Product Assessment

Report as at 14 Jun 2024

RECOMMENDED

La Trobe Australian Credit Fund - 12 Month Term Account

Rating issued on 13 Jun 2024 | APIR: LTC0002AU

Investment objective

To provide investors with a reasonably stable and predicable income stream based on a monthly variable rate of return at a premium over Cash and in excess of the Bloomberg AusBond Bank Bill Index plus 1.50% through exposure to a diversified, Australia-wide portfolio of Real Estate Mortgage securities.

Manager	La Trobe Financial Services Pty Limited
Distributor	La Trobe Financial Asset Management Limited
Sector	Australian Fixed Interest \ Specialist
Investment Style	Active
RI Classification	Aware
Absolute Risk	Moderate
Relative Risk	Active - Benchmark Unaware
Investment Timeframe	5-6 Years
Benchmark	Bloomberg AusBond Bank Bill Index
Min Investment Amount	$10
Redemption Frequency	Annually
Income Distribution	Monthly
Fund Size (29 Feb 2024)	$7.84B
Management Cost	1.80% p.a. Incl. GST
Performance Fee	N/A
Buy / Sell Spread	0.00% / 0.00%
Inception Date	01 Oct 2002

Fund facts

- A pool of Direct First Registered Mortgages primarily backed by residential, industrial and commercial assets
- Engages primarily in low-doc, mortgage lending
- Maintains an Investor Reserve to smooth returns and offset any potential losses arising from non-performing loans

Viewpoint

The Fund, managed by La Trobe Financial (La Trobe), provides exposure to a diversified, Australia-wide portfolio of Real Estate Mortgage securities. Requiring a minimum 12-month commitment, the Fund is offered as an investment account under the La Trobe Australian Credit Fund. Zenith believes the Fund represents a differentiated offering relative to traditional Fixed Income strategies, and an attractive entry point for those seeking to gain exposure to prime and near-prime mortgages. Notwithstanding this, Zenith continues to highlight the high absolute fees which we view as a detractor to the attractiveness of the Fund.

Founded in 1952, La Trobe is an independent credit specialist and alternative asset manager, with operations in Melbourne, Sydney and Shanghai, spanning over 540 staff. La Trobe Financial is owned by global alternative asset manager, Brookfield.

La Trobe has approximately $A 19 billion in funds under management as at 31 March 2024, with $A 8 billion in the Fund. La Trobe has established a sound track record in this sector, which Zenith believes is the result of their deep lending experience spanning over 70 years as an organisation.

The Fund is classified as a Specialist proposition within the Australian Fixed Interest asset class, with Zenith noting the Fund's predominant focus is on low-doc lending. Low-doc loans typically allow borrowers to provide alternative income verification documents, principally accountant certification and trading statements. Zenith retains comfort that La Trobe has robust risk and control measures in place to mitigate impacts to investor capital while providing competitive returns through the credit cycle. In Zenith's opinion, risks pertinent to the Fund are effectively managed through adherence to stringent lending criteria, full credit and risk assessments, and proactive arrears management.

As an additional layer of risk protection, the Fund maintains an Investor Reserve as a buffer against losses and as a means of smoothing returns. The Investor Reserve is held for the sole benefit of investors and is expected to represent between 0.30% and 0.60% of the Fund's value. While the benefit of this feature has the potential to be time varying (i.e. favouring those investors with exposure during stressed environments), Zenith believes it is prudent given the higher risk nature of the lending operations.

Zenith considers the Fund suitable for those seeking capital stability and an income return in excess of the cash rate, through the investment cycle. However, investors should only consider the Fund if they have a higher risk tolerance (relative to Cash). Investors should also be comfortable with the inherent risks of liquidity mismatches to which most mortgage funds are prone, however, Zenith acknowledges that the 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.

Fund analysis

Fund characteristics

Constraint	Value
Cash or Liquid Securities	Minimum: $A 0.5 Million
Individual Loan Exposure	Maximum: 2.5% of FUM
Fund LVR	Maximum: 75%
Loan Term	Maximum: 40 Years
Security Type	
Residential	30% to 80%
Commercial	0% to 40%
Industrial	0% to 30%
Rural	0% to 15%
Construction & Development	0% to 15%
Vacant Land	0% to 10%
Geographic Allocation	
ACT/NT	0% to 10%
NSW	0% to 50%
QLD	0% to 40%
SA	0% to 10%
TAS	0% to 10%
VIC	0% to 50%
WA	0% to 20%
Interest Rate Type	
Variable	Target: 50%
Fixed	Target: 50%

Investment objective and philosophy

The Fund is designed to deliver stable returns with predictable monthly income distributions through investment in a diversified pool of Real Estate First Registered Mortgages. Specifically, the Fund invests across residential, commercial, industrial, vacant land, rural and construction mortgages, with residential mortgages accounting for a large majority of the Fund’s exposure. Furthermore, La Trobe targets the complex prime segment of the mortgage market as this is an area that is generally underserviced by Authorised Deposit-taking Institutions (ADIs), such as major banks.

La Trobe's benchmark for the Fund is the Bloomberg AusBond Bank Bill Index plus 1.50%, which it seeks to outperform, net of fees, across the economic cycle.

The philosophy of maintaining high-quality credit processes and lending criteria allows La Trobe to exploit higher premiums associated with borrowers underserviced by mainstream financiers. La Trobe 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 believes this approach is congruent with the philosophy and core competency of the La Trobe organisation, and effectively represents a key point of difference relative to peers, many of whom are more restricted to additional risk taking as a means of generating returns. While these strategies can deliver outsized returns, there is also the risk that losses experienced due to default also increase, an outcome specifically avoided by the Fund via its strict lending and underwriting practices.

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

Portfolio applications

The Fund employs a resource-intensive investment strategy that seeks to originate and assess lending opportunities across several real estate sub-sectors. The returns of the Fund are expected to take the form of income, with the portfolio not likely to experience mark-to-market price movements typically observed across more traditional Fixed Interest strategies. While the Fund has a broad investable universe that includes niche segments such as rural and vacant land, it is expected that the majority of loans will be made to residential borrowers and to a lesser extent, commercial and industrial borrowers.

Zenith believes the Fund may be suitable for investors seeking exposure to a higher-yielding strategy, which may improve a portfolio's potential risk/return profile. However, given the Fund’s portfolio is concentrated in Real Estate Mortgages with a focus on low-doc lending opportunities, it may not be suitable for the more risk-averse investor. Rather, Zenith believes it may be suitable as a satellite exposure and should blend well with traditional Fixed Interest strategies to produce a more balanced set of investment outcomes.

Liquidity

La Trobe utilises an 'Annual Access Cycle', a 12-month fixed term for investor funds once an investor enters. Once each investor's maturity date is reached, funds may be withdrawn providing the withdrawal request is submitted at least 30 days prior to the maturity date. In the absence of a withdrawal request, an investment will be automatically rolled over for a further 12 months.

Once the initial 12-month period expires, investors seeking to continue their investment can choose an ongoing investment term. This will be the choice of either a new 12-month term or a 'Regular Access Cycle', whereby investors can elect for a proportionate level of their capital to become available for redemption over each month (8.3% of capital), quarter (25%) or semi-annual period (50%).

Withdrawals by platform investors are available on a monthly basis, however the Fund may limit this to 2% of the platform investor’s total investments.

La Trobe has structured these mechanisms to allow more efficient matching of assets and liabilities, and also to mitigate extraneous events causing a sentiment led run of redemptions.

Accordingly, investors should consider whether this structure suits their circumstances.

Whilst these mechanisms limit easy access to funds, Zenith believes they are appropriate given the illiquid nature of the underlying asset class. Zenith strongly believes mortgage funds should not be utilised as a substitute to Cash, nor should they be treated as a liquid place to allocate funds. Notwithstanding its design, the presence of term structures does not eliminate all risks associated with a clustering of redemption requests.

Fund responsible investment attributes

Key Information	Description
Zenith RI classification*	Aware
Has Responsible Investment Policy	Yes
PRI Status	
PRI Signatory	No

*Zenith RI Classification scale:

- Traditional
- Aware
- Integrated
- Thematic
- Impact

Absolute performance

Performance as at 30 Apr 2024

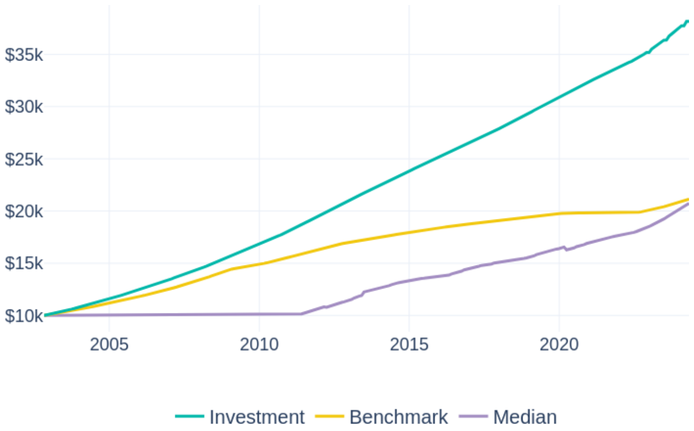
Monthly performance history (%, net of fees)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*	BM2 YTD**
2024	0.55%	0.00%	1.11%	0.00%									1.67%	1.44%	1.94%
2023	0.94%	0.47%	0.47%	0.48%	0.48%	0.50%	0.02%	1.02%	0.52%	0.52%	0.54%	0.55%	6.71%	3.85%	5.40%
2022	0.32%	0.32%	0.30%	0.30%	0.30%	0.36%	0.36%	0.39%	0.42%	0.44%	0.45%	0.00%	4.04%	1.25%	2.77%
2021	0.36%	0.36%	0.36%	0.36%	0.36%	0.36%	0.36%	0.36%	0.36%	0.35%	0.35%	0.35%	4.39%	0.03%	1.53%
2020	0.41%	0.41%	0.41%	0.39%	0.39%	0.39%	0.38%	0.37%	0.38%	0.38%	0.37%	0.36%	4.74%	0.37%	1.87%

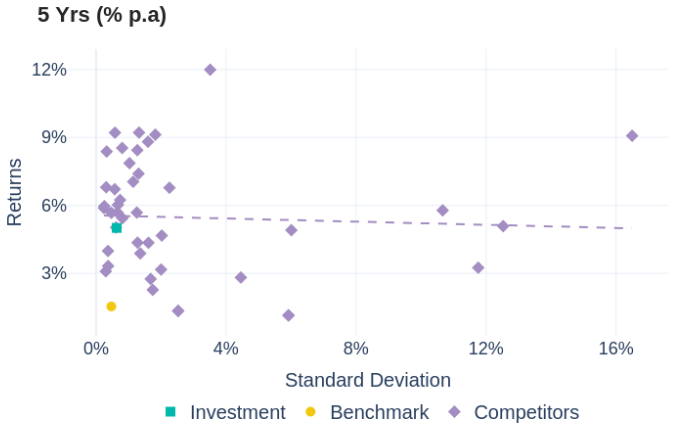
**Bloomberg AusBond Bank Bill Index*

***Bloomberg AusBond Bank Bill Index + 1.50%*

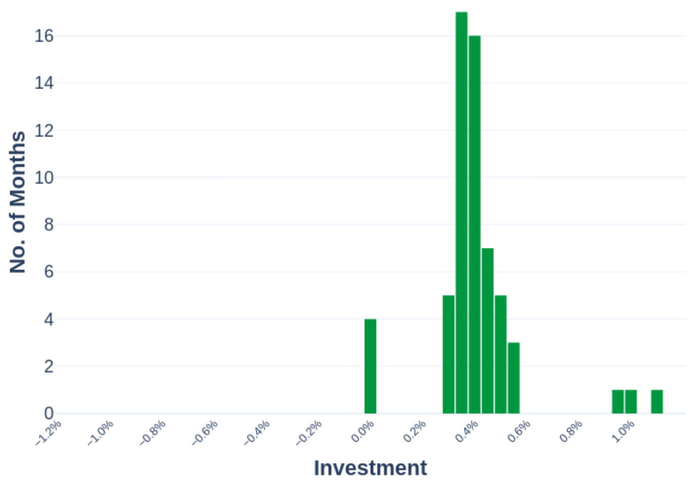
Growth of $10,000



Risk / return



Monthly histogram



Minimum and maximum returns (% p.a.)

Absolute performance analysis

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	**5.97%**	**5.11%**	**5.01%**	**5.25%**	**6.43%**
Income	5.97%	5.11%	5.01%	5.25%	6.43%
Growth	0.00%	0.00%	0.00%	0.00%	0.00%
Benchmark	**4.20%**	**2.18%**	**1.54%**	**1.83%**	**3.54%**
Median	**9.22%**	**6.42%**	**5.46%**	**4.90%**	
Cash	**4.20%**	**2.18%**	**1.54%**	**1.83%**	**3.54%**

Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	5 Yrs	Inception
Fund Ranking	36 / 43	29 / 41	20 / 31	24 / 44
Quartile	4th	3rd	3rd	3rd

Absolute risk

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Standard Deviation (% p.a.)					
Investment	1.18%	0.81%	0.63%	0.46%	0.45%
Benchmark	0.08%	0.52%	0.47%	0.35%	0.59%
Median	0.20%	0.69%	1.12%	0.93%	1.18%
Downside Deviation (% p.a.)					
Investment	0.00%	0.00%	0.00%	0.00%	0.00%
Benchmark	0.00%	0.01%	0.01%	0.01%	0.00%
Median	0.00%	0.00%	0.73%	0.51%	0.45%

Absolute risk/return ratios

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Sharpe Ratio (p.a.)					
Investment	1.51	3.60	5.46	7.48	6.43
Benchmark	0.00	0.00	0.00	0.00	0.00
Median	25.10	6.09	3.49	3.30	2.93
Sortino Ratio (p.a.)					
Investment	infinity	infinity	infinity	infinity	infinity
Benchmark	NaN	0.00	0.00	0.00	0.00
Median	infinity	infinity	5.40	5.99	7.63

Zenith benchmarks funds within the ‘Australian Fixed Interest – Specialist’ peer group against the Bloomberg AusBond Bank Bill Index. While this benchmark may not be consistent with the one adhered to by all sector participants, it has been adopted to provide investors with a common reference point against which the performance of similarly structured strategies may be assessed.

All commentary is current as at 30 April 2024.

The Fund is designed to deliver stable returns with predictable monthly income distributions through investment in a diversified pool of Real Estate Mortgages. La Trobe's benchmark for the Fund is the Bloomberg AusBond Bank Bill Index plus 1.50%, which it seeks to outperform, net of fees, across the economic cycle.

The Fund has generated returns in excess of its investment objective over the medium to long-term periods of assessment.

Meaningful peer group comparisons are challenging given the heterogeneous nature of the strategies employed across the sector, along with the different levels of credit quality and liquidity.

Relative performance

Excess returns

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Excess Return	1.77%	2.93%	3.46%	3.42%	2.88%
Monthly Excess (All Mkts)	75.00%	88.89%	93.33%	96.67%	97.67%
Monthly Excess (Up Mkts)	75.00%	88.24%	92.98%	96.58%	97.65%
Monthly Excess (Down Mkts)	0.00%	100.00%	100.00%	100.00%	100.00%

Capture ratios (% p.a.)

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Downside Capture	0.00%	-3814.41%	-5778.89%	-5778.89%	-5778.89%
Upside Capture	141.05%	220.59%	305.69%	276.88%	177.66%

Tracking error (% p.a.)

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	1.17%	0.83%	0.67%	0.48%	0.43%
Median	0.16%	0.27%	0.98%	0.87%	1.10%

Information ratio

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	1.51	3.54	5.17	7.19	6.75
Median	31.13	15.59	3.99	3.55	3.16

Beta statistics

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Beta	1.17	0.46	0.39	0.43	0.53
R-Squared	0.01	0.09	0.09	0.11	0.48
Correlation	0.08	0.29	0.29	0.33	0.69

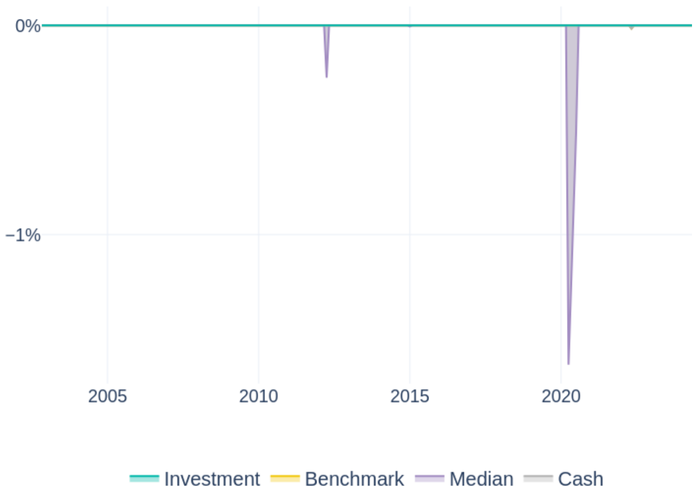
All commentary is current as at 30 April 2024.

Zenith seeks to identify funds which can outperform their index in greater than 50% of months, as we believe this represents a persistence of manager skill.

Given that the nature of pooled mortgage funds is to maintain capital stability, statistics in this section of the report should be viewed as less relevant. Relative performance analysis compares the performance of the Fund to the Bloomberg AusBond Bank Bill Index, an absolute, Cash-based index. As such, relative statistics including Capture Ratios and Beta are less meaningful.

Drawdown analysis (since inception)

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.



All commentary is current as at 30 April 2024.

The Fund is not subjected to the same mark-to-market pricing that is commonly observed across more traditional Fixed Interest strategies. As such, an assessment of the Fund's drawdown profile is not a meaningful measure of peer relative performance.

Fund commentary

Fund risks

Zenith has identified the following key risks of the Fund. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

Credit risk: The majority of the Fund's loan book comprises low-doc loans. Low-doc lending practices tend to be inherently more exposed to default risk than full-doc loans. While La Trobe has extensively tailored its processes to apply a full-doc type regime, credit risk is elevated compared to more traditional lending in this sector.

Borrower default risk: This risk is heightened due to the low-doc lending focus and as such, arrears management processes are critical. La Trobe has continued to monitor and refine its arrears management processes, coupled with continuing to operate under restrained lending limits, to manage these risks, however they will remain elevated compared to more traditional lending in this sector.

Development risk: Lending to finance property development or construction projects is an elevated risk proposal where a multitude of factors can impede a borrower's ability to service loans. Whilst the firm limits lending to this sector and uses both 'market' and 'as if complete' independent valuations to aid risk management, risks are higher compared to lending on stable, cash flow generating assets.

Security/asset selection

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

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

La Trobe's loan origination process utilises networks of independent mortgage brokers and their own internal Sales and Marketing team. Deals with mortgage brokers tend to be via established relationships, larger groups or direct accreditation, usually with smaller organisations. La Trobe undertakes ongoing monitoring of finance brokers by reviewing volumes of loan applications, settlements and performance.

It is important to note that loan approval is the internal responsibility of La Trobe and that none of La Trobe's Authorised Representatives or mortgage brokers have the ability to approve loan applications. In terms of the loan assessment process, this is also conducted in-house, with potential loan approvals not possible without a full set of supporting documents as defined by La Trobe.

La Trobe also participates in Direct Lending, which generally comprises approximately 3% of their loan book. This represents a diverse base and has been developed by La Trobe over a number of decades.

Following origination, a La Trobe underwriter undertakes the loan assessment, with the complexity of the loan being matched to the skills and experience of the underwriter. Following this, applications are submitted for credit approval, which requires a dual sign-off by authorised personnel, with those loans deemed large or complex potentially necessitating added layers of approval.

La Trobe's assessment of creditworthiness focuses on the borrower's credit history and stability, savings record (or equity available), loan serviceability and collateral security. Borrowers' creditworthiness is assessed using credit checks (Equifax) for both new loans and renewals. Financial information on income and assets are verified by the borrowers' accountant and debt serviceability assessed. In cases of PAYG income, direct inquiry with the employer is undertaken by the credit analyst. An independent valuation is also required from La Trobe's panel of valuers and the Fund's panel of solicitors will also undertake legal due diligence and provide certification of each loan.

In Zenith’s opinion, La Trobe’s credit assessment process is robust, employing a range of measures to address the nuances of each borrower type (e.g. assessing loan serviceability based on interest coverage ratio (ICR) and Debt Service Coverage Ratio (DSCR) for commercial loans and on net disposable income (NDI) for residential loans). NDI is similar to ICR in concept, however it differs by measuring income net of living costs.

Given the nature of the loan book and client base, Zenith believes the approval process is positioned to provide stronger levels of risk mitigation relative to peers, with no automated credit assessments or heavy reliance on desktop valuations. La Trobe continues to enhance the credit assessment process relating to loan serviceability, which we view positively. Generally, these enhancements reflect evolving regulatory requirements or where La Trobe believes there are avenues through which they can improve their understanding of inherent credit risk associated with individual borrowers.

Responsible investment approach

La Trobe has a Responsible Investment Policy (RIP) that was last updated in April 2022. The firm is not a signatory to the United Nations Principles for Responsible Investment (PRI).

Zenith notes that La Trobe applies a suitable approach to Environmental, Social and Governance (ESG) factors, evaluating certain ESG matters as a standard part of their policy management and business processes. ESG and ethical factors are captured by La Trobe and may be considered as part of their loan selection, retention or realisation. These factors are considered as and when La Trobe become aware and on a case by case basis, to the extent that these factors have an impact on the financial value of mortgage loans or performance of the Fund.

La Trobe seeks to mitigate risks associated with material ESG loans throughout the portfolio, and has the right to reject prospective loans on an ESG basis.

In Zenith's opinion, while acknowledging that the incorporation of ESG issues into Private Credit (particularly residential mortgages) is an area that is less developed than other asset classes, Zenith believes La Trobe's approach within the Fund is currently less developed than peers. Notwithstanding this, we have observed improvements to the integration of ESG factors within the investment process and risk management framework within recent years.

Portfolio construction

The La Trobe Australian Credit Fund has seven investor accounts over a central loan book:

- Classic Notice Account;
- 90 Day Notice Account;
- 6 Month Notice Account;
- 12 Month Term Account (the Fund)
- 2 Year Account
- Select Investment Account;
- 4 Year Account

All loans 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 Fund 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 seven accounts in the strategy based on the investment criteria and appetite applicable to each account. If the loan does not fit these criteria and appetite, it will be declined funding. Zenith sees the ability of management to 'mix and match' loans in the Fund as a key advantage, as it allows the tailoring of asset allocation and aids with liquidity management.

The diversity of funding sources assists the Fund to remain invested, rather than suffering the cash drag associated with holding higher levels of cash for redemptions. This function is also attractive from the point of view that La Trobe should be able to increase FUM while remaining close to fully invested in mortgages, thus avoiding cash drag on performance.

Finally, the diversity of funding sources substantially decreases investment size while increasing the number of investments for the Fund, resulting in smoother performance as a result of a more diversified loan book. A critical factor is that this approach also limits potential contagion risk between the strategy options. In Zenith's opinion, the Fund possesses a strong level of diversification when assessed on an absolute basis and also relative to peers.

Portfolio construction is conducted with a view to maximise the dispersion of loans across property types, geographic locations and borrowers, while conforming to risk constraints. Sector allocation is generally based on the historical performance of loans in each sector and is kept under review in association with prevailing property market conditions.

While Zenith believes that this approach is appropriate, we note some peers retain access to internal specialist real estate teams, which represents an advantage when forecasting property market movements. While La Trobe does not have this capacity, Zenith believes their access to external consultants and research appropriately satisfies their informational needs.

Portfolio construction is also focused on the maturity profile of the Fund, with specific efforts channeled into ensuring an appropriate balance between assets and liabilities (mortgage maturity vs. redemption entitlements). Owing to the inherently illiquid nature of real estate, La Trobe is cognisant of the potential for mismatches to interrupt operations. Much of this potential disparity is managed via the structuring of the investment term where the 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, with the loan portfolio typically retaining a higher proportion of shorter-term loans. Zenith notes that approximately 27% (as at 30 April 2024) of the pooled mortgage loans have a maturity date of one year or less.

Risk management

La Trobe's approach to risk management focuses on two main elements. Firstly, the team ensures a combination of strict portfolio construction, credit and risk assessment, and appropriate borrower security is implemented to control risks. Secondly, La Trobe believes that there can be incidences of good loans falling behind and applying robust recovery strategies to defaulting loans minimises negative impacts. Zenith highlights La Trobe's historical exposure to non-performing loans, which has been relatively small considering the typically high exposure to low-doc lending. In our opinion, this represents the robust system put in place by La Trobe.

Portfolio construction constraints, while fairly wide, limit riskier exposures to areas such as construction lending, 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 has historically represented problem areas for this asset class.

As an additional layer of risk protection, the Fund maintains an Investor Reserve as a buffer against losses and as a means of smoothing returns. The Investor Reserve is held for the sole benefit of investors and is expected to represent between 0.30% and 0.60% of the Fund's value. While the benefit of this feature has the potential to be time varying (i.e. favouring those investors with exposure during stressed environments), Zenith believes it is prudent given the higher risk nature of the lending operations.

The Investor Reserve provides three levels of support to investors. The first is to provide income smoothing between different interest periods, therefore ensuring a consistent and predictable income stream for investors. Secondly, it can be used to reduce the impact of a decline in the value of the assets in the Fund, thereby supporting capital stability. Finally, it provides a more equitable matching of the risk and reward profile of the option over time.

Zenith notes that since its 2002 introduction, the Investor Reserve has been effective in absorbing capital losses experienced by the Fund. However, while the reserve provides investors with added protection, Zenith highlights that it does not provide a capital guarantee (i.e. there may be instances where the capital reserve proves insufficient), leading to experiences of capital drawdown.

La Trobe has elected to receive no benefit from any Late Payment Fees (LPFs) incurred by borrowers who exceed their payment date of the loan principal or loan interest. Instead, these fees are entirely channeled to investors in the Fund. Zenith believes this decision supports more attractive returns for investors, while also avoiding any potential conflicts of interests that may arise from mortgage managers benefiting from underperforming loan investments.

Investment fees

	Fund	Sector Average
Total Fees and Costs (RG 97)	1.80% p.a.	0.99% p.a.
Management Fees and Costs	1.80% p.a.	0.86% p.a.
Transaction Costs	0.00% p.a.	0.12% p.a.
Performance fees as at 30 Jun 2023	0.00%	0.06%
Performance fees description	N/A	
Management Cost	1.80% p.a.	0.84% p.a.
Buy / Sell spread	0.00% / 0.00%	0.07% / 0.06%

All fees and costs are inclusive of GST unless indicated otherwise. The Performance Fee shown is the performance fee disclosed in the PDS. It is calculated by taking the average performance fees charged over the last five financial years (or less if the investment or performance fee mechanism has not been in place for five financial years).

The sector average fee (in the table above) is based on the average management cost of all flagship 'Australian Fixed Interest – Specialist' funds surveyed by Zenith.

The Fund does not incur buy/sell spreads; however, a fee of up to 1.50% may be levied in the event of an authorised early withdrawal prior to maturity (platform investors are exempt from this fee).

In Zenith's opinion, the management cost is a detractor to the attractiveness of the Fund, as it is high on an absolute basis and well above the peer group average in Private Credit.

(The fees mentioned above are reflective of the flagship version only, fees may differ when the product is accessed through an alternate investment vehicle such as a platform).

About the fund manager

Organisation

Founded in 1952, La Trobe is an independent credit specialist and alternative asset manager, with operations in Melbourne, Sydney and Shanghai, spanning over 540 staff. La Trobe's credit operations specialise in lending to borrowers who are under serviced by mainstream financiers, principally utilising low-doc lending.

In March 2022, La Trobe announced that its shareholders had agreed to sell 100% of the business to global alternative asset manager, Brookfield. Upon transaction close, then Deputy CEO and long-standing Chief Investment Officer, Chris Andrews, succeeded Greg O'Neill as CEO of the business, with Chris Paton succeeding Andrews as CIO. Other than this long-anticipated CEO and CIO succession, and transition of shareholder board representatives, no changes have been experienced by the business, its strategy or operations, as a result of this transaction.

La Trobe has established a sound track record in this sector, which Zenith believes is the result of their deep lending experience spanning over 70 years as an organisation.

Investment management functions are undertaken by La Trobe Financial Services Pty Ltd (LFS), whilst La Trobe Financial Asset Management Ltd (LFAM) is the Responsible Entity for the Fund. Both entities hold an Australian Credit Licence.

La Trobe's mortgage lending operations are funded via the issuance of Residential Mortgage Backed Securities, major national and international institutions on a wholesale basis, and via investors in the La Trobe Australian Credit Fund.

As at 31 March 2024, La Trobe had funds under management (FUM) of $A 19 billion. Of this, the La Trobe Australian Credit Fund had FUM of $A 10.4 billion, with $A 8 billion in the Fund (12 Month Term Account).

Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
Chris Andrews	Chief Executive Officer	24	21	Melbourne, Australia
Chris Paton	Chief Investment Officer	17	7	Melbourne, Australia
Martin Barry	Chief Financial Officer	28	10	Sydney, Australia
David Tagg	Head of Product	30	0	Sydney, Australia
Gary Bell	Chief Liquidity Officer	33	5	Melbourne, Australia
Sandy Singh	Head of Fund Portfolio Management	14	13	Melbourne, Australia
Michelle Dai	Head of Group Portfolio Management	9	9	Melbourne, Australia
Paul Brown	Treasurer	24	4	Melbourne, Australia

La Trobe employs over 540 staff, organised into several divisional lines including credit, investment, custody, finance, technology and governance, located across Melbourne, Sydney and Shanghai.

Each division is overseen by a divisional head who, in a number of cases, also acts as the chairperson of the management committee corresponding to that division. Membership of key committees is determined by the Executive Committee, which meets at least quarterly.

The Independent Compliance Committee for the Board of LFAM (Compliance Committee) comprises two independent committee members along with the CIO and meets quarterly. The Compliance Committee, through its independent committee members, reports to both the Board of LFAM and the independent Board of the La Trobe Financial Group's top holding company, AMC AusCo 1 Pty Ltd. The responsibility of the Compliance Committee is to manage fund risks from a top-down perspective with regard to asset allocation (asset type and regional spreads).

The Origination & Credit Committee (OCC) drives the business in setting relevant policies and guidelines, which shape the core aim of operating as a mortgage financier. This nine-person committee is chaired by Chief Lending Officer, Cory Bannister. The OCC controls the flow of loans to the Fund, determines lending guidelines with reference to the Board's risk appetite and monitors non-performing loans, which forms a feedback loop to the overall lending policies.

The Asset & Liability Committee, is responsible for all mortgage pricing and managing interest rate risk for the Group as well as setting the distribution rate to investors. This nine-person committee is chaired by Martin Barry, Chief Financial Officer.

Given the involved nature of mortgage origination, La Trobe uses a team-based decision-making process to ensure an appropriate level of specialisation is achieved within each function. However, the overall strategic direction of LFAM's funds management business falls within the remit of the Board, Compliance Committee and Executive Committee, with operational aspects implemented by the executives of the respective teams.

With respect to the Fund, the critical components are funds management, credit operations, asset management and portfolio management. Credit operations (lending) are separate from the asset management team, which manage arrears, litigation and loss recovery. In turn, these teams are separate from the portfolio management team, which drives the portfolio construction process and ensures compliance with risk management limits.

Zenith highlights that key person risk to the Fund is relatively low as the main operational functions tend to be dealt with by committees rather than individuals. This provides an element of redundancy protection to the system, which Zenith views positively. While there is a risk that the quantum of committees tasked with specific decision-making responsibility may restrict the nimbleness of the process, Zenith believes La Trobe has achieved an appropriate structure given the inherent characteristics of the Mortgages market segment.

Zenith highlights La Trobe's propensity to alter the organisational structure, staff position and reporting lines. While these actions have broadly aligned with a growing asset base and broad business growth, Zenith believes there needs to be a greater balance achieved between facilitating progressiveness and achieving an appropriate level of organisational structure. Zenith also notes that there has been a reasonable level of staff turnover over recent years and although we note that for such a large organisation, a level of turnover is to be expected, this needs to be monitored and robust succession planning implemented.

Remuneration structures utilised by La Trobe generally rely on market-based remuneration standards. Generally, bonuses are not paid, with the exception of Executive General Managers, where these are based on a range of risk and cultural metrics. In Zenith's opinion, La Trobe's remuneration structure is appropriate.

About the sector

Sector characteristics

The Zenith 'Australian Fixed Interest – Specialist' sector consists of funds that invest primarily in domestic Fixed Interest securities, complemented by positions in global markets including Government Bonds, Investment Grade and Sub-Investment Grade Bonds and Asset-Backed Securities. While the domestic and global split varies across the category, Australian Fixed Interest is expected to be the principal driver of returns.

Across the category, managers seek to generate outperformance from a range of active return sources including duration, sector rotation (i.e. dynamically allocating across sectors), relative value and bottom-up issuer selection. The relative importance from each return source will vary across the peer group, subject to each manager's investment style.

Zenith benchmarks all funds in this space against the Bloomberg AusBond Bank Bill Index, which may or may not be reflective of the underlying benchmark used by many of the managers in this category. The index has an average term to maturity of approximately 45 days, comprising 13 Bank Bills of equal face value, each with a maturity of approximately seven days apart.

The funds in the Specialist sector may display far greater downside volatility than the Bloomberg AusBond Bank Bill Index (i.e. while the index is used as a performance benchmark, it is not representative of the risks embedded in the strategies employed in the typically less constrained Fixed Interest mandates in the sector).

Sector risks

Funds within the 'Australian Fixed Interest – Specialist' sector are exposed to the following broad risks:

Market risk: Changes in economic, technological, environmental or political conditions and market sentiment may lead to a decline in general security prices and overall market volatility. During a general downturn in the securities markets, multiple asset classes may decline in value simultaneously.

Interest rate risk: Fixed Interest securities are generally sensitive to changes in interest rates. An increase in interest rates may result in a fall in the value of these securities, while a decrease in interest rates can result in an increase in value.

Credit spread risk: In addition to being sensitive to general interest rate changes, non-government securities are also sensitive to changes in credit spreads (commonly the difference in yield between a Government Bond and a Corporate security). A widening of spreads results in a fall in the value of these securities.

Credit risk: Given Fixed Interest securities represent loans to borrowers (including governments, banks and companies), there is a risk that these borrowers may default on interest or principal repayments. Credit risk is often reflected in credit ratings assigned by various credit agencies, which are subject to change.

Liquidity risk: Fixed Interest markets can experience periods of illiquidity, which can result in difficulties in buying or selling securities without adversely impacting the price.

Derivative risk: Derivatives are commonly employed by Fixed Interest managers to hedge currency and other risks, and/or as an alternative to direct purchases or sales of underlying assets. There are multiple risks associated with the use of derivatives. For example, the value of the derivative may not move in line with the underlying asset, counterparties to the derivative may not be able to meet payment obligations or a particular derivative may be difficult or costly to trade.

Administration and operations

Responsible Entity	La Trobe Financial Asset Management Limited

Zenith rating

Report certification

Date of issue: 13 Jun 2024

Role	Analyst	Title
Analyst	Darryl Ding	Investment Analyst
Sector Lead	Andrew Yap	Head of Multi Asset & Austn. Fixed Income
Authoriser	Bronwen Moncrieff	Head of Research

Association & relationship

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Rating history

As At	Rating
13 Jun 2024	Recommended
05 Oct 2023	Recommended
06 Jun 2023	Recommended
31 May 2022	Recommended
30 Nov 2021	Recommended
10 Jun 2021	Recommended
28 May 2020	Recommended
22 Jul 2019	Recommended

Last 5 years only displayed. Longer histories available on request.

In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.

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This report refers to the Australian unit trust for the fund, and the fund and benchmark returns are all in AUD.

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