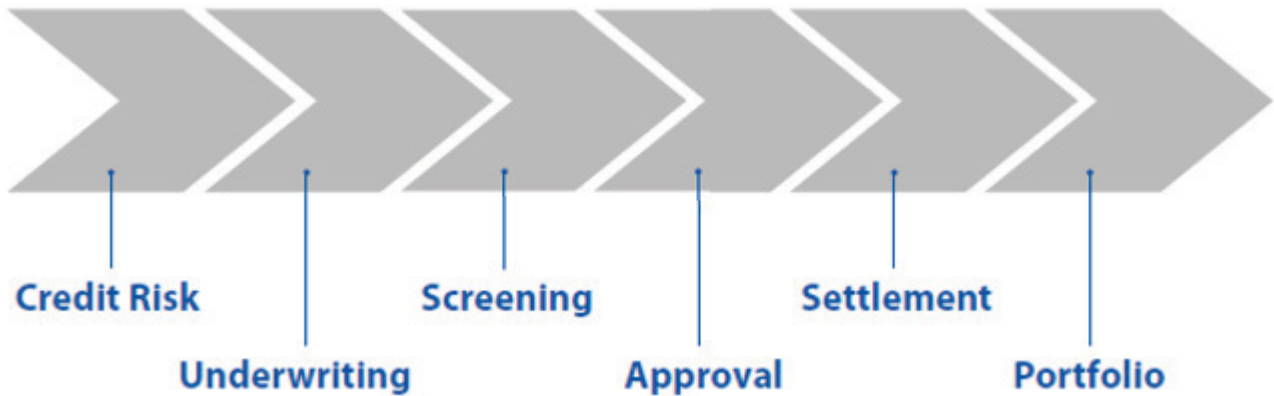
- The Fund is a contributory/peer to peer structured mortgage scheme (as opposed to a pooled mortgage scheme) aimed at investors seeking direct exposure to investor-selected mortgage loans. Advisers/Investors should refer to the PDS/SPDS for details.
- The portfolio metrics/risk-return depend on the loans each investor selects. Some of the key portfolio metrics (at the overall notional Fund level) as of 30 Apr. 2024 are:
  - Weighted average LVR is about 59%
  - About 97.7% of the loans have a maturity of one or two years
  - Interest rate type split is 41% variable and 59% fixed
  - Non-performing loans > 30 days in arrears are at 2.3% of the book or \$6.6m (6 loans)
  - Residential, vacant land and construction sub-sectors represent a large part of the book, at about 85%
  - AIV/Low-doc loans are about 76% of the book (30 April 2024)
- The minimum investment period is dependent on the individual loans selected by the investor. If the investor wishes to withdraw their funds prior to the loan being repaid by the borrower, a fee may apply.

### Key Changes Since the Last Review

- No changes to the investment process since the previous review



Investment Process Diagram



Process Description

Investment Process

Research and Portfolio Construction Process

Research and Idea Generation

La Trobe conducts regular research into topics such as the economy, the real estate sector, and the mortgage lending industry. It especially monitors economic factors relevant to its business including the level of housing formation and debt demand, projections for official interest rates, and unemployment and other labour force statistics. This research helps La Trobe set limits around loan and portfolio parameters such as maximum LVRs, geographic and sector exposure limits and loan size.

La Trobe also closely monitors the regulatory landscape, aiming to respond quickly to restrictions imposed on banks by the Australian Prudential Regulation Authority (APRA), the national banking regulator. These restrictions have led to new business opportunities for non-bank lenders, as has growing consumer awareness and acceptance of mortgage lending alternatives. La Trobe continues to invest in these opportunities where appropriate.

Loan Origination

Around 98% of loan applications come through independent mortgage originators and finance brokers, a channel La Trobe has been utilising since its establishment. It works with Australia's largest finance brokers, including AFG, Plan Australia, Fast, Connective, Lendi Group, Mortgage Choice and Smartline, and currently has around 3,800 active finance broker referral sources.

La Trobe Financial Group actively monitors the performance of its finance brokers. All must be appropriately licensed and must hold membership accreditation with one of the key industry bodies, the FBAA (Finance Brokers Association of Australia), MFAA (Mortgage & Finance Association of Australia) or CAFBA (Commercial and Asset Finance Brokers Association of Australia). While finance brokers do not approve loans, new brokers and their representatives must undertake an accreditation process to determine their understanding of La Trobe's credit policies and procedures.

## Investment Process

### Research and Portfolio Construction Process

*...continued*

### Loan Approval

La Trobe's loan approval processes are governed by its Credit Risk Policy, which is overseen by the Manager's Origination and Credit Committee (OCC). All loan applications are assessed by a credit analyst in the relevant credit team following a uniform approach. The Manager describes this as a 'full deep dive' assessment. It covers a broad range of metrics, encompassing, among other things, the 'five Cs of credit' (character, capital, conditions, capacity and collateral), and includes the following key steps. Verification of all documentation and information relied on in the loan approval process. This may encompass employer searches, employment verification calls and website checks. Assessment of serviceability, character, and credit issues in accordance with the relevant product assessment and approval policy. This typically involves a credit check of the borrower using an Equifax credit report. A valuation of the security property requested from a La Trobe Financial Panel Valuer.

A majority of loans are assessed on an AIV basis. This allows borrowers to provide alternative income verification, principally accountant certificates and six-month trading statements, which is acceptable under responsible lending guidelines issued by ASIC (the national credit regulator). Loans based on self-verification alone are outside the Fund's investment mandate.

All loans are approved in-house by the credit teams on a minimum 'dual sign-off' basis. This applies the Delegated Lending Authority (DLA) Matrix La Trobe maintains. This matrix reflects the Approval Sign-off limits allocated to each credit analyst depending on their loan approval experience.

Final approval commences with the assessing credit analyst certifying that the loan has been assessed and complies with the "loan acceptance" policies. All loans must be recommended by one credit analyst and signed off by at least one approval officer in accordance with La Trobe's DLA Matrix. The OCC's Large Loan Subcommittee reviews large loans that do not fit within La Trobe's mainstream lending limits. These loans are assessed and priced on a case-by-case basis.

### Valuation Standards

La Trobe has extensive policies governing the valuation of property offered as security for a loan, covering areas such as how and by whom a valuation should be conducted, and in what circumstances it is required.

La Trobe has outsourced management of valuations for residential properties to ValEx, a CoreLogic company. It provides valuation management and compliance services, which include maintaining La Trobe's selected valuer panel. Most commercial valuations are similarly outsourced to Valocity, a commercial property valuation platform. Larger commercial valuations are generally managed in-house.

All valuations must conform to La Trobe's Standing Instructions. To ensure compliance with these instructions, all valuation reports must be completed using the Standard Ordering Form. Valuations must also be no more than three months old at the time of settlement.

## Investment Process

### Research and Portfolio Construction Process

*...continued*

Loans can only be advanced where the security property has been valued by a member of La Trobe's Panel of Valuers. Membership of this panel is restricted to those that meet La Trobe's requirements which include that they:

- Be a professional person currently registered with the Australian Property Institute from a widely recognised valuation firm
- 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

### Loan Selection and Portfolio Construction

La Trobe will generally grant loans for owner-occupied or investment purposes secured over real property to enable the following activities and loan purposes:

- the purchase of an existing property or unit, or construction of new, for owner-occupancy or rental investment;
- the purchase of land;
- the alteration or extension of an existing owner-occupied or investment dwelling or unit;
- the purchase or construction of select industrial, rural and commercial properties;
- refinance of existing mortgages with other financiers, including equity release;
- business or investment; and
- equity release.

Investors are otherwise in charge of selecting individual loans for investment. La Trobe aims to provide them with a range of quality investment-grade property credit assets from which to choose to meet their specific investment objectives. La Trobe looks to ensure the offerings are diversified across several levels, including sector, interest type, geographic location, and size.

At the end of April 2024, the Fund's loan investments, in aggregate, included development finance loans (32%, by value), residential loans (28%) and vacant land loans (26%). NSW was the destination for 45% (by value) of loans, Victoria 38%, and Queensland 11%.

### Risk Management

Management of risk is a key objective across all aspects of La Trobe's lending practices. La Trobe does not manage risk for this Fund at a portfolio level. Investors in the Fund are exposed to the specific risks of the loans they select. These risks are generally reflected in the loan characteristics disclosed in the SPDS for each specific loan.

## Investment Process

### Research and Portfolio Construction Process

...continued

At the end of April 2024, 100% (by value) of the Fund's loans, in aggregate, were secured by a first mortgage. The weighted average LVR of these loans was 59%. Variable rate loans comprised 41% (by value) of total Fund loans, with interest rates on the remainder being fixed. All but a small portion of Fund loans are written with terms that do not exceed two years. At the end of April 2024 54% of loans were due to mature within six months, and 98% within two years.

### Arrears Management

La Trobe has detailed, proactive, and well-resourced processes for identifying and managing loans in arrears. It has around 50 people in its Mortgage Help team, which is responsible for delinquent loan management and takes what it labels a 'Firm, Friendly and Fair' approach. Mortgage Help operates independently from the loan origination department, keeping credit staff separate from efforts to rehabilitate problem loans.

The longer a loan remains delinquent, the more people become involved in trying to resolve the situation. When a loan initially becomes delinquent it is assigned to a Mortgage Help Case Officer, who will manage the account, including through regular contact with the borrowers and guarantors. If the situation remains unresolved after 60 days, more forceful steps are taken, including issuing default notices and possibly commencing legal action. These steps are coordinated by either Mortgage Help's Legal Action or Special Servicing teams, who engage external solicitors or advisory firms as required. If La Trobe takes possession of a security property, perhaps after a further 90 days, Mortgage Help's MIP and Loss Recovery team or Special Servicing team will coordinate the property's marketing and sale. They will also take action to recover any shortfall where this is considered feasible. As of April 2024, 2% of Fund loans (by value) were past due by at least 90 days.

### Material Risks

Advisers and Investors should refer to the Investment Risks section of the PDS.

Material risks which are associated with the Fund include:

**Credit risk:** the risk that borrowers may not meet their obligations in full.

**Documentation risk:** the risk that a deficiency in documentation could, in certain circumstances, adversely affect both the return on an investment and the recovery of the investment.

**Concentration risk:** the risk that the portfolio may lack diversification of assets.

**Regulatory risk:** the risk that the value of some investments may be adversely affected by changes in government policies, regulations or taxation laws.

**Economic risk:** the risk that a downturn in general economic conditions either inside or outside Australia may adversely affect investments.

Others include investment manager risk, security valuation risk, and general market risk. Risks other than those mentioned in this section (or the PDS) may also have a material adverse impact on Fund performance or value.

**Investment Process****Research  
and Portfolio  
Construction  
Process***...continued***Portfolio Characteristics****Portfolio Biases**

The vast majority of loans are typically secured by a first mortgage over real property. Fund investments may otherwise consist of 'Special Mandates,' which include, among others, loans secured by second or subsequent mortgages, and specific investment mandates agreed with individual investors. Such details are provided in the SPDSs accompanying individual loans offered to investors.

**Portfolio Turnover**

Not applicable.

**Liquidity**

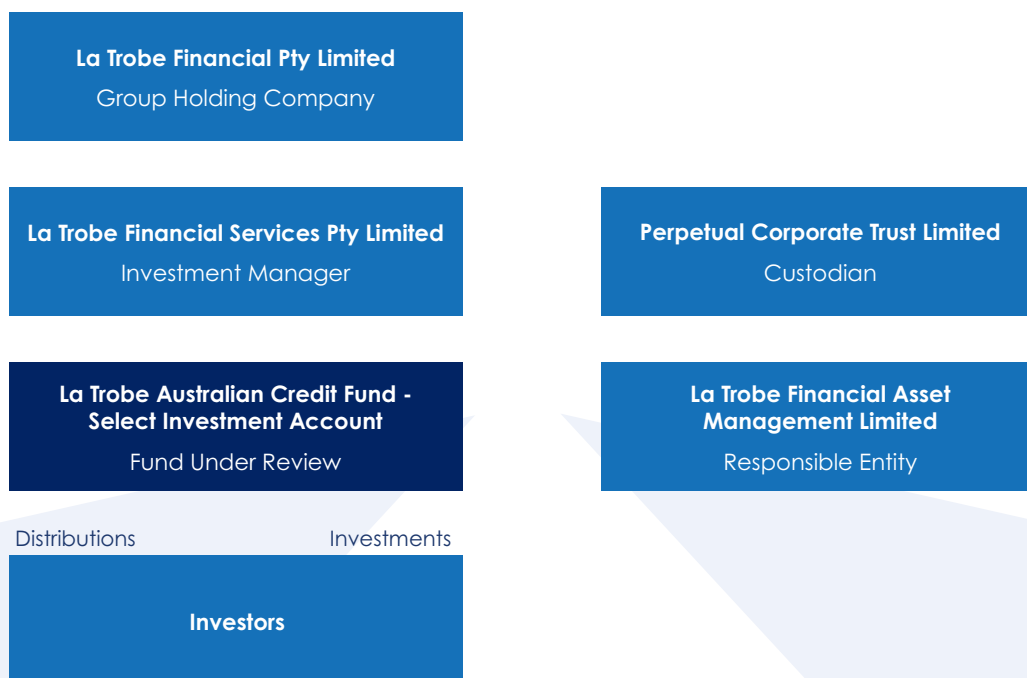
As per the PDS: "In relation to the Select Investment Account, liquidity is dependent on the borrowers repaying the loans on the due date, and Investors are only entitled to withdraw from the Fund once the loans have been repaid in full by the borrowers."

Redemptions are not available during the agreed term of each selected investment. Request for early withdrawal may be considered given exceptional circumstances, and only if a substitute investor is available. Advisers/Investors should refer to the PDS/SPDS 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 / Fund Manager

La Trobe Financial Group was founded in 1952 and has since focused on asset management, specialising in mortgage credit. It was acquired in 2022 by global alternative asset manager Brookfield. SQM Research notes that there has been no material change to La Trobe's business due to this change in ownership.

La Trobe manages over \$19 billion in AUM and employs more than 540 staff members, spread across its head office in Melbourne and offices in Sydney. The La Trobe Australian Credit Fund meets around half of La Trobe's total funding needs, with the rest provided by institutional investors via bank warehouse mandates and an RMBS program in roughly equal measure. Approximately 50% of funds in the La Trobe Australian Credit Fund as a whole are sourced directly from retail investors, with the remaining 50% coming through financial advisers (including via investment platforms).

La Trobe recently established the LGAM strategy which aims to introduce unique investment products to Australian investors. Its first offering, the La Trobe US Private Credit Trust, was launched in December 2023.

## Governance

### 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 **23** years of industry experience.

The Responsible Entity's **Compliance Committee** 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 **36** years of industry experience.

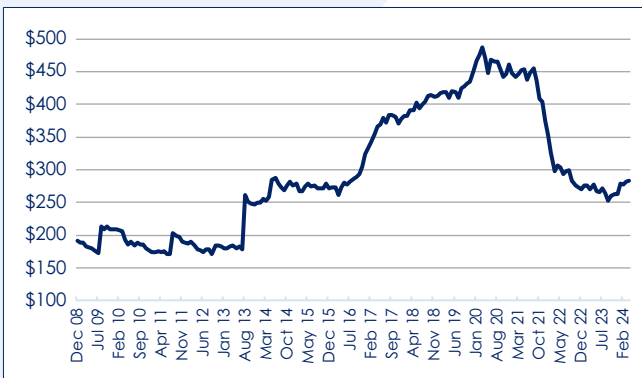
## Management Risk

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 the Manager and associated key counterparties are highly qualified to carry out their assigned responsibilities. Management risk is rated as low.*

## Funds under Management (FUM)

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



## Distributions

The size and frequency of distributions will vary for each investor and depend on the specific arrangements for each loan. Distributions will generally occur monthly; any variation will be disclosed in the relevant SPDS. Distributions depend on the borrower making the payments required under the specific loan.

Name	Responsibility / Position	Location	Years at Firm	Years in Industry	Qualifications
Chris Andrews	Chief Executive Officer	Melbourne	18	27	LLB, B.Comm
Chris Paton	Chief Investment Officer	Melbourne	8	17	LLB (Hons), B.Comm
Cory Bannister	Chief Lending Officer	Melbourne	24	26	Dip. ML, Adv.Dip.Bus.Acc
Martin Barry	Chief Financial Officer	Sydney	10	25	B.Sci (Hons)
Rowan Donohoue	Chief Operating and Risk Officer	Melbourne	14	23	LLB(Hons), B.A.
Richard Anstey	Head of Credit	Melbourne	16	24	LLB, B.Bus
Jacqueline Giuliani	Director of Customer Assistance, Servicing and Operations	Melbourne	3	19	LLB, B.Fin
David Tagg	Director – Head of Product	Sydney	1	30	GradDipAppFin, ADFS
Michael Watson	Director - Head of Distribution	Melbourne	10	21	MBA, B.Bus
Gary Bell	Chief Liquidity Officer	Melbourne	5	33	B.Comm, CA
Sandy Singh	Head of Fund Portfolio Management	Melbourne	12	13	M.Acc, CPA
Catherine Donatiello	Head of Product Support	Sydney	1	25	B.Comm, CA
Michelle Dai	Head of Group Portfolio Management	Melbourne	8	8	M.Acc, B.A., CA
Paul Brown	Treasurer	Melbourne	4	23	B.Comm, B.Acc, CA
Amy Hallihan	Head of Fund Operations	Melbourne	1	24	B.Comm, B.Sc, GCCM

### Investment Team

La Trobe has a governance and management committee structure comprised of senior officers and executives who oversee all of the Group's operations. This structure has been operating for more than 30 years, creating benefits identified by La Trobe that include a strong governance framework and embedded succession plan for each business unit within the Group. The structure has five committees.

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

Each committee meets at least quarterly with additional meetings called as required. There is also a Large Loan Sub-Committee (as required) and Special Servicing Sub-Committee (monthly).

Among La Trobe's key executives are CEO Chris Andrews and CIO Chris Paton. Chris Andrews became CEO two years ago following the departure of long-time CEO Greg O'Neill, who retired after Brookfield acquired his 20% stake in the business. Chris Andrews has spent 17 years with La Trobe, including 13 years as CIO. Chris Paton became CIO when Chris Andrews was promoted, having held several senior roles since joining the business in 2017, including General Counsel. Before joining La Trobe, he spent 10 years in the legal profession, specialising in banking and finance.

The investment processes employed by the Manager are designed to encourage team-based decision-making, effectively reducing the reliance on any one key individual. *Considering the investment/lending process and the size of the team, SQM Research is of the opinion that key person risk is 'low'*. While there has been some turnover among senior employees in recent years, SQM Research believes this is normal for an organisation of La Trobe's size and is of no concern.



### Meeting Schedule

The table below shows regular meetings that form an essential part of the overall process.

Meeting	Agenda	Frequency	Participants
<b>Executive Committee</b>	Corporate strategy and direction, budgets and forecasts, capital management. Human resources and succession planning.	Monthly	CEO; Chief Officers including Operating and Risk, Financial, Lending, Investment and Liquidity; + others (15 total)
<b>Origination &amp; Credit Committee</b>	Lending products and credit risk parameter setting, ensuring proficiency of distribution channels, reviewing impairment reporting, and setting policies for valuations, lending and collections management.	Quarterly	Chief Officers including Lending, and Operating and Risk; Heads of Credit, and Fund Portfolio Management; Treasurer; Director of Customer Assistance + others (11 total)
<b>Asset &amp; Liability Committee</b>	Group funding, product pricing, interest rate management, liquidity management, pricing and market risk and monitoring portfolio concentrations and facility covenants.	Monthly	CEO, Chief Officers including Financial, Lending, Investment and Liquidity, + others (12 total)
<b>Audit &amp; Risk Committee</b>	Managing group risk, maintaining AFSL and ACL licensing, and Group compliance plans. Setting the internal audit program, reviewing the engagement of external auditors, and ensuring the training of staff to the required standard.	Quarterly	Chief Officers including Operating and Risk; Heads of Credit, Operations, Internal Audit, and Cyber Risk and Security; Chief Legal Counsel; Director of Customer Assistance + others (13 total)
<b>IT &amp; Data Committee</b>	Managing the Group's IT and data strategy. Overseeing the delivery of automation and IT improvement projects across the business.	Quarterly	CEO, Chief Officers including Technology, and Business Optimisation; Heads of Cyber Risk and Security, and Platform Engineering + others (10 total)
<b>Large Loan Sub-Committee</b>	Approval of loans or borrower exposure greater than or equal to \$7.5m	As required	Chief Officers including Lending, and Investment; Heads of Credit, Commercial Credit, and Fund Portfolio Management + others (nine total)
<b>Special Servicing Sub-Committee</b>	Overseeing the management of complex workouts for construction loans. As a sub-committee of the Audit & Risk Committee (ARC), it ensures senior management maintains visibility of the Construction and Development portfolio, emerging risks, and ensures that appropriate risk management measures are taken to maintain the health of the portfolio.	Monthly	Deputy Chief Risk & Assurance Officer; Chief Legal Counsel; Heads of Collections Systems and Data, Fund Portfolio Management, and Special Servicing; Director of Customer Assistance + others (9 total)

*SQM Research believes the practice of constant communication and the broad-based inclusion of team members in decision-making is a vital ingredient to the success of the process. Interactive peer review and collaboration across a tightly knit group of experienced investors will likely make the best use of their combined intellectual property and shared history.*

## Staffing Changes

Turnover among senior employees in recent years is shown below. SQM Research believes this level of turnover is of no concern for an organisation of La Trobe's size.

Departures			
Date	Name	Responsibility	Reason for Departure
01-Sep-23	Richard Parry	Director of Finance	Resignation
28-Oct-22	Caterina Nesci	Director of ESG & International Partnerships	Resignation
31-May-22	Greg O'Neill	President & CEO	Retired
20-May-22	Troy Stratton	Deputy Chief Investment Officer	Resignation
17-Dec-21	Grant Earney	Director of Finance	Resignation
14-May-21	Fran Autolitano	Deputy Head of Credit	Resignation

Additions			
Date	Name	Position / Responsibility	Previous Position / Employer
8-Apr-24	Catherine Donatiello	Head of Product Support	-
26-Feb-24	David Tagg	Director – Head of Product	-
20-Nov-23	Ron Prasad	Head of Fund	-
28-Aug-23	Mark Aggarwal	Financial Controller - Fund	-
28-Aug-23	Amy Hallihan	Head of Fund Operations	-
16-Oct-23	Tim Hurford	Treasury Analyst	-
12-Sep-22	Trish Cavallo	Head of Transformation and Strategy	-
15-Jun-22	Tanya Hoshek	National Manager - Sales	-
19-Apr-21	Lilian Chin	Director of Client Partnerships	-
11-Jan-21	Slav Ilic	Head of Resi Operations	-

*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

La Trobe Financial Group aims to pay market-based compensation. Staff performance is assessed through a formal annual review and more frequent informal reviews. Criteria used to judge the performance of investment team members include considerations of distribution rates relative to the market, assets under management, and investor loyalty. The executive and business development teams are eligible for bonus payments, measured by, amongst other things, performance against key performance indicators set at an individual level.

*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.	1.60%	0.79%
Expense Recovery/Other Costs % p.a.	–	–
Performance Fee %	0.00%	12.50%
Total Cost Ratio TCR % p.a.	1.60%	1.14%
Buy Spread %*	0.00%	0.00%
Sell Spread %*	0.00%	0.00%

\* This spread is the difference between the Fund's application price and withdrawal price and reflects transaction costs relating to the underlying assets.

\*\* Peer average is based on data provided by SQM's data provider. SQM is not responsible for any errors or omissions.

### Management Fee

The management fee includes GST and is net of any applicable Reduced Input Tax Credits (RITC). The Management Fee includes the Responsible Entity fees as well as the investment manager fees.

### Performance Fee

The Fund does not charge a performance fee.

#### *SQM Research observes that:*

- *The Fund management fee is 1.60% p.a., which is 81 basis points higher than the peer group average of 0.79% p.a.*
- *The Total Cost Ratio (TCR) is 1.14% p.a., which is 46 basis points higher than the peer group average of 1.14% p.a.*

Risk/Return Data to 30 April 2024							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception*
Fund	0.73	2.21	4.47	9.07	8.04	8.05	8.53
Reference Index	0.77	2.33	4.74	9.57	7.39	6.65	8.21
Peer Average	0.64	1.99	3.72	7.87	7.00	5.46	3.02
Alpha	-0.04	-0.12	-0.27	-0.50	0.65	1.40	0.32

Metrics	1-Year	3-Year	5-Year	Inception
Tracking Error (% p.a.) - Fund	0.03	0.33	0.37	0.45
Tracking Error (% p.a.) - Peer Average	0.83	0.84	1.22	0.64
Volatility - Fund (% p.a.)	0.03	0.23	0.18	0.19
Volatility - Peer Average (% p.a.)	0.84	0.79	1.13	0.42
Volatility - Reference Index (% p.a.)	0.05	0.53	0.49	0.58

Distributions reinvested. Returns beyond one year are annualised. \* Return history starts Jan-2006  
 Reference Index: RBA Cash Rate plus 5.00%

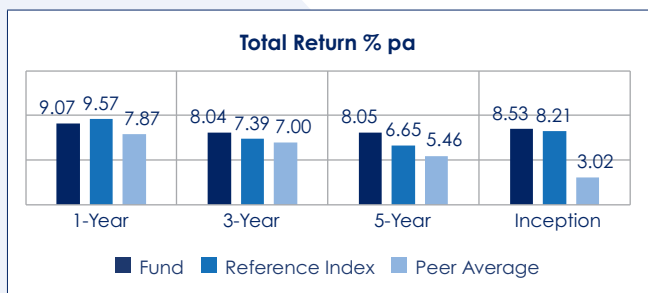
**Note:** These are *indicative* returns at the notional Fund level. Being a P2P mortgage product, the risks and returns vary according to each investor's selection of loans.

**Note:** The Fund does not have a benchmark, given the dispersion of interest rate returns of the individual mortgages offered, which are specified in their SPDSs. SQM Research has chosen to use the RBA Cash Rate plus 5% p.a. as a 'Reference Index', for performance comparison purposes only.

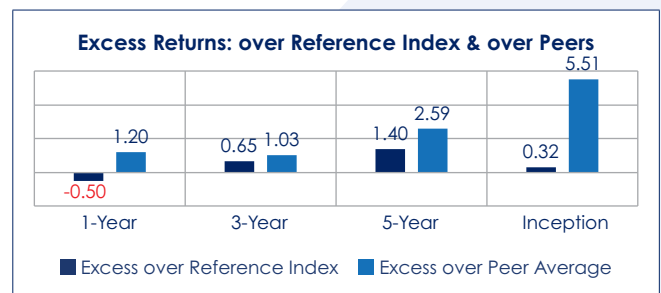
**Quantitative Insight<sup>1</sup>**

**Note:** Unless otherwise stated, all return and risk data reported in this section are **after-fees** and for **periods ending Apr-2024**. Since inception data commences Jan-2006.

**Returns**



**Excess Returns (Alpha)**



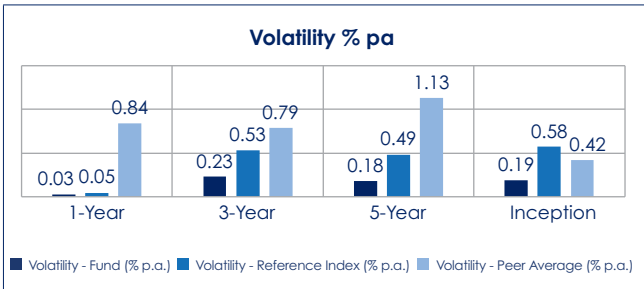
The Fund has displayed strong performance across all periods compared with peers. It has displayed strong performance compared with the reference index across all periods except the most recent year. Recent performance relative to the reference index may be partly due to La Trobe not passing official interest rate rises through to borrowers in full during the recent up-cycle, as has been the case for the mortgage market in general in Australia.

The Fund's performance objective, to provide reasonably stable and predictable income, appears to have been met over the long term. This includes periods of economic uncertainty, which was heightened during COVID-19, and the 2010s, a period of generally low interest rates.

The **return outcomes**, as described above, are above the PDS objective, and are consistent with SQM's expectations for the Fund relative to its fee level and volatility. *As discussed above, it should be noted that these are indicative returns.*

<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** (annualised standard deviation of monthly returns) has tended to be much lower than the reference index and peers, reinforcing the point that the Fund appears to have met its performance objective to provide reasonably stable and predictable income.

The **risk outcomes**, as described above regarding volatility, are in line with the PDS statements about risk and 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 rate risk. Advisers/Investors should read the PDS's 'Investment Risks' section 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).*

**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  
Chetan Trehan 02 9220 4607  
Paul Saliba 02 9220 4606

**Analyst:**

Michael Lindsay

**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)