2020 Mortgage Trust Sector Review

This report has been prepared for financial advisers only

14 May 2020

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This Research Report is current as at the date on the report until it is replaced, updated or withdrawn. SQM Research reports are generally valid for a term of approximately 12 months but may be replaced, withdrawn or changed at any time as judged appropriate by SQM Research.

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Report Date: 12 May 2020

Star Rating *	Description	Definition	Investment Grading
4½ stars and above	Outstanding	**Highly suitable for inclusion on APLs** *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.*	High Investment grade
4¼ stars	Superior	**Suitable for inclusion on most APLs** *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.*	High Investment grade
4 stars	Superior	**Suitable for inclusion on most APLs** *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.*	High Investment grade
3¾ stars	Favourable	**Consider for APL inclusion** *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.*	Approved
3½ stars	Acceptable	**Consider for APL inclusion** *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.*	Low Investment grade
3¼ stars	Caution Required	**Not suitable for most APLs** *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.*	Unapproved
3 stars	Strong Caution Required	**Not suitable for most APLs** *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.*	Unapproved
Below 3 stars	Avoid or redeem	**Not suitable for most APL inclusion**	Unapproved
Event-driven Rating		**Definition**	
Hold		*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.*	
Withdrawn		*Rating no longer applies. Significant issues have arisen since the last report date. Investors should consider avoiding or redeeming units in the fund.*	

* 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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Introduction

SQM Research provides licenced assessment ratings on managed funds in a range of sectors including Global Property, Domestic Property, Fixed Income, Global Infrastructure, Alternatives, Domestic Equities, International Equities, ETFs, A-REITs and Mortgage Trusts. SQM Research uses a 5-star rating system, which is recognised as an industry benchmark. Through the application of a rigorous assessment methodology, each fund under review receives a star rating that reflects its overall investment merits. This takes into account various key factors including management, corporate governance, process, fees and returns.

SQM Research has included **10** funds in the **2020 Mortgage Trusts Sector Review**. This document outlines those ratings assessments. Data included in the report is current to **31 March 2020,** unless otherwise indicated.

The funds discussed in this report are:

	Fund Name
1	La Trobe 12 Month Term Account
2	La Trobe Select Investment Account
3	Australian Unity Select Income Fund
4	Balmain Discrete Mortgage Income Trust
5	EQT Wholesale Mortgage Income Fund
6	Firstmac High Livez
7	Boston Private Income Fund
8	RF Eclipse Select Credit Fund (previously Eclipse Prudent Mortgage Fund)
9	Trilogy Monthly Income Trust
10	AIMS Commercial Mortgage Trust

This report includes "Pooled" mortgage funds and "Contributory" mortgage funds (or "Peer-to-Peer" mortgage funds). Five Funds operate pooled mortgage fund structures: Trilogy Monthly Income Trust, La Trobe Australian Credit Fund – 12 Month Term account, EQT Wholesale Mortgage Income, Boston Private Income Fund and AIMS Commercial Mortgage Fund. Four funds operate contributory mortgage fund structures: La Trobe Australian Credit Fund – Select Investment Account, Balmain Discrete Mortgage Income Trusts, RF Eclipse Select Credit Fund and Australian Unity Select Income Fund. Firstmac was the only RMBS Fund rated in this review.

Market Update

SQM Research has reviewed the Australian Mortgage market to assess the factors that may influence the future growth of the sector, demand and supply, and the potential market share of participants. Data has been obtained from both government and industry sources (publications / websites / fund managers), including industry associations, and is intended to reflect an independent analysis and assessment of the market.

Economic Factors

At the time of writing this section of the report (end of April 2020), SQM Research believes that the Economic outlook has completely changed over the last 2 months, due to the Coronavirus (COVID-19) pandemic. The previously favourable macro-economic conditions in Australia and globally have turned into probably one of the worst recessions in modern history.

Apart from being a very major health issue, the pandemic is having a significant impact on all major economies, the severe effects of which are being felt in the financial markets and on the ground (in the real economy). Based on the subsequent lockdowns, most Australian businesses have either significantly curtailed or temporarily suspended their operations, and this has led to a significant spike in unemployment. Governments and Central Banks around the world are taking unprecedented actions to support their economies and employment levels.

For Australia, recent actions taken by the policymakers include:

- Official interest rate (Cash rate) dropped to 0.25%, representing two 25 bp cuts in March.
- Quantitative Easing (QE) introduced, which involves RBA buying Government Bonds (both Federal and State/Territories) in the secondary market, in order to keep bond yields low, increase the liquidity in the financial system and support economic activity by making credit more readily available and at lower interest rates. This is happening for the first time ever in Australian history – central banks in US, UK, Europe and Japan started using this unconventional policy during (or just after) the GFC. As of 21 April, RBA had bought around $47 billion worth of Government Bonds.
- Federal and State Governments announced multiple policy packages focused on providing assistance to households and businesses. These packages include: supporting employment via the JobKeeper payments to millions of Australians, increasing the payments made to pensioners, families and welfare recipients, childcare support for parents (made free for 6 months), tax incentives for business investment, and other temporary/ hardship payments (amongst others). The JobKeeper payments are expected to cost about $130 billion, and the Government's total support for the economy about $320 billion across the forward estimates, representing 16.4% of annual GDP.
- Major Banks have been helping existing mortgage holders/borrowers (including individuals) who have been impacted by this pandemic, by deferring or reducing their repayments.

Outlook

SQM Research notes that considering the unprecedented nature of this COVID-19 pandemic, the Economic Outlook and forecasts are highly unclear, especially in the short-term. Leading into this crisis, the outlook for the property market (including Residential property) was largely positive, with some variations within the sub-sectors. That outlook has now materially deteriorated.

The medium to long-term implications will depend on how fast the restrictions are lifted and how fast the economy bounces back (V shape or U shape recovery, or something slower), and avoiding the worst of a second or third wave of this pandemic. The positive in Australia's case is that we have controlled the health impact of the pandemic better than most of the major countries.

In regards to the Mortgage Funds / Property sector, SQM Research observes the following:

- Preliminary feedback from the Mortgage Funds sector suggests that the FUM flows have been slightly negative (*informal/unpublished data*) in March and April (i.e. redemption requests). Anecdotal evidence suggests that some of these Mortgage Funds will pull back on lending somewhat and also become more conservative in their lending standards/terms. ***SQM Research believes that these are sensible and pro-active moves, which can then be adjusted or reversed in due course. Please refer to page 31 for FUM details.***
- The Mortgage Funds sector is entering into this crisis in a healthier condition as compared to pre-GFC, including better lending standards and a better liquidity match. Please refer to page 30 for LVR details.

- Arrears/Default levels are steady as of now and expected to rise somewhat. Some of the Funds have been contacted by a number of borrowers due to financial hardship claims and to request for loan repayment adjustments, which the Funds would consider on a case-by-case basis. This initial demand for repayment relief has reduced in recent weeks, based on the Government's economic packages and early access to Super. The Funds believe that these issues are short-term and temporary in nature. ***SQM Research notes that it is still early days to fully assess the impact of the COVID-19 pandemic, and things could get worse before they get better. Please refer to page 32 for details.***
- The Peer-to-Peer structures/funds may experience some rollover issues, which they will look at on a loan by loan basis and that will also depend on the relevant loan terms/adjustment of those terms.
- Considering the deterioration of various economic factors, expectations for house price growth are negative. Sales volumes and Auction clearance rates are falling, in most cases sharply. ***SQM Research Managing Director, Louis Christopher published a research note recently (April-20), outlining the possible scenarios for house prices (available on SQM Research's website).***
- Other sub-sectors of the property market also have a negative outlook. Industrial property is expected to fare better than Retail property.
- Once the economy opens and starts to recover, and the immigration levels improve, the historically low interest rates will be supportive of demand and prices.

SQM Research will continue to monitor the Residential Property sector and release additional research notes in due course.

Property Lending Statistics for all ADIs

***Note:* the following statistics have been compiled prior to the onset of COVID-19 pandemic.**

The table below summarises the exposures to commercial and residential property by all ADIs (released Dec 2019):

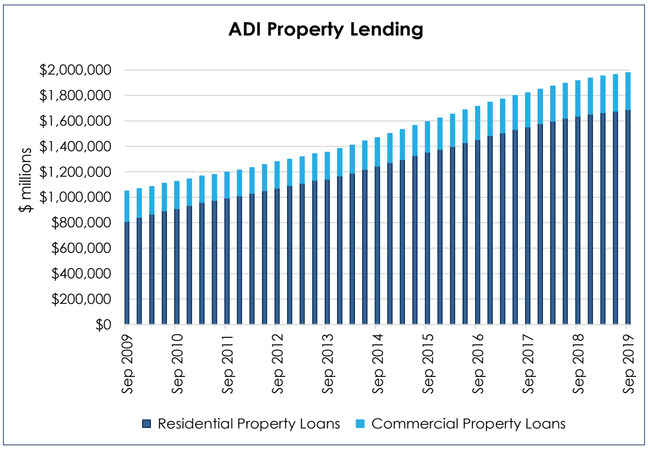
	Major Banks ($m)	Other Aust Banks ($m)	Foreign Banks ($m)	*Credit Unions ($m)	Total ($m)
Residential	$1,330,485	$229,982	$79,378	$27,555	$1,667,400
Office	$67,910	$2,888	$20,241	$29	$111,307
Retail	$58,889	$2,696	$13,093	$53	$87,823
Industrial	$29,874	$1,925	$4,600	$52	$41,051
Other residential	$10,430	$717	$4,824	$47	$20,843
Land subdivision	$27,464	$2,803	$2,188	$120	$34,762
Tourism and leisure	$5,115	$351	$4,764	$12	$15,006
Other	$21,341	$986	$5,546	$74	$33,493
Total	**$1,551,507**	**$242,349**	**$134,633**	**$27,942**	**$2,011,685**
Share	***77.1%***	***12.0%***	***6.7%***	***1.4%***	

Source: APRA Quarterly ADI Property Exposures, released Dec 2019 (for Sept Quarter figures); * includes building societies

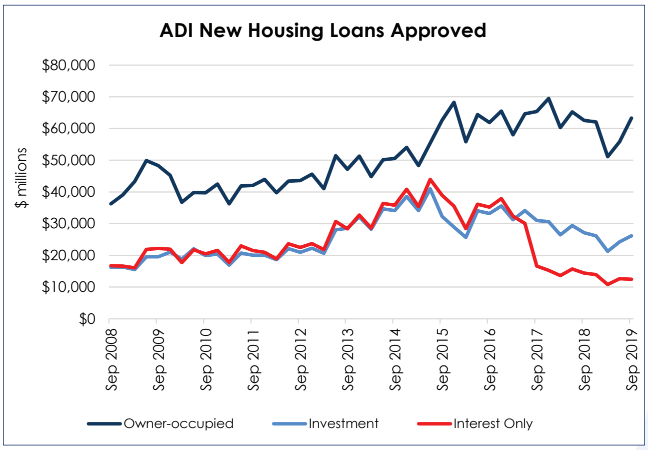
The total financial sector (ADI) exposure to residential and commercial property was $2.01 trillion. Major banks and other banks represent 89% of the ADI property exposure. Foreign banks and Australian credit unions remain minor players in the Australian property market, with only 6.7% and 1.4% market share respectively.

Data released by APRA in December 2019 for the September quarter showed:

- Long term growth in lending has averaged 1.8% per quarter; however, from September 2017 to September 2019 the growth rate declined to 0.8% per quarter.
- Residential property exposure for all ADIs was $1,667 billion, up from $1,619 billion in September 2018, an increase of about 2.9%.
- Commercial property exposure for all ADIs was $289.5 billion, up from $279.6 billion in September 2018, an increase of about 3.4%.



Source: APRA Quarterly ADI Property Exposures, released Dec 2019

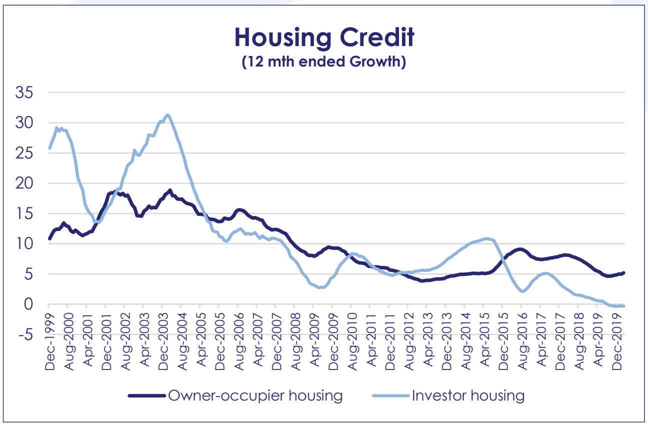


Source: APRA Quarterly ADI Property Exposures, released Dec 2019

Mortgage Finance Sector

Residential

- As at September 2019, ADIs' residential term loans to households stood at $1,667 billion. Of this, owner-occupied loans were about 67% and investor loans were about 33%.
- ADIs with greater than $1 billion in residential term loans approved $330.1 billion of new loans in the year ending 30 September 2019. Owner-occupied loan approvals were $232.3 billion, a 9.8% decrease from the year ending 30 September 2018. Investment loan approvals were $97.9 billion, down 13.9% over the year.
- ADI interest-only loans were $49.8 billion (15%) as at September 2019, a decrease of $9.3 billion or 49.6% over the previous year. Interest-only mortgages account for only 20% of total residential lending as at September 2019, down from a peak of 39% in March 2017. The decline was a direct result of the interest only restrictions applied by APRA back in March 2017. Since then, interest only restrictions were lifted in January 2019.
- The decline in funding approvals for investment properties began in June 2015 from a high of $41 billion to $26.1 billion by September 2019. Over the same period, interest-only loan approvals fell from $44 billion to just $12.4 billion. The breakdown in the relationship between the funding approved for investment properties and approvals for interest-only loans created an estimated funding gap of around $13-14 billion, and the Non-Bank Financial Sector partly filled that gap over the course of the last two years.
- Prior to the pandemic in March 2020, the sentiment supporting construction activity demand within residential and the key non-residential mortgage office and industrial sectors had been sound. The value of non-residential building approvals and building work had been healthy. However, building approvals have fallen from an average of 23,600 per month in 2017 to about 15,200 for the month of March 2020.
- Over the past three years, there has been a shift in lending for property towards non-ADI lenders. Residential mortgage lending by non-banks is estimated to have been growing much faster than the rate of banks' mortgage lending.
- Credit growth by banks and non-bank financial institutions shows a decline in lending to both owner-occupied and investor housing over the past two years. Growth in aggregate lending for investor housing has declined from 3.4% p.a. to -0.3% p.a. Growth in lending for owner-occupied housing has fallen from 8.0% p.a. to 5.0% p.a. over the past two years.



Source: RBA, D1, December 2019

- Housing credit growth has been weak. In six-month-ended annualised terms, growth in both investor and owner-occupier housing credit is around multi-decade lows, with investor credit growth especially weak. The slowdown has been most pronounced for the major banks. Lenders and mortgage brokers indicate that housing loan applications have decreased over the past couple of years with little change in the rate of loan approvals.
- The credit growth has been weak despite a modest easing in serviceability standards last year. In July 2019, APRA changed its guidance on the interest rate floors and buffers that banks use to assess a borrower's ability to repay a residential mortgage. However, amongst factors working in the opposite direction, earlier changes to lending standards are still being implemented. These include an increased focus on verifying expenses and implementing the 2018 changes to the Household Expenditure Measure benchmark, which has resulted in higher expense benchmarks for higher income house-holds relative to lower income households. Banks have also introduced policies limiting high debt-to-income lending and increased the repayment rates used to assess prospective borrowers' existing credit card obligations.

***Note:* Some of the data used in the above commentary was compiled prior to the March/April impact of the Coronavirus pandemic. Since there is a time lag in some of the data (including APRA & ABS data), the data releases in the coming weeks and months will show the real impact on housing/lending related indicators.**

Australian Bureau of Statistics (ABS) released the following data and commentary on **6 May 2020** (source ABS website):

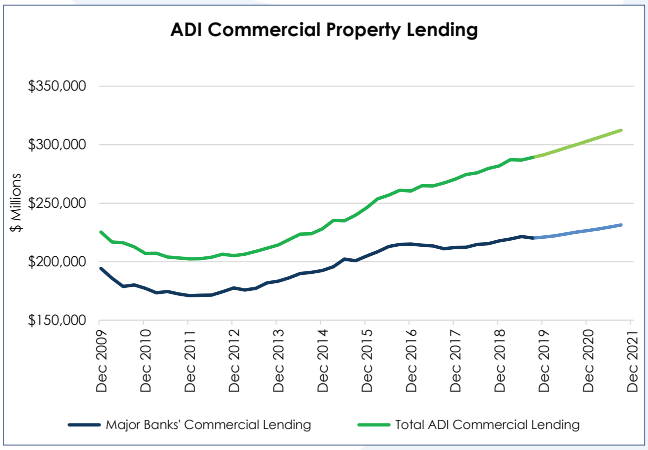
New loan commitments for housing steady in March

The value of new loan commitments for owner occupier housing rose 1.2%, while investor housing fell 2.5%.

ABS Chief Economist, Bruce Hockman, said: *"New loan commitments for housing were steady in March despite escalating COVID-19 restrictions. March loan commitments largely reflected loan applications submitted in February or the first half of March before major restrictions were introduced. Some lending institutions reported a slowdown in new loan applications towards the end of March."*

Non-Residential

- The banks' share of the non-residential mortgage market has been contracting for over five years now. The pullback by major Australian banks and the curtailment of interest-only loans (2017-2018) opened a substantial gap for others in both the residential and non-residential mortgage markets.
- Non-residential property lending by all ADIs was estimated to be $289 billion as at September 2019, up from $267 billion two years previously. Of this, the major banks held $221 billion, other domestic banks held 12.4 billion and foreign banks held $55 billion. Commercial property exposures increased by $9.4 billion (3.4%) compared to 30 September 2018.



Sources: APRA Quarterly ADI Property Exposures, released Dec 2019; SQM Research estimates

- The major banks' market share of commercial loans in September 2017 was nearly 80%. With the introduction of APRA/Basel IV, the subsequent pull-back by the major banks has reduced their market share to 76.5%. The pull-back by the ADIs from the commercial property lending space that commenced around mid-2017 is expected to stabilize with a market share circa 75% by September 2021. This implies a funding gap in the order of $80 billion to emerge by the end of 2021.

Australian Mortgage Funds Market

Key Points

- The Australian Mortgage Funds (or Trusts) market is highly fragmented. Some of the biggest players in the sector, with FUM (or AUM) >$1 billion (at the asset class level for the firm), are La Trobe ($9-10 billion), Sandhurst Trustees (part of Bendigo and Adelaide Bank) ($2.3 billion), Balmain ($2 billion) and RMBL Investments ($1.1 billion). After the leaders, there is a relatively big gap before a few mid-size players (with $300m-500m in FUM) and then many smaller players (with less than $50m in FUM) make up the rest of the market. FUM at the Fund level is detailed later in the report.
- SQM Research estimates that the FUM for the sector is about $16-17 billion.
- The retail mortgage funds that closed after the GFC have been unable to re-establish a presence of any scale in the market. Unlike in other developed markets, large institutional funds are absent from this sector. The second tier and foreign banks have either been absorbed or have departed the market or have remained minor players.

The Impact of the GFC

Mortgage funds suffered heavy outflows during the GFC. Many well-established funds closed their mortgage fund operations entirely as investors deserted the sector for the security and liquidity of government-guaranteed deposits. A significant number of open-ended pooled mortgage schemes were forced to freeze or limit redemptions.

Fund Structures

In Australia, there are three main types of 'pure' Mortgage Fund (Trust) investments for Retail investors:

- Pooled Mortgage Funds - Pooled funds do not give investors specific details of the mortgages that the fund invests in but will define the characteristics of the qualifying mortgages. Investors pool their money with other investors in the funds and have a share of all the mortgages and other assets of the fund.
- Contributory Mortgage Funds - Contributory mortgage funds give investors control, allowing them to receive detailed information about specific mortgage investments and then determine whether or not their money will be contributed to that specific mortgage. Investors own their share of the mortgage assets of the fund
- Debenture Funds - Debenture companies are companies that have applied to ASIC to register a prospectus that allows them to borrow money directly from the retail public instead of borrowing money from a bank or other professional lender.

It is likely that the Contributory Mortgage Funds will become the preeminent structure within the Mortgage Funds industry as technology improves, resembling Individually Managed Accounts in the non-mortgage investment space. Pooled mortgage funds will have more modest claims on liquidity, and Debenture funds are unlikely to remain viable.

Fund Ratings

SQM Research Ratings		
Fund	**2019 SQM Rating**	**Change from 2018**
La Trobe 12 Month Term Account	4.25	Unchanged
La Trobe Select Investment Account	4.25	Upgraded
Australian Unity Select Income Fund	4.00	Unchanged
Balmain Discrete Mortgage Income Trust	4.25	Upgraded
EQT Mortgage Income Fund	3.75	Downgraded
Firstmac High Livez	4.00	Unchanged
Boston Private Income Fund	3.75	Unchanged
RF Eclipse Select Credit Fund (previously Eclipse Prudent Mortgage Fund)	3.75	Upgraded
Trilogy Monthly Income Trust	4.00	Unchanged
AIMS Commercial Mortgage Trust	3.75	Unchanged

1. La Trobe 12 Month Term Account

Superior 4.25 star rating

La Trobe Financial Services Group (La Trobe Financial Group) was founded in 1952, and since then has operated with a focus on Funds Management, specialising in mortgage credit. La Trobe manages about $9 billion in AUM and employs about 380-400 staff as at Oct 2019, divided between its head office in Melbourne and offices in Sydney, Hong Kong and Shanghai. The investment team is comprised of qualified individuals with significant experience and expertise, boasting an average of 20 years in the investment industry.

The La Trobe Financial Group is 80% owned by the Blackstone Group L.P., the world's largest alternative asset manager with approximately US$554 billion in assets under management. The remaining 20% is owned by long-time President and CEO, Mr Greg O'Neill, who has worked at La Trobe Financial since 1985.

The Fund is a Pooled Mortgage scheme, aimed at investors seeking exposure to mortgage loans. The Fund primarily invests in short-term registered first mortgages. The Fund provides funding to all major property sectors, including Residential, Commercial, Retail, Industrial, Construction and Rural property. Mortgage loans are only made or acquired where first mortgage security is held, generally with a maximum LVR of 75%, and where borrowers have demonstrated their ability to meet the loan commitments.

The investment objective of the Fund is to provide investors with regular income streams coupled with low-to-medium levels of risk while aiming to outperform the Bloomberg AusBond Bank Bill Index (BAUBIL) by 1.50%. The objective is to be fully invested in an appropriately diversified portfolio of mortgages offering an alternative rate of return to investors.

The annual management fee of the Fund is 1.57% (GST inclusive) p.a. of the Fund's net assets. No additional charge is applied for expense recoveries. There are no performance fees applied.

Strengths of the Fund

- La Trobe Financial 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 originates over $10 billion annually of loan applications nationwide.
- The Fund is run by very knowledgeable and experienced staff with access to various resources in the Real Estate Credit and Asset Management teams. With 400 staff members, La Trobe is amongst the largest players in this space.
- The Fund is well diversified across geographical regions (states) and a very large number of borrowers (about 5,100 loans in total).
- The total returns have been competitive.
- Arrears are managed effectively by working with the borrower and taking the required steps in order to bring them back in line with the payment schedule.
- AUM growth has been very strong.

Weaknesses of the Fund

- The Fund is primarily involved in AIV documentation loans, which can have a negative perception regarding the quality of a borrower. However, the Fund's experience and stringent criteria for such AIV borrowers since 1990, mitigates this risk.
- The Board of Directors of the Responsible Entity (La Trobe Financial Asset Management Limited) does not have any independent directors. However, the Compliance Committee is majority independent.
- The staff turnover has been higher than average (on an absolute basis and also relative to peers) over the last 2 years, including some relatively senior staff members.

Other Considerations

- The Fund is a Pooled mortgage scheme.
- Some of the key portfolio metrics (at the overall Fund level) are
  - AIV/Low-doc loans are about 70% of the book
  - Weighted Average LVR is about 62%
  - Loan maturity: about 43% of the book is <3 years and about 57% is >3 years
  - Interest rate type split is 85% Variable and 15% Fixed
  - Residential sub-sector represents a large part of the book, at about 57%
- The minimum investment period is 12 months. If the investor wishes to withdraw their funds prior to the completion of the investment term, a fee may apply.
- Capacity: La Trobe believes that they can comfortably manage double the amount of AUM (up to $20 billion and beyond from $9 billion currently), without capacity constraints.
- The Mortgage Funds sector is dependent on certain key macro-economic variables like economic growth (GDP), unemployment, and interest rates. Any significant deterioration in these variables can impact the property market and the borrower's ability to repay a loan.

Key Changes since the Last Review

- No material changes to the process since the previous review.

2. La Trobe Select Investment Account

Superior 4.25 star rating

La Trobe Financial Services Group (La Trobe Financial Group) was founded in 1952, and since then as operated with a focus on Funds Management, specialising in mortgage credit. La Trobe manages about $9 billion in AUM and employs about 380-400 staff as at Oct 2019, divided between its head office in Melbourne and offices in Sydney, Hong Kong and Shanghai. The investment team is comprised of qualified individuals with significant experience and expertise, boasting an average of 20 years in the investment industry.

The La Trobe Financial Group is 80% owned by the Blackstone Group L.P., the world's largest alternative asset manager with approximately US$554 billion in assets under management. The remaining 20% is owned by long-time President & CEO, Mr Greg O'Neill, who has worked at La Trobe Financial since 1985.

The Fund is a Contributory / Peer to Peer (P2P) structured mortgage scheme, aimed at investors seeking direct exposure to investor selected mortgage loans. All underlying loans in the Fund are registered first mortgages spread across the major property sectors including commercial, retail, industrial, residential, and construction. Most of the underlying loans are short-term loans (about 91% of the loans have a maturity of 1 or 2 years).

Peer to peer investors in the La Trobe Australian Credit Fund receive a Product Disclosure Statement (PDS), which details general terms and characteristics of the Fund. Individual characteristics (duration, location, interest rate, LVR) of each loan are disclosed in a Supplementary Product Disclosure Statement (SPDS) which investors request based on the investment they select. Investors should, therefore, read both the PDS and the SPDS before investing in a mortgage loan.

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, based on rates of return over a set period, generally on a monthly basis. The Manager does not have a benchmark, given the dispersion of interest rate returns of the individual mortgages which are specified in the SPDS.

Management fees are fixed on a loan-by-loan basis generally between 1.15% and 1.70%. The average Indirect Cost Ratio (ICR) for 2019 was 1.37%. The Fund does not charge a performance fee.

Strengths

- La Trobe Financial 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 originates over $10 billion annually of loan applications nationwide.
- The Fund is run by very knowledgeable and experienced staff with access to various resources in the Real Estate Credit and Asset Management teams. With 400 staff members, La Trobe is amongst the largest players in this space.
- The Fund, as a whole, is diversified across geographical regions (states) and borrowers. That said, the level of diversification for individual investors is dependent on their selection of loans.
- The indicative risk-adjusted returns (at the Fund level), have been solid.
- Arrears are managed effectively by working with the borrower and taking the required steps in order to bring them back in line with payments.

Weaknesses

- The Fund is primarily involved in AIV documentation loans, which can have a negative perception regarding the quality of a borrower. However, the Fund's experience and stringent criteria for such AIV borrowers since 1990, mitigates this risk.
- The Board of Directors of the Responsible Entity (La Trobe Financial Asset Management Limited) does not have any independent directors. However, the Compliance Committee is majority independent.
- Staff turnover has been higher than average (on an absolute basis and also relative to peers) over the last 2 years, including some relatively senior staff members.

Other Considerations

- The Fund is a Contributory/Peer to Peer (P2P) structured mortgage scheme (as opposed to 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 etc are dependent on the loans selected by each investor. Some of the key portfolio metrics (at the overall Fund level) are:
    - AIV/Low-doc loans are about 70% of the book;
    - Weighted Average LVR is about 59.2%;
    - 91% of the loans have a maturity of 1 or 2 years;
    - Interest rate type split is 85% Variable and 15% Fixed;
    - Residential and Construction sub-sectors represent a large part of the book, at about 36% each;
- 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.
- The Mortgage Funds sector is also dependent on certain key macro-economic variables like economic growth (GDP), unemployment and interest rates. Any significant downturn can impact the property market and also the borrower's ability to repay a loan

Key Changes Since the Last Review

- No material changes to the process since the previous review.

3. Australian Unity Select Income Fund

Superior 4.00-star rating

Australian Unity Limited (Australian Unity or the Group) is a national mutual providing healthcare, financial services, investments and retirement living services to its customers. Australian Unity was formed through a number of Friendly Society Mergers (including Australian Natives Association, Manchester Unity, Grand United, Lifeplan Australia and more recently Big Sky Credit Union) and has evolved into a fully integrated service provider with almost one million customers, including more than 270,000 members nationwide. The Group's history spans over 180 years.

The Fund is an open-ended unlisted Mortgage Fund (scheme) aimed at investors seeking direct exposure to residential property development and commercial mortgage loans. All underlying loans in the Fund are registered first mortgages. The Fund aims to provide regular income and capital stability, through a selection of investments into registered first mortgage loans ('Syndicate Funds') with a short duration.

The Fund is a 'Contributory / Peer to Peer (P2P)' structured mortgage scheme, aimed at investors seeking direct exposure to investor selected mortgage loans.

Investors should read both the Fund's Product Disclosure Statement (PDS) and accompanying Supplementary PDS (SPDS) (for each syndicate fund) before making an investment decision. Investors have discretion in choosing from multiple registered first mortgages, along with selecting the term of their investment and the preferred risk and return characteristics.

The team is led by Head of Mortgages – Roy Prasad. Mr Prasad has solid experience in mortgage lending underpinned by 30 years of industry experience gained working at Colonial Investment Management and Australian Unity. Mr Prasad has overall responsibility for the Fund's day to day management and together with the Investment Committee oversees all asset allocation decisions.

The management fee of the Fund varies in the range of 1% to 3% p.a. of the first mortgage loan amount recovered from the interest payable by the relevant Syndicate. For FY 19 - the estimated indirect costs as an average of the Fund's net assets was 1.72%. The Fund does not charge a performance fee.

Strengths

- Australian Unity is a large business with a long track record in Australia, including managing assets in the Property / Mortgage sector. The Fund is able to leverage off the scale and resources of Australian Unity.
- The investment team is highly experienced and have a track record in mortgage origination and mortgage fund management.
- Strong underwriting standards and lending policy. Risk management is embedded in the process, with stringent due diligence checks on borrowers.
- Investors retain control over the investment decision.
- Credit performance at the overall Fund level has been strong, with no material losses recorded since the acquisition of the Fund.
- FUM growth has been strong.

Weaknesses

- The contributory mortgage structure exposes investors to concentration risk, but investor's trade-off diversification for control over investment decisions. At the time of the report, there were only 20 loans available for investment (out of the total book of 28 loans). The concentration risk is higher than the peer average.
- Some investors have had to wait up to two months before their funds have been invested into an underlying mortgage.
- The Board of Directors of the Responsible Entity (AUFML) is not majority independent.

Other Considerations

- The Fund is a Contributory/Peer to Peer (P2P) structured mortgage scheme (as opposed to 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 etc. are dependent on the loans/syndicates selected by each investor. Some of the key portfolio metrics at the overall Fund level are:
    - Low-doc loans are about 16% of the book (loan balance outstanding)

    - Weighted Average LVR is about 49%. Note LVRs are calculated on the estimated end value of the completed development.
    - Weighted Average Interest rate is about 10.6%
    - Concentration: five largest borrowers/loans represent about 34% of the loan balance outstanding. In terms of Geographic concentration, NSW (46%) & VIC (42%) represent almost 90% of the book.
    - Sub-sectors: Residential Construction and Residential (general) represent almost 100% of the book
    - 100% of the loans have a maturity of less than 1 or 2 years
    - Interest rate type split is 0% Variable and 100% Fixed
    - Defaults: none reported

- The minimum investment period is dependent on the individual loans selected by the investor. Withdrawals are not permitted during the term of a Syndicate-Fund.
- The Mortgage Funds sector is dependent on certain key macro-economic variables like economic growth (GDP), unemployment, and interest rates. Any significant deterioration in these variables can impact the property market and the borrower's ability to repay a loan.
- The total fee is high. The ICR for FY19 was 3.72% p.a. However, this fee assumes full investment in the Syndicate-Fund that has the maximum management fee currently charged. The PDS also states that the fee is not charged to the investors i.e. it is recovered from the borrower

Key Changes Since the Last Review

- No major changes since the last review

4. Balmain Private (Balmain Discrete Mortgage Income Trust)

Superior 4.25 star rating

Balmain is one of Australia's largest non-bank mortgage originators, having originated over $20 billion of loans over the last 10 years. Balmain currently manages over $6 billion of private debt portfolios, comprising of distressed debt, portfolios in the late stage of wind-up and more traditional mortgage investment schemes such as the Balmain Private initiative.

This is a unique investment scheme, legally operating as a pooled mortgage scheme but sharing characteristics similar to contributory mortgages schemes. Investors in the Trust adhere to the same administrative and legal processes as pooled mortgage schemes. Investors access individual mortgages (or a portfolio of mortgages) by investing in a Sub-Trust (or a series of sub-trusts) that holds no more than one first mortgage over the property. Investors will have full discretion over the mortgages they wish to hold and unlike pooled mortgage schemes, each investor can choose unique exposures and investment returns. Investors should be aware that they must first hold Cash Units before being able to convert them into Loan Units.

Cash Units are designed such that investors are no worse off by holding their funds there. Investors are paid interest on their Cash Units and are not charged a management fee. Once Cash Units are converted to Loan Units, the investments in individual Sub-Trust become illiquid till underlying loan matures and is repaid. At loan maturity, investors' Loan Units are converted back into Cash Units. If during the term of the loan (or at maturity), the specified loan goes into monetary default, the investors holding those particular Loan Units may stop receiving distributions in respect of that loan.

Investors should read thoroughly through the Trust's Product Disclosure Statement (PDS) and each supplementary PDS (SPDS) to gain a full understanding of the characteristics and risks associated with the Trust's structure.

the Trust charges a management fee on its Loan Units of up to 1.60% p.a. on the Principal Amount in respect to each loan. The indirect cost ratio is 1.65% as at June 2019. The Fund charges a performance fee of 50% of any surplus recovery.

Strengths of the Trust

- The team is comprised of very knowledgeable and high calibre professionals across origination, credit, funds management and asset management.

- A proprietary information system that aggregates the origination to fund management process allowing for efficiency and effective compliance.
- A strong track record of credit performance with no monetary arrears or capital losses experienced since the inception of the trust.
- Investors have control of the mortgage investment made, complimented with an intuitive online platform which provides transparent access to their investment reports.
- 20% of the Trust's management fee is deferred and is only paid when the investors' full capital is returned and the target return is achieved.
- The Trust's ability to leverage off the resources of the broader Balmain Group.
- The Trust can fill the gap in the market where major banks cannot provide lending to certain borrowers.
- The Trust's return has outperformed compared to the Benchmark and peer average in all periods
- The Trust's FUM has been increasing consistently. It has increased by approximately 76% in the last year.

Weaknesses of the Trust

- Growth in investor numbers means there is significant competition for loan units when a new sub-trust is issued, therefore Investors may experience an initial lack of diversification as they build portfolio diversity via investing in multiple sub-trusts. Further sub-trusts are made available for investment consistently throughout the year and pick up considerably after the holiday period.
- There may be a degree of concentration risk relative to pooled mortgages schemes.

Other Considerations

- The Trust does not charge a management fee on its Cash Units.
- Investors must hold Cash Units before investing in the Trust's Loan Units. But investors in Cash Units are under no obligation to invest in Loan Units.
- The Trust charges a performance fee on its Loan Units of 50.00% of any surplus recovery but this is only received by the Manager once the investors receive a full return of capital in each individual loan and the target return is achieved.
- While a daily redemption facility is offered for Cash Units, the Trust's Loan Units are illiquid until the end of each loan term.
- The Trust offers investors exposure to mortgages with differing loan characteristics. Investors can select mortgages most suited to their risk and liquidity profile.
- Strict rules are in place to ensure differing loan profiles between institutional and retail investors.

Key Changes Since the Last Review

- No changes since the previous review.

5. EQT Wholesale Mortgage Income Fund
Favourable 3.75 star rating

Equity Trustees Limited, a subsidiary of EQT Holdings Limited, which is a public company listed on the Australian Securities Exchange (ASX: EQT), is the Fund's Responsible Entity. Equity Trustees is Australia's leading specialist trustee company. It was established in 1888 by an Act of Victorian Parliament for the purpose of providing independent and impartial Trustee and executor services to help families throughout Australia protect their wealth. EQT's operations are split into two business units, Trustee & Wealth Services (TWS, includes Equity Trustees Wealth Services Ltd formally ANZ Trustees) and Corporate Trustee Services (CTS). EQT has offices in Melbourne, Bendigo, Sydney, Brisbane, Perth, and London.

The EQT Wholesale Mortgage Income Fund is a managed fund which seeks to produce income by providing loans to selected borrowers. The Fund is structured as an open-ended unlisted registered managed investment scheme.

It invests primarily in a diversified portfolio of registered first mortgages of selected improved retail, commercial, industrial and residential real estate within Australia. Loans are for a maximum term of five years, and the maximum loan to value ratio of 66.67% is applied to initial funding and any renewal. The Fund does not provide loans in respect of development properties, construction projects, vacant land or shares in companies.

The Fund aims to outperform the RBA cash rate over a three-year rolling period, and the suggested investment timeframe is three years. The Fund is conservatively managed and has not recorded any losses since inception.

the Fund charges a management fee of 0.81% p.a. of the NAV. The Fund does not charge a performance fee.

Strengths of the Fund

- An experienced management team with mortgage lending experience through various cycles.
- The Fund has significantly outperformed the benchmark in all time periods and outperformed peer groups in short-term (1-month, 3-month, 6-month) and since inception periods.
- The volatility is lower than the Benchmark and peer group average.
- Competitive fee structure when compared to peers
- High Asset quality with no construction, development, rural or vacant land securities.
- Strong credit performance with no arrears recorded since inception.
- The Fund aims to provide regular income to the investors. The Fund has made quarterly distribution payment consistently since inception.

Weaknesses of the Fund

- The Fund has underperformed against the peer average in 1-year, 3-year and 5-year periods.
- The key-person risk is high.
- The mortgage book remains highly concentrated in Victoria.

Other Considerations

- The Fund's FUM has been declining since its peak on Jan 2018.
- Retail and commercial sectors comprise more than 75% of the portfolio.
- The Fund has a relatively low-risk profile compared to other mortgage trusts.
- The benchmark RBA Cash Rate is not an accurate representation of the risk/ reward profile of the Fund.

Key Changes Since the Last Review

- No changes to the investment process since the previous review
- EQT recently decided to outsource the custody and unit pricing of the EQT Flagship Fund and other internal funds to State Street. The decision to move to State Street was predicated on gaining and maintaining access to best in class custody services.

6. Firstmac High Livez

Superior 4.00 star rating

Firstmac provides prime home loan funding, loan servicing and portfolio management services to the Australian home loan market. Home loans are only extended to borrowers considered to be of prime quality – no prior credit defaults and the loans must be eligible for mortgage insurance cover. Firstmac currently services a customer base of over 38,000 borrowers domiciled in all states and territories of Australia. The Firstmac managed loan portfolio was approximately $12.4 billion as of January 2020.

Firstmac has been originating and servicing property loans for over 40 years, employing over 400 staff across its business operations. Moreover, it has publicly issued over $26 billion RMBS since 2003. Firstmac earns a majority of its revenue through the 'net interest margin' of its home loan portfolio. This is the excess of interest earned on home loans less the cost of funding the home loans by issuing RMBS. This epitomises many lenders in the securitisation spectrum.

The Firstmac High Livez is a unit trust which allows investors to pool their money with that of other investors which could achieve the benefit of economies of scale. The Fund generally suits investors with a medium-term investment horizon of 3 to 5 years. The Fund is structured as an open-ended unlisted registered managed investment scheme.

The aim is to provide stable monthly income returns from a diversified portfolio of medium-term residential mortgage-backed securities (RMBS). The Residential Mortgage-Backed Securities (RMBS) is a type of Asset-Backed Security that is secured by a pool of residential mortgages. The Fund will invest in Australian dollar-denominated RMBS issued by Australian issuers with underlying Australian residential mortgage collateral. Liquid assets can be invested across A1 rated banks, term deposits and commercial paper. The Fund offers retail investors' exposure to RMBS and Short Term Money Market Securities which are normally only available to institutional and wholesale/sophisticated investors.

the Trust charges a management fee of 0.45% p.a. of the NAV. The indirect cost ratio is 0.65% as at Jun 2019. The Fund does not charge a performance fee.

Strengths of the Fund

- The Fund has outperformed compared to the benchmark in all periods.
- The FUM of the Fund has increased constantly in the last years.
- The Fund possesses a very knowledgeable and experienced team of professionals who have chartered the Fund's journey over the years and open to new opportunities in the market.
- The Fund offers retail investors exposure to residential mortgages by investing in Asset-Backed Securities and short-term money market securities. There are few other retail funds that offer investors similar exposures.
- The Fund's investments are governed by stringent investment guidelines, investing only in prime RMBS with a minimum A Rating. Furthermore, the Fund does not invest in RMBS with construction or development exposure, along with other strict risk constraints in place.
- The Fund has various tools for managing liquidity effectively. Liquidity percentages are reported and managed in terms of required, target and compliance.
- The Fund has performed very well across the board, outperforming both the peers and benchmark.
- Competitive fee structure.

Weaknesses of the Fund

- The Fund has underperformed against the peer average since inception. However, it should be noted that the Fund may have a lower risk profile compared to peers.
- The Investment Committee is not majority independent, giving rise to a potential conflict of interest.

Other Considerations

- AMP issued loans account for 13% of the issuer value. Other issuers include a host of banking and non-banking financial institutions, of which Firstmac accounted for 33% of the total value.
- The Fund is a Pooled mortgage scheme.

Key Changes since the Last Review

- No material changes since the previous review.

7. Boston Private Income Fund
Favourable 3.75-star rating

Boston Managed Investments Limited (BMIL) was established in 2013 and commenced operations by managing the Boston Income Fund (BIF). In August 2016, the Boston Private Income Fund (BPIF) was established and began operations in September 2016. BMIL has acted as the investment manager for the BPIF since its inception.

The Boston Private Income Fund is an income style mortgage fund established in August 2016. The Fund operates as a Unit Trust governed by its Trust Deed. The Fund is structured as an open-ended unlisted unregistered managed investment scheme.

The Fund is not involved in lending. The Boston Private Income Fund purchases notes that are issued by a Non-Bank Financial Institution (NBFI) called Think Tank Group Pty Ltd. The objective of the Boston Private Income Fund is to provide stable, regular income returns at a rate which is higher than the implied risk-weighted return to wholesale investors by taking subordinated positions in First Mortgage warehouses managed by Think Tank Group Pty Ltd.

The loans stored in the Think Tank warehouse are assessed on a fundamental basis, providing first registered mortgages secured by income-producing commercial property. The loan assessment criterion is solely assessed by Think Tank in line with the credit policies instituted by the Commonwealth Bank of Australia (CBA) in the Banks capacity as the primary funding warehouse provider. Think Tank retains the sole discretion in the approval of mortgage applications.

With the majority of Think Tank loans funded by CBA, The agreement between CBA and Think Tank has a term of 24 months with a 12-month evergreen. This committed facility is set in place under the initial Master Trust, and the reiterated in each of the Issue Supplement agreements that have been put in place since the trust was established.

The 24-month term with the 12-month evergreen effectively means that should CBA opt to leave the funding agreement and all other noteholders approve of CBA leaving the Think Tank is afforded a 24 month period in which to renew the funding structure with another incoming fund provider.

the Fund charges a management fee of 0.70% p.a. of the NAV. The Fund does not charge a performance fee.

Strengths of the Fund

- The Fund's return has outperformed the benchmark and peer average in all periods.
- The FUM of the Fund has increased significantly since inception. The total FUM has increased by approximately 76% over the past 12 months.
- The investment personnel are experienced, knowledgeable and have relevant experience in the lending sector.
- Having CBA and WBC as the sources for funding for Think Tank is a positive given the reach of resources for both the institution.
- The Fund allows investors to access Commercial Mortgage-Backed Securitisation (CMBS) markets with limited capital, and that investors' capital is fully deployed at all times.
- Boston Managed Investments Limited has sufficient executive and management level to allow for the expansion of both existing, and any proposed new funds at this time.
- All Special Purpose Vehicle (SPV) Trusts have stringent covenants and guidelines within the trust deed in relation to their operations. A breach of those covenants or guidelines may result in the SPV Trust having remedial action taken to repair those breaches, which may result in a disruption to the income distribution, or in extreme cases, may result in the SPV Trust having to liquidate assets.

Weaknesses of the Fund

- Liquidity in the fund is managed through the introduction of additional funds by either new or existing investors.
- The Fund does not have liquid cash holdings, at any point in time.

Other Considerations

- The commercial mortgage loans are originated by Think Tank Group, not Boston themselves. As such, Boston Private Income Fund does not have any involvement or influence in the lending criteria of Think Tank Group Pty Limited.
- The agreement between CBA (not primary) and Think Tank has a term of 24 months with a 12-month evergreen (automatically renews after 12-months). The 24-month term with the 12-month evergreen effectively means that should CBA opt to leave

the funding agreement and all other noteholders approve of CBA leaving the Think Tank is afforded a 24 month period in which to renew the funding structure with another incoming fund provider.

- Distributions will only be made from income that is generated from investments in notes issued by Think Tank.

Key Changes Since the Last Review

- Think Tank Group Pty Ltd (Think Tank) successfully established two new additional mortgage warehouses in October 2018 and July 2019 respectively. BPIF participates directly and indirectly to these warehouses.
- Westpac Banking Corporation (WBC) has become involved as a warehouse funding provider to the Think Tank Group Warehouses in which BPIF is also a unit holder/investor. Whilst Westpac is a warehouse participant, it is still the CBA credit guidelines that are largely observed and adopted by Think Tank Commercial credit when assessing loan opportunities.

8. RF Eclipse Select Credit Fund

Favourable 3.75 star rating

The Fund is an Australian managed investment scheme operating as an unlisted contributory mortgage fund. The RF Select Credit Fund is a rebranded product that was formerly known as the Eclipse Prudent Mortgage Fund.

The fund was established in August of 1998 and since inception has originated over $1 billion. RF Eclipse Select Credit Fund has approximately $191.34 million in funds under management as at Nov-2019. The Fund lends loan products to borrowers who are investors and developers on a mortgage basis to a maximum of 65% LVR on an interest-only basis.

The Fund offers a Mortgage Investment secured by a registered first mortgage over legal interests in real property. The Fund aims to provide members with stable and recurring income with capital stability and low volatility from mortgage investments secured by a registered first mortgage over legal interests in real property.

Loans are spread across five main loan categories consisting of the development site, construction, investment, residual stock and sponsor supported investment loans for periods of 6 to 36 months. The Fund's continuing objective is to provide members with stable and recurring income with low volatility while preserving investors' capital. The Fund does not operate as a pooled fund, debenture trust or unit trust and the Member has the absolute discretion whether to invest in any Mortgage Investment offered to the Member. The Fund enables Members to select Mortgage Investments that meet their individual risk profiles and objectives.

The Fund is managed by RF Eclipse Limited, a leading alternative lender to the real estate market, specialising in financing for residential, commercial, retail, vacant land or industrial properties and/ or construction projects located primarily in Australian metropolitan areas. RF Eclipse currently manages approximately $600m of total funds across several mandates, managed accounts and funds.

RF Eclipse Limited has been established since 1999 and was acquired by RF Capital in June 2016. RF Capital is an alternative asset manager with global capabilities in real estate, credit, hedge fund management and hedge fund advisory across Australia, UK/Europe and the Middle East.

Strengths of the Fund

- The Fund has outperformed SQM Research's selected benchmark and the peer groups in all periods.
- The FUM of the Fund has recovered modestly since March 2019 after having a drawdown in 2017 and 2018.
- The Fund implements a rigorous process on borrower analysis.
- Investment personnel are highly experienced and knowledgeable in the lending space.
- The Fund has in place strong systems and management process to manage loans throughout its lifecycle and outcomes.

Weaknesses of the Fund

- The Fund does originate credit for the development sector, making it a relatively higher risk but it does focus on smaller projects. This factor is mitigated to some extent with knowledgeable investment personnel with previous experience in this sector.
- The Fund has had some staff turnover, albeit minimal in the last 12 months. However, the Fund has adequately restructured roles and bolstered the team with numerous additions. SQM Research notes continued tenure and track record under this team would be a positive development.
- The Fund is highly concentrated in NSW. SQM Research prefers more geographical diversification.

Other Considerations

- The Fund has reduced originating credit for the construction sector and moved towards pre-development, making the risk level relatively lower.
- The Fund is a non-liquid investment scheme.
- The Fund has been in operation since 1998, but under the current RF Capital ownership for the last four years.

Key Changes since the Last Review

- Documentation Custodian was changed to Perpetual Trustees in August 2019.
- Mr Chris Rees has taken over as the Chairman of the Credit Committee from Mr Ray Fazzolari in Oct 2019.
- The Credit Committee is expanded to four members committee by the appointment of independent members – Mr John Moore and Mr Malcolm Graham.
- Over the last 12 months, RF Eclipse Limited has been able to secure additional mandates from the following parties,
    - o Victorian Funds Management Corporation (VFMC) - Up to $100m in a "small loans program"
    - o Schroder Investment Management ("Schroders") - Up to $300m in Schroders Private Loan Fund
    - o Gateway Bank (former Credit union) - Currently $30m, increased from a starting amount of $10m

9. Trilogy Monthly Income Trust
Superior 4.00 star rating

The Trust is an unlisted registered managed investment scheme aimed at investors looking to gain exposure to a portfolio of mortgage loans. The Trust is a Pooled Mortgage Scheme and all underlying loans are registered first mortgages over a selection of improved and unimproved properties. The Trust is exposed to a portfolio of construction and land subdivision funding across the major property sectors, primarily residential, but including some commercial, industrial and retail.

The Trust's exposure to construction and land sub-division funding puts the Trust higher up the risk spectrum relative to peer group mortgage funds with no exposure to construction and land subdivision funding. The Manager has advised that they do not take re-zoning risk. Mortgage loan terms are for a maximum of two years. The loans are usually written for 12 months and then rolled over with approval from the Lending Committee. The Trust's investment objective is to provide investors with a secure investment and regular income via monthly distributions.

Trilogy Funds was founded in 2004 and its principal business is to act as the responsible entity and manager of various registered schemes. The investments consist of mortgages, direct real property, and financial assets (which include cash assets).

Strengths of the Trust

- Trilogy has a track record of over 20 years in the Mortgages and Property Trusts industry.
- The Trust (Fund) is managed by an experienced, knowledgeable and professional team that is well-versed in managing registered managed investment schemes and has particular expertise in cash flow and liquidity management in the context of mortgage/managed funds. Several key staff members are from the banking sector.
- The Investment process includes a feasibility study in addition to the existing valuations analysis on properties.
- FUM growth has been very strong. Liquidity has also improved with the growing FUM.
- An established and growing network of deal flow.
- Even though the Trust's maximum LVR threshold is 70%, its weighted averaging LVR is 62.7% (on an 'as if complete' basis), which provides an increased safety buffer to investors.

Weaknesses of the Trust

- A redemption notice period of four months is required. The manager has advised that in practice, the redemption period has as a result of higher liquidity, at times been shorter than four months.
- The Trust provides funding for construction and land subdivision, so that puts it at the higher end of the Mortgage Funds risk spectrum. That said, it should be noted that the Trust does not assume re-zoning risk and lends on DA approved sub-divisions.
- Geographical diversification is slightly lower than the peer group, although there have been improvements on that front (with increased lending in NSW and Victoria).

Other Considerations

- The Fund is a Pooled Mortgage Scheme.
- Some of the key Portfolio Metrics of the Fund are:
  - Full-doc loans are 100% of the book and Low-doc loans are 0% of the book
  - 100% of the book is invested in First mortgages
  - Weighted Average LVR is about 62.7%, on an 'as if complete' basis
  - Loan maturity: 100% of the book has a loan maturity of <2 years
  - Interest rate type split is 0% Variable and 100% Fixed, and the Average Interest Rate charged is 10.83%
  - Residential sub-sector represents a large part of the book, at about 57%, and Vacant Land at 34%.
  - Construction loans represent about 58% of the book
  - Average Loan Size is about $4-4.5 million, and has seen an increase over the last year.
- Risk reporting and loans management processes are strictly adhered to.
- Historically the trust adopted a somewhat complex structure through the separation of units into allocated and cash units. This was appropriate while the fund was small but was less so for the current fund size. Consequently, during the last year the RE removed the complication and moved to a simple and more typical single unit structure.

- The Mortgage Funds sector is dependent on certain key macro-economic variables like economic growth (GDP), unemployment, and interest rates. Any significant deterioration in these variables can impact the property market and the borrower's ability to repay a loan.

Key Changes since the Last Review

- There have been some staff changes – Mr David Somervile (Financial Controller) and Ms Nicole Singer (Legal Risk and Compliance Manager) departed the firm. Details later in the report.
- No material changes to the investment process.

10. AIMS Commercial Mortgage Fund

Favourable 3.75-star rating

Established in 1991, AIMS Funds Management Group is a long-established, well resourced and well-funded company with a strong pedigree in fund management and mortgage origination. Comprising of four investment professionals, the company has grown to manage close to $2 billion across its operations. AIMS has a physical presence in the Asia Pacific region with offices across Australia, China and Singapore, and representations in Hong Kong.

The Fund is structured as an open-ended unlisted registered managed investment scheme. The Fund will only invest in mortgages where first mortgage security is held over the income-producing commercial, industrial, retail or residential investment property. Investments are made in property, located in major capital cities and regional centres of Australia with populations over 30,000 people. Loans will not exceed 66% of the property security value at approval and borrowers must demonstrate their ability to meet loan commitments. The Fund can have some exposure to fixed interest and floating rate securities including mortgage-backed securities, bills of exchange and negotiable instruments with a maturity of fewer than 185 days and deposits with banks and other financial institutions.

The Fund aims to provide investors with regular monthly income with a relatively low level of investment risk. The Fund aims to outperform the Bloomberg AusBond Bank Bill Index (previously UBSA Bank Bill Index) by investing in a diversified portfolio of loans in Australia.

The annual management fee of the Fund is 0.56% (including GST & RITC) p.a. of the Fund's net assets. An additional charge of 0.36% per annum is made for expense recoveries. The Fund does not charge a performance fee.

Strengths of the Fund

- No loan losses have been recorded since the Manager took over the Fund.
- The Fund has in place strict lending policies and adopts stringent lending processes.
- An experienced investment team, led by Head of Mortgages - Michael Petruccelli and strategic direction set by Executive Chairman and Chief Executive Officer - George Wang.
- Weighted average LVR as it currently stands is below 50% and has been below this level since 2007.

- The Fund has outperformed the benchmark for all time periods.
- The Fund has paid regular monthly distributions since inception.

Weaknesses of the Fund

- Since its peak in February 2005, FUM has fallen significantly to a relatively modest level.
- At the time of writing this report, SQM research realises that the manager does not have any strategy in place to stimulate the FUM growth in the foreseeable future.
- The Trust is deemed as non-liquid (frozen) and the requirement to satisfy redemption request utilising the Corporation Act formula means redemptions exceeding applications causing a decline in FUM.
- The Fund has underperformed compared to the peer average, for all time periods.
- The Fund is deemed to be concentrated in portfolio level and geographically due to continuous decline in the FUM

Other Considerations

- Geographically, the Fund's lending remains concentrated in NSW and Victoria, which may provide for some concentration risk.
- In terms of sector exposure, the Fund's exposure is greatest in the commercial sector, followed by retail.

Key changes since the last Review

- No changes since the last review.

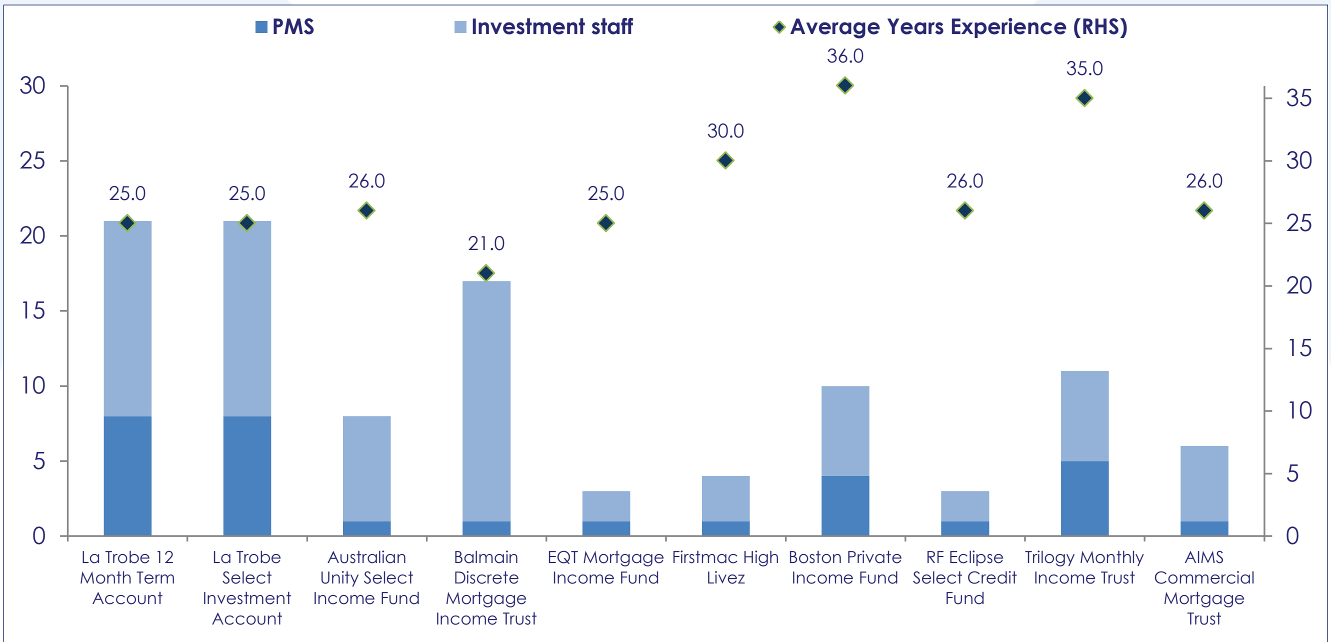
Investment Teams

The skills, experience and depth of the investment teams are key considerations in the rating process. In evaluating the management team, the clear preference is for key staff to have relevant longer-term experience through market cycles and a high level of stability. Another important element for longevity and continuity of process is succession planning. Factors that SQM Research believes are important include staff training, development and mentoring. The appropriate identification and training of "understudies" or back-ups to key staff serve as best practice for long-term planning. This can involve (particularly for larger firms) a secondary layer of managers/staff with an adequate level of stability and strong backgrounds. In reviewing these issues, an assessment of key person risk is made as a factor in the rating.

Investment Team Size

Fund	Portfolio Managers	Investment staff	Average Years Experience (RHS)
La Trobe 12 Month Term Account	8	13	25.0
La Trobe Select Investment Account	8	13	25.0
Australian Unity Select Income Fund	1	7	26.0
Balmain Discrete Mortgage Income Trust	1	16	21.0
EQT Mortgage Income Fund	1	2	25.0
Firstmac High Livez	1	3	30.0
Boston Private Income Fund	4	6	36.0
RF Eclipse Select Credit Fund	1	2	26.0
Trilogy Monthly Income Trust	5	6	35.0
AIMS Commercial Mortgage Trust	1	5	26.0
Totals/Averages	**3**	**7**	**28**

Distribution of Investment Staff (by Fund)



1. La Trobe 12 Month Term Account / La Trobe Select Investment Account:

The Board of Directors of the La Trobe Financial Group has delegated the day-to-day management of the Fund to a formal executive committee structure comprised of four committees: the Origination & Credit Committee; the Markets, Funding & Rates Committee; the Audit & Risk Committee; and the Executive Committee.

The investment processes in place at the Fund are designed to encourage team-based decision-making, effectively reducing the reliance on any one key individual. While the overall strategic decisions for the Fund are determined at the Board level via the Investment Committee, the responsibility for ensuring that these decisions are implemented and maintained lies with the Origination & Credit Committee, and the Markets, Funding & Rates Committee.

Private Wealth Team

The Private Wealth team is responsible for the day-to-day operations and management of the Fund. The team is also responsible for driving the implementation of key activities. One of the fund's management team's biggest responsibilities is to focus on the suitability of each loan from a portfolio construction point of view. This function is overseen by Chris Andrews as Chief Investment Officer and Martin Barry as Chief Corporate Treasurer. The Deputy Chief Liquidity Officer Gary Bell and Senior Fund Portfolio Manager Sandy Singh oversee the day to day operations of the team which includes Portfolio Analysts. The team is in charge of the portfolio management duties including identifying and selecting the mortgages suitable for the Fund's investments. Troy Stratton - Deputy Chief Investment Officer, Antonietta Sestito - Head of Platforms, Investment Operations and Cheree Pedley – Head of Investment Operations for the Fund, is also a part of the team. They are responsible for administrative and investor liaison activities associated with the Fund. Michael Watson – Head of Distribution oversees the BDM team associated with the Fund.

SQM Research notes that the team is well resourced and works closely with key lending executives – Cory Bannister, Rick Drury, Richard Anstey, Steve Lawrence and Fran Autolitano.

Real Estate Credit Team

The Real Estate Credit Team is comprised of more than 120 people, including a credit analysis team of 56 and 23 lending BDMs. The team is led by Chief Lending Officer - Cory Bannister.

The Real Estate Credit team has intentionally been separated from the Funds Management function. Specifically, the decision as to whether the individual loans meet the lending criteria of the Fund (underwriting decision) has been separated from the loan suitability or portfolio construction decision, which is driven by the Funds Management team. As such, the Real Estate Credit team's main role is to ensure that the decision around each loan meets the key lending criteria as set out by the Fund.

Asset Management Team

The Asset Management team has a dedicated team of 18 staff to manage collections or arrears, including three qualified lawyers to oversee complex recovery actions. The collections team is led by Shaun Wright (Head of Asset Management) and Rowan Donohoue (Chief Risk Officer).

Distribution and Sales Team

Loan origination responsibility rests with the sales and marketing division, with members a part of the overall Business Development Division (which includes real estate credit, funds management and the international desk). The aim of the distribution and sales team is to develop and maintain relationships with third-party loan originators. While the team may 'pre-qualify' a loan (a preliminary indication that the loan may be considered), they will take no further part in the underwriting of the loan. Importantly, this function of the Fund has been separated from the loan assessment function, allowing adequate segregation of responsibility.

Origination and Credit Committee

The Origination and Credit Committee comprises of eight senior members from the Group and is chaired by Chief Lending Officer – Cory Bannister. The primary responsibility of the Committee is to set the credit policy, lending product, lending distribution and impairment reporting policies and guidelines for the Group, and then to develop the products that flow from the ensuing policies and guidelines. The Committee manages the mortgage risk appetite, and the asset flows to individual investors (subject to Board allocation parameters).

In conjunction with the guidance of the Investment Committee, the Origination and Credit Committee effectively controls the loan flow to the Fund. It also periodically reviews the non-performing loans and feeds the information back into the overall lending policies of the Fund. The Committee also has executive oversight of the loan approval process across the Group.

Markets, Funding & Rates Committee

The Markets, Funding & Rates Committee is comprised of some of the most senior decision-makers in the Group and is chaired by Chief Corporate Treasurer – Martin Barry (Deputy Chair: Chris Andrews). The Committee is responsible for pricing all of La Trobe Financials credit products, as well as determining the Fund's crediting rates. The Committee congregates monthly as required (the first Friday after the RBA Board meeting) and at a minimum quarterly, and has the overall responsibility for the management of interest rate risk of the La Trobe Financial Group.

The Committee's primary focus is rate management, pricing, hedging, liability management, and funding. The interest rate profile of the portfolio is determined through investor preference, with demand for both variable and fixed-rate loans.

Audit & Risk Committee

The Audit and Risk Committee is chaired by Chief Risk Officer, Rowan Donohoue (Deputy Chair – Chris Paton), and oversees all Group risk issues, including disclosure obligations. It also interacts with other Group Committees in monitoring Group risk.

Executive Committee

The Executive Committee is the Group's peak executive committee and is comprised of La Trobe Financials most senior divisional heads. Its chair is Chief Investment Officer Chris Andrews (Deputy Chair: Rob Clough). It oversees La Trobe Financial Group strategy, capital, culture and human resourcing issues.

The respective Committees convene at the minimum on a quarterly basis, but also on an ad hoc 'as needed' basis.

2. Australian Unity Select Income Fund:

The team is led by General Manager - Mortgages – Mr Roy Prasad. Mr Prasad has solid experience in mortgage lending underpinned by 30 years of industry experience gained by working at Colonial Investment Management and Australian Unity. Mr Prasad has overall responsibility for the Fund's day to day management and together with the Investment Committee, oversees all asset allocation decisions. Mr Prasad oversees the management of the lending function, setting the lending outcome and required return. All loan submissions must be approved or recommended by Mr Prasad before settlement. Mr Prasad is additionally supported by the Commercial Property Lending Committee, the mortgage administration team, the distribution team and legal and compliance team. The Fund utilises third-party service providers including valuers, solicitors, mortgage servicing providers and mortgage originators.

Mr Prasad and the lending teamwork simultaneously on managing broker relationships. The lending team led by Lending Managers Cameron Murphy (NSW), John Salamy (VIC) and Andrew Papas (VIC) are responsible for establishing and servicing originators, preparing the credit memoranda, and coordinating between internal and external parties, with the overall objective of growing the mortgage portfolio. More importantly, the lending team validates and ensures that all loans meet the Fund's lending assessment guidelines. Lending is conducted on a geographic basis, where loans backed by assets in certain states are handled by lending staff in the relevant state. While commercial mortgage applications are predominately sourced from originators, direct origination is encouraged by the Fund.

The Operations team play an important role in the Fund's mortgage administration, including post loan settlement. Lisa Chai, Mortgage Administrator, is responsible for administering the Fund's loan portfolio. Any defaulting loan accounts are referred to the General Manager - Mortgages who then refers it to the Commercial Property Lending Committee if the default has not been resolved within two months from when it has occurred. The role of the Commercial Property Lending Committee is to take management/control of any commercial mortgage loan that has defaulted under the terms and conditions of the mortgage advanced by Australian Unity. The committee is comprised of the Chief Financial Officer (CFO), Deputy CFO, Group Executive for Investment (GEI), Chief Operating Officer - Investments (COO), Executive General Manager - Property, General Manager - Mortgages and Head of Advisory and Valuation Services. The Head of Legal and Compliance - Investments has a standing invitation to attend Committee meetings.

The team also benefits from the experience of Head of Advisory and Valuation Services, Peter Lambden, who is a qualified property valuer and has a senior role in the risk review process of the Fund. All valuations are reviewed by Mr Lambden and signed off as satisfactory before a loan application can be approved. The team also benefits from the involvement of Portfolio Analyst Tashreeq Chota. Mr Chota reports directly to Mr Prasad and assists with fund analytics and cash flow management.

There are two investment offices with staff located in Melbourne and Sydney. Staff interaction between individuals and departments is conducted formally and informally.

3. Balmain Discrete Mortgage Income Trust:

Executive Director and CEO of Balmain – Michael Holm has primary responsibility for the management of the Trust. Mr Holm is a highly experienced commercial property lender and fund manager with 40 years' industry experience. Operations Manager – Caroline Crocker is in charge of the day-to-day management of the Trust's operations. The Funds Management Team is responsible for the administrative and operational functions associated with the Trust and customer relations (financial advisors and investors).

The origination team operates one of the largest and most established sources of secured private debt loan origination outside the major banks, operating across Sydney, Brisbane, Gold Coast and Melbourne. The loan origination team is comprised of over 50 business development/origination and analyst staff.

The credit team is responsible for the credit assessment and structuring as well as the on-going monitoring of the Trust's assets. The credit team is based in Sydney and operates separately from the origination team. Mr William Davis heads the team of eight including two lawyers and one paralegal. Mr Davis has significant experience in all facets of commercial mortgage lending throughout multiple real estate cycles. The credit team is separated into two broad functions, an acceptance desk that reviews loans for fit and accuracy of data, before determining if they should proceed to a credit underwrite (pricing, conditioning and loan term).

The Credit and Investment Committee also has a pivotal role in the Trust and is comprised of Head of Credit – William Davis, Head of Asset Management and Recovery – Mr Murry Offord and Executive Chairman of Balmain NB Corporation Limited and CEO of Balmain Funds – Michael Holm, CEO of Balmain NB Corporation – Andrew Griffin and Executive Director Balmain Melbourne – Robert Taylor. The Credit and Investment Committee is responsible for:

- Recommending and approving investments for the Trust
- Managing and delegating lending authorities with approving loans of the Trust
- Monitoring loan positions and individual loan performance
- Monitoring loan covenants and ensuring borrowers compliance with specific loan conditions
- Developing and reviewing the credit policies and procedures
- Monitoring implementation of credit policies and procedures
- Setting risk limits, benchmarks and ranges
- Undertaking any interest collection and loan recovery action as and when requires
- Reviewing and amending the overall investment strategies

The CIC meets formally every second Wednesday. Ms Crocker attends the CIC meetings if and when required. All credit decisions made by the CIC relating to credit matters must be unanimous and documented. To date, the CIC has been responsible for authorising all loans in the Trust, even while the Chief Credit Officer has a delegated authority to authorise fully complying credits of up to $1m. The Manager has stated that it has all the intention to continue this stringent process.

The Trust anticipates sourcing the majority of its loans from the Origination team. However, a small number of loans have been originated from other Balmain funds. Since 1st January 2015, no loans have been sourced from other Balmain funds.

The Asset Management and Recovery team may be employed by the Trust should a loan need to be recovered. The team of 15 will undertake a detailed review of an asset and likelihood for recovery once a loan is more than 30 days in arrears. The Asset Management and Recovery team possess a wide range of skills, from debt workout, property development management, lawyers, property asset managers and construction supervision. The Asset Management and Recovery team manage multibillion-dollar distressed debt portfolios for four global institutions.

Balmain's subsidiary AMAL is responsible for administering and managing the Trust's loans once they have been settled. A range of reports is provided by AMAL to the Credit and Origination team to allow them to monitor the loan portfolio daily. AMAL holds S&P's highest servicer rating as "Strong".

4. EQT Mortgage Income Fund:

The team operates under the new leadership of Head of Asset Management – Mr Darren Thompson effective 01 October 2018. Mr Thompson co-founded Northward Capital in 2007 after moving from IAG Asset Management. He has 30 years' industry experience and proven success in the evaluation, structuring and execution of investments, leveraging analytics and commercial insight to deliver excellent investment returns to clients. Mr Thompson is not involved in the day-to-day operation of the Fund but is a member of the Management Investment Committee. The Head of Asset Management provides an assessment of the outlook for interest rate and developments in credit spreads as an input to interest rates offered by the Fund.

Mr Lance Pupelis, former Head of Asset Management, now Head of Cash & Fixed Income provides guidance on interest rate direction and is a voting member of the Asset Allocation Committee and a responsible manager of the company. He oversees cash and fixed income management for the group. Mr Allister Lahood has joined as a manager of the Fixed Income team in April 2019. He will act as a supporting role and backup in the Mortgage Fund.

The Mortgage Fund team is otherwise mostly unchanged with Mr Tim Gallagher directly responsible for the Fund with support from Asset Management, Asset Services and Administration, Enterprise Risk Legal and any other areas of Equity Trustees as required. Mr Gallagher has been a portfolio manager of the Fund for more than four years.

The Management Investment Committee (MIC) sets the tone and operational requirement for the Fund and this is executed by the asset management team. The MIC is responsible for the operational management of the Fund. The MIC comprises of 5 key people, chaired by the Executive General Manager Private Clients, Trustee Wealth Services (TWS) – Mr Ian Westley, the Managing Director – Mr Mick O'Brien, Chief Financial Officer/ Chief Operating Officer – Mr Philip Gentry, Head of Asset Management – Mr Darren Thompson and General Manager, CTS & Head of Fund Services Australia, Corporate Trustee Services – Mr Russell Beasley. The MIC can convene twice weekly on request to review the Fund and is responsible for approving mortgage brokers, lending rates and the appointment of values and solicitors.

The investment team receive operational and back-office support provided by other areas of the business, including but not limited to custody, unit registry, audit and compliance.

5. Firstmac High Livez:

The High Livez Investment Committee comprises of four members: Independent Chairman – Andrew Kemp, Chief Investment Officer – James Austin, Portfolio Manager – Brian Reid and Independent Member – Chris Black. Mr James Austin is primarily charged with the day to day oversight of the Fund. Mr Austin is closely supported by Mr Brian Reid. Together, Mr Reid and Mr Austin conduct the analysis and investment decision making of the Fund. They are additionally involved in managing external relationships and producing the required documentation.

The core investment team of the Fund is based in Brisbane and communication between team members is continual and informal. However, to provide a formal structure, the Investment Committee meetings are conducted on a regular basis. The Fund is supported by the broader resources of Firstmac, including the Senior Management, Treasury and Compliance team.

The Investment Committee plays an integral role in the overall management of the Fund's operations and investment decisions. Decisions regarding the selection of Asset-Backed Securities (ABS) and short-term money market securities in the Fund's portfolio are made collectively by the Investment Committee. As the Fund does not intend to invest directly into mortgages (achieving its mortgage exposure through ABS and short-term money market securities), the Investment Committee is not involved in reviewing and approving individual loans.

The Investment Committee meets on a regular basis to review and manage the portfolio and is responsible for setting portfolio objectives. All investment decisions are made collectively by the members of the Investment Committee. Investment decisions must be unanimous. The Committee plays a crucial role in assessing and reviewing the investment approach, Fund's portfolio and outlook to ensure that it is appropriate and in line with the Fund's guidelines.

6. Boston Private Income Fund Limited:

The BMIL investment committee includes Derryn Harrison, Bradford Gower, Tim Power, Paul Jones and Daniel Hoang. The investment committee is responsible for presenting, assessing and approving investment decisions, the implementation of new funds and any possible changes and amendments to existing funds. All the members of the investment committee have long tenures with Boston related entities which have evolved over time as new corporate ventures are established.

Fund Manager, Mr Paul Jones, Deputy Fund Manager, Mr Daniel Hoang, investment officers and debt specialists conduct ongoing industry and market research which complements input from a broad range of industry participants and commentators. Mr Jones has over 15 years' experience in the commercial finance industry and has been actively involved in the funding of non-bank financial institutions at the senior and subordinated level. Mr Jones has extensive experience in commercial property and equipment finance including Commercial Mortgage-Backed Securities (CMBS) and Asset-Backed Securities (ABS) markets. The key personnel within BMIL operate transparently via regular documentation and communication regarding processes and daily operational tasks. BMIL has access to The Boston Group staff from entities within the Boston Group to assist BMIL with additional resources as and when required. BMIL maintains, and regularly updates, a succession plan as part of the company risk management process.

Boston retains the services of the non-executive director, Mr Tim Power. Mr Power's expertise in the securitisation markets, particularly the ABS markets, extends from his time as Group Treasurer with CNH Capital Australia. As Head of Treasury for RMB Australia Limited, he was responsible for funding and financial risk management of the Australian operations. Mr Power is a former Director of Non-Bank Financial Institution, Think Tank Group Pty Limited and currently holds a full-time position as Associate Director, Treasury, at Western Sydney University.

7. RF Eclipse Select Credit Fund:

The investment team is made up of members who have considerable knowledge and experience in the investment industry, headed by CEO Mr Michael Vella. Mr Vella has over 30 years' experience in property, funds management, debt financing, commercial lending, insolvency and debt recovery at ANZ Bank, AMAL Asset Management, Mirvac Group and PPB Advisory.

A highly experienced Credit and Investment Committee chaired by Mr Chris Rees reviews and approves all loans before they are funded by borrowers. The Credit and Investment Committee has four members – Mr Chris Rees, Mr John Moore, Mr Malcolm Graham and Mr George Kostas. Mr Rees has taken over as the Chairman of the Credit Committee from Mr Ray Fazzolari in Sept 2019. Mr Graham and Mr Moore have joined the Credit Committee in Oct 2019 as independent members. The committee boasts an average of approximately 38.3 years of industry experience across four individuals. Key-person risk of the Fund is deemed to be medium.

There are regular meetings scheduled throughout the year for the Credit Committee, the Board, the Risk and Compliance sub Committee and Audit sub-Committee for reviewing purposes.

8. Trilogy Monthly Income Trust:

The Head of Lending is Mr Clinton Arentz. A reporting line to Mr Arentz of five portfolio managers - Mr Jack Mihalovic, Mr Andrew Gillespie, Mr Darren Martin, Mr Geoff Coakley and Mr Greg Turner - has been established, each with responsibility for a group of clients within a geographic territory.

The investment team is further supported by the broader resources of Trilogy, and the Committees. Justin Smart is the Chief Operating Officer and is responsible for the accounting and operations teams, whilst a Compliance Committee handles the compliance functions.

The Trust's team is located in Brisbane and Sydney, with the majority of operational staff based in the administration hub in Brisbane. To provide ongoing efficiency, both the operational departments and the committees overseeing operations maintain a regular schedule of structured teleconference meetings. There is ongoing informal contact via phone and email. The level of communication is enhanced by the company's small size and the encouragement of interaction between the various departments. Staff members and Directors travel frequently, especially between Brisbane and Sydney

The Finance, Compliance, Lending, Treasury and Distribution departments hold weekly meetings of all team members to discuss ongoing operations within both their department and the Company as a whole. Additionally, the senior staff members from each department meet at the weekly Executive Committee meeting to report on current operations within their divisions. This provides an efficient way of enhancing each team's awareness of the Trust's overall operations.

9. AIMS Commercial Mortgage Trust:

The investment team of the Fund is led by Head of Mortgages – Mr Michael Petruccelli. He has been associated with the Fund since 1996 when it operated as National Australia Mortgage Fund. Mr Petruccelli reports to Executive Chairman and Chief Executive Officer (CEO) – George Wang, who maintains broader oversight of the Fund. Mr G Wang plays an integral role in the long-term strategic direction of the Fund and oversees all major aspects of the Fund, including the Fund's investments and the loan approval process.

Mr Petruccelli demonstrates solid experience in the mortgage industry, having begun his career at National Australia Bank in 1982, subsequently venturing into commercial and residential lending. Mr Petruccelli assumed the role of Fund Manager in 1999. Mr Petruccelli's responsibilities include maintaining relationships with originators, the credit assessment, loan approvals, portfolio management, administration, arrears management and business generation.

Both Mr Petruccelli and Mr G Wang have solid experience in the commercial mortgage industry. They are supported by Investment Lending Managers – Jason Wang and Jim Miltiadis. Mr G Wang maintains broader oversight of the Fund on a day-to-day basis while Mr Petruccelli and other support staff are responsible for the day-to-day management of the Fund.

The Fund has established a Credit Committee, which is responsible for reviewing and approving the loan applications. Mr G Wang and Mr Petruccelli are part of this Committee, and they are supported by Lending Managers – Mr J Wang and Mr Miltiadis.

Mr G Wang and Mr Petruccelli are responsible for the day-to-day approval of the loans with Mr J Wang. Mr J Wang is mainly responsible for submitting commercial loan applications for approval and processing loan applications, and he acts as a back-up in case either Mr G Wang or Mr Petruccelli is unavailable. Mr Miltiadis is primarily responsible for loan administration but can also approve loans when either Mr Petruccelli or Mr J Wang is unavailable. Both Mr J Wang and Mr Miltiadis have delegated authority to jointly approve loans with each other or Mr Petruccelli but must only jointly approve loans above $2 million with Mr G Wang as Chief Executive Officer.

The Fund has established an Investment Committee consisting of Mr G Wang, Finance Manager – Jane Hao, who seeks, reviews and implements investment strategies for the Fund assets within the investment criteria for the Fund.

The investment team of the Fund is further supported by the AIMS' General Administration, Legal and Compliance, Finance and Accounting, Treasury and Investment, Loan Operations (including loan approval, settlement and servicing aspects) and Customer Service team.

Mr Petruccelli is involved in reviewing the asset allocation of the Fund and maintaining the Compliance Plan. Any changes to the asset allocation are required to be approved by the Board of the RE.

Andrew Stone departed in March 2019 and has been replaced by Jim Miltiadis.

Investment Objective

The Funds rated by SQM Research in this review only use benchmarks for the comparison of performance, rather than as a guide to portfolio construction and weightings.

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	Investment Objective	Performance Benchmark
La Trobe 12 Month Term Account	Outperform the Bloomberg Ausbond Bank Bill Index by 1.50%	Bloomberg Ausbond Bank Bill Index + 1.5%
La Trobe Select Investment Account	To provide investors with reasonably stable and predictable income based generally on fixed rates over a set period on a monthly basis, investing primarily in loans	Benchmark Unaware
Australian Unity Select Income Fund	To provide regular income and capital stability, through a selection of investments into registered first mortgage loans (Syndicate-Funds) with a short duration.	Benchmark Unaware
Balmain Discrete Mortgage Income Trust	To provide investors with access to regular and stable income returns, along with capital stability. The target return of the Trust is 5.00% to 8.00%, depending on the individual Sub-Trust.	Benchmark Unaware
EQT Mortgage Income Fund	To outperform the RBA Cash Rate over rolling three year periods	RBA Cash Rate
Firstmac High Livez	To provide stable monthly income returns from a diversified portfolio of Asset-Backed Securities supplemented by a small allocation towards Short Term Money Market Securities	Benchmark Unaware
Boston Private Income Fund	A minimum annualised return of 4.40% above the Bank Bill Swap Rate (BBSW 30 days) after fees	BBSW1M +4.40% p.a.
RF Eclipse Select Credit Fund	To provide investors with regular income and capital stability, by offering the opportunity to invest in loans secured by a registered mortgage.	Benchmark Unaware
Trilogy Monthly Income Trust	To offer investors a superior rate of return consistent with the risk profile of the portfolio	Benchmark Unaware
AIMS Commercial Mortgage Trust	To provide investors with regular monthly income with a relatively low level of investment risk and to outperform the UBS Bank Bill Index (after fees and charges) over the long term	Bloomberg AusBond Bank Bill Index

Fees

Fund	Management Fee	Performance Fee		Buy/Sell
La Trobe 12 Month Term Account	1.57%	1.46%	None	None
La Trobe Select Investment Account	1.45%	1.37%	None	None
Australian Unity Select Income Fund	1 - 3 (%) 1.16% (FY19)	2.88%	None	None
Balmain Discrete Mortgage Income Trust	1.60%	1.65%	50% of any surplus recovery	None
EQT Wholesale Mortgage Income Fund	0.81%	0.81%	None	None
Firstmac High Livez	0.45%	0.60%	None	None
Boston Private Income Fund	0.77%	0.77%	None	0.50% / 0.50%
RF Eclipse Select Credit Fund	0.55%	1.98%	None	None
Trilogy Monthly Income Trust	0.96%	0.96%	None	None
AIMS Commercial Mortgage Trust	0.56% (wholesale) 0.97% (retail)	0.92%	None	None

The **changes in management fee** for the Funds (from 2018 review to 2019 review) are as detailed below;

1. La Trobe 12 Month Term Account Fund - **increased from 1.47% to 1.57%**
2. La Trobe Select Investment Account Fund - **increased from 1.28% to 1.45%**
3. Australian Unity Select Income Fund – the average **decreased from 1.45% to 1.16%**

SQM Research notes:

- The average management fee charged by the SQM-rated Funds in 2019 is **1.02%** p.a. The average Indirect Cost Ratio (ICR) is **1.34%** p.a. as at June 2019.
- The management fee and/or ICR charged by the La Trobe, Australian Unity, Balmain and RF Eclipse Funds is higher than the average. However, investors need to be aware of certain nuances in how the fees are structured/charged. As an example, in Australian Unity's case, the management fee (or ICR) is recovered from the borrower, in effect without a direct cost to the investor. In the case of Peer-to-Peer Funds, each investor's fee is different, reflecting varying characteristics of that specific Fund/Syndicate.
- Apart from Balmain Discrete Mortgage Income Trust, none of the Funds charge a performance fee.
- Only one Fund (the Boston Private Income Fund) charges a buy/sell spread.

Corporate Governance

SQM Research believes that it is very important for any managed fund to have a solid Corporate Governance structure in place, and even more so in an illiquid and lending related sector like the Mortgage Trust sector.

SQM Research found that **Corporate Governance** is acceptable across the funds reviewed, with certain areas having room for improvement.

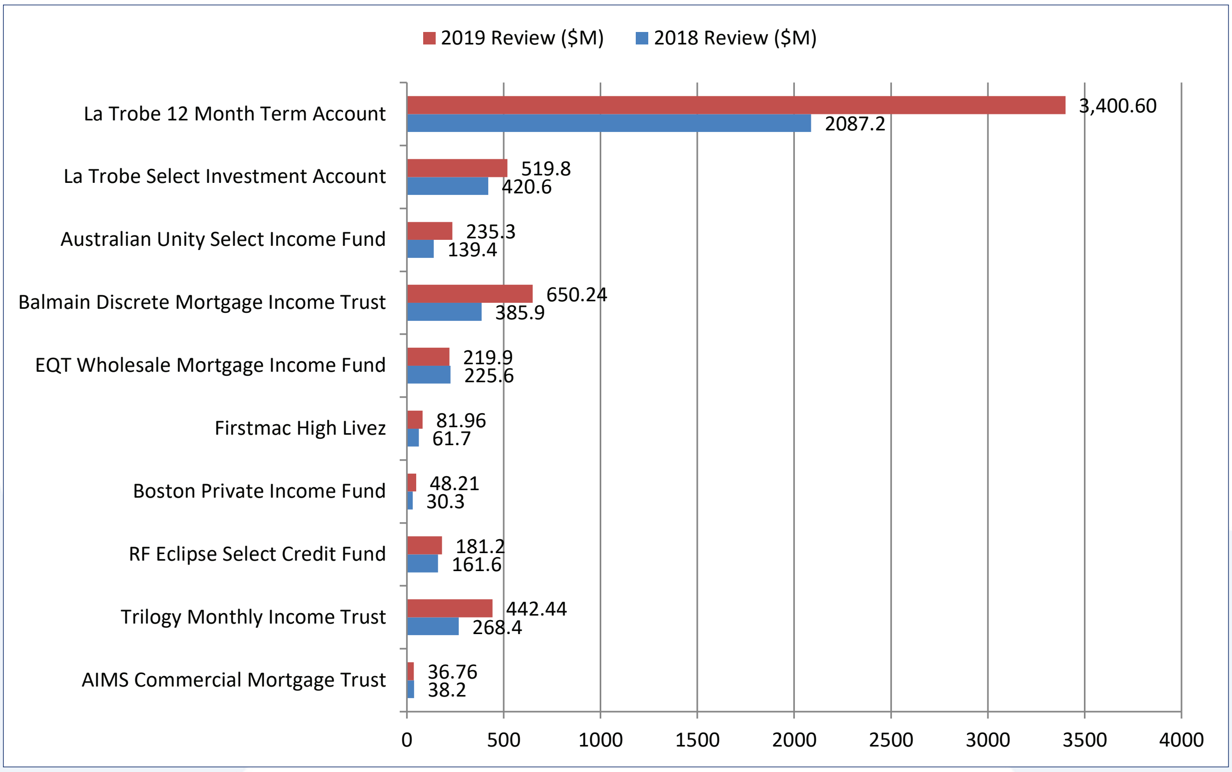
Five of the reviewed Funds (AIMS, EQT, Firstmac, RF Eclipse and Trilogy) have a Responsible Entity which includes independent members in their Board of Directors, whereas the other five funds do not.

SQM Research prefers the inclusion of independent members on the Board of Directors – it is a meaningful way to enhance governance and oversight.

All of the Funds have a Compliance Committee, and all except the Boston Fund have independent members in their Compliance Committee.

SQM Research views independence in an RE oversight body such as the Compliance Committee as a strong and favourable factor in fund governance.

Gross Funds under Management



SQM Research notes:

- The reviewed funds represent a total FUM of $5.82 billion as at 31 March 2020, compared to $3.86 billion as at 31 March 2019. That is an increase of more than 50%.
- Of the 10 funds reviwed, 9 had positive FUM growth over the year, with a total of $1.96 billion increase in FUM.
- The major contributors to the FUM growth were La Trobe, Balmain, AUI and Trilogy. Only AIMS had a slight decrease in FUM.

***Note:* Due to the Coronavirus pandemic, FUM levels and/or FUM growth might be somewhat impacted in the coming months. Please refer to the "Outlook" section in the first part of the report.**

Portfolio Snapshot

	Weighted Avg Borrower Rate	As At Date
La Trobe 12 Month Term Account	6.95%	Mar 2020
La Trobe Select Investment Account	9.25%	Mar 2020
Australian Unity Select Income Fund	10.2%	Mar 2020
Balmain Discrete Mortgage Income Trust	9.12%	Mar 2020
EQT Wholesale Mortgage Income Fund	4.90%	Mar 2020
Boston Private Income Fund	5.71%	Mar 2020
RF Eclipse Select Credit Fund	7.10%	Mar 2020
Trilogy Monthly Income Trust	8.38%	Mar 2020
AIMS Commercial Mortgage Trust	4.32%	Mar 2020

SQM Research notes:

- The Weighted Average Borrower (Interest) Rate (or WABR) shows quite a wide range for the SQM-rated funds - ranging between 4.32% and 10.20%, with an average WABR of **7.33%.**
- Australian Unity, La Trobe SIA and Balmain have significantly higher than average WABR, whereas, AIMS and EQT are the funds with significantly lower WABR than average.
- Generally, the funds with higher WABR have a more material level of exposure to riskier loans such as construction/ development loans in their portfolios, while the funds with lower WABR have predominantly income-producing, low to medium investment risk commercial, retail or residential loans.

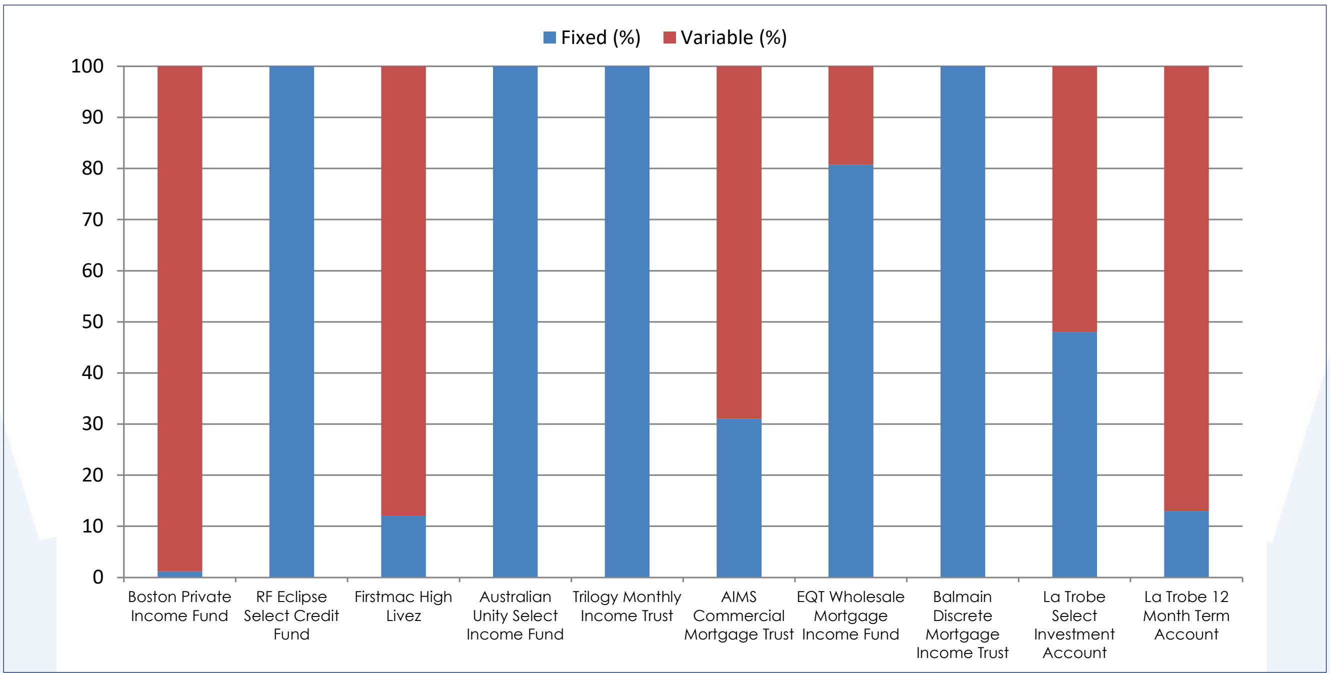
	Weighted Avg LVR	As At Date
La Trobe 12 Month Term Account	63.4%	Mar 2020
La Trobe Select Investment Account	58.6%	Mar 2020
Australian Unity Select Income Fund	64.5%	Mar 2020
Balmain Discrete Mortgage Income Trust	56.3%	Mar 2020
EQT Wholesale Mortgage Income Fund	49.8%	Mar 2020
Firstmac High Livez	62.8%	Mar 2020
Boston Private Income Fund	63.5%	Mar 2020
RF Eclipse Select Credit Fund	51.1%	Mar 2020
Trilogy Monthly Income Trust	62.7%	Mar 2020
AIMS Commercial Mortgage Trust	41.6%	Mar 2020

SQM Research notes:

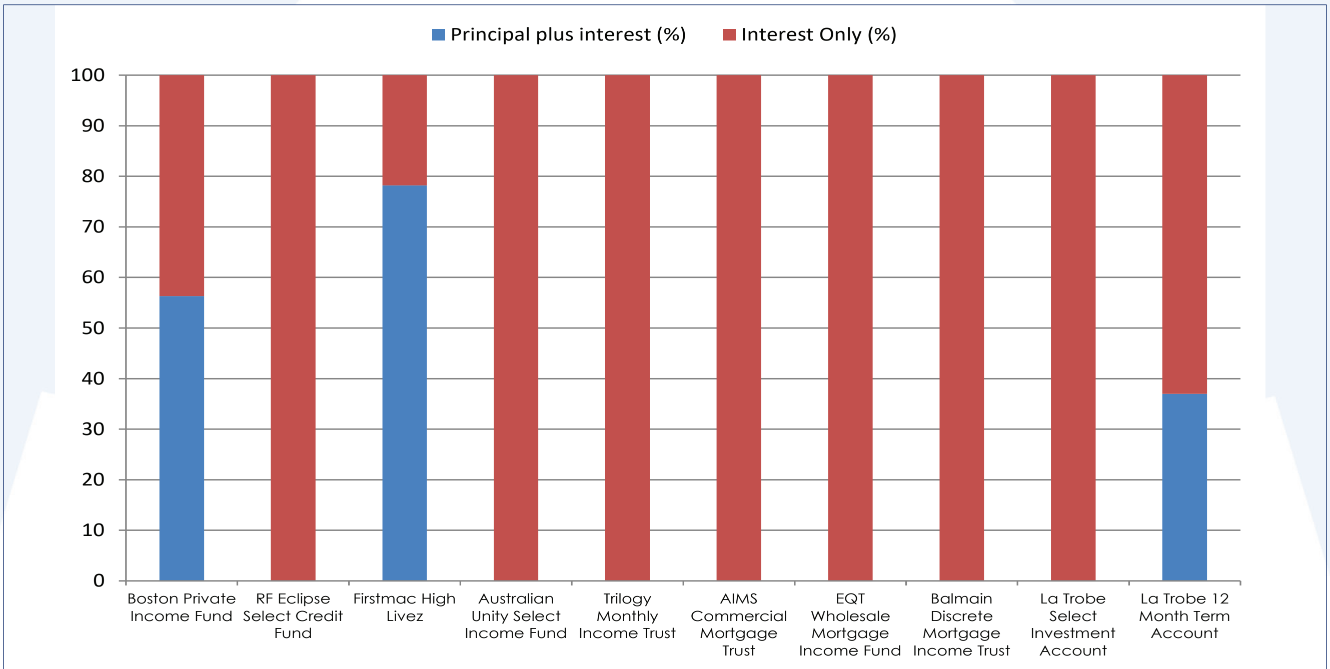
- The average LVR for the reviewed funds is **57%,** which is almost the same as last year's average of **58%.**
- Most of the reviewed funds fall in a relatively narrow range of LVRs, with some variations of course. AIMS, EQT and RF Eclipse have LVRs that are significantly lower than the average, whereas most of the other funds (except Balmain) have LVRs that are higher than the average.

SQM Research would like to note the largely conservative nature of mortgage trusts in their stringent loan administration and lending criteria. The relatively low/moderate LVRs recorded by mortgage trusts are evidence of their relatively conservative lending practices.

Interest Type



Loan Repayment Type



SQM Research notes:

- The split between the loan **interest type (Fixed vs Variable)**: the Fixed-rate loan proportion is slightly higher than the variable-rate proportion (on a dollar weighted basis). 4 of the Funds are purely Fixed-rate, and 1 Fund (Boston) is almost purely Variable-rate.
- The split between the loan **repayment type (Principal & Interest vs Interest only)** is significantly tilted towards the Interest only segment. 7 of the 10 Funds are entirely Interest only Funds. This is largely expected, considering the industry dynamics and also the business models/target segment of the non-bank sector.

Arrears Performance (31 March 2020):

SQM Research notes the following arrears levels of the Mortgage Funds (as provided by the Managers), as of 31 March 2020:

- **La Trobe 12M Term Account** has recorded arrears of 2.2% (104 borrowers) as at March 2020; comprising of 0.6% for 31-60 days, 0.3% for 61-90 days, 0.9% for 90 days plus and 0.4% for Mortgage in Possession (MIP)
- **La Trobe Select Account** has recorded arrears of 4.5% (30 borrowers) as at March 2020; comprising of 1.4% for 31-60 days, 0.4% for 61-90 days, 2.4% for 90 days plus and 0.3% for MIP
- **Australian Unity** has 0% arrears, with 1.8% default rate. The defaults represent two loans past maturity (noting interest is paid up to date). The Manager does not expect to incur income or capital loss on either account. In total six loans ($32m) are past their maturity dates but with interest paid up to date. The Manager expects four ($15m) out of the six loans to repay by 30 June 2020.
- **Balmain** has recorded 1.20% in arrears (with 3 borrowers). The Manager has advised that these will be cleared soon.
- **EQT** has recorded no arrears since inception
- **Firstmac First Livez Fund** has arrears of 0.48%
- **Boston** has recorded 1.63% loans in arrears; 0.46% for less than 30 days, 0.09% for 31-60 days, 0.17% for 61-90 days and 0.10% for more than 90 days.
- **RF Eclipse** has recorded no arrears
- **Trilogy** has 2.17% of the FUM in arrears
- **AIMS** has recorded no arrears

SQM Research notes:

- That arrears trends in the Mortgage Trusts reviewed are largely within historical ranges, with some variations.
- The relatively low/moderate LVRs recorded by mortgage trusts (discussed earlier) and relatively better lending standards (compared to pre-GFC) can be expected to keep the arrears levels in check, with some possible exceptions. However, as always, that is subject to economic conditions as well.

Note: Almost all of the individual fund reviews were done before the Coronavirus pandemic hit the economy and the markets in March 2020. SQM Research received updated arrears data from the Fund managers recently (data as of 31 March 2020). Arrears levels are likely to be impacted in the coming months. Please refer to the "Outlook" section in the first part of the report.

Lending Process

1. La Trobe 12 Month Term Account / La Trobe Select Investment Account:

La Trobe Financial Group has established and developed relationships with some of the largest aggregation groups and recognised mortgage aggregators, such as AFG, PLAN, Fast, Connective, Mortgage Choice and Smartline covering over 2600 finance brokers. Additionally, La Trobe Financial Group deals with approximately 60 directly accredited finance brokers. In total, La Trobe Financial Group has access to over 10,000 referral sources nationwide.

The amount of due diligence conducted on each broker before the establishment of the relationship is dependent on the referral source. La Trobe Financial Group will rely on the due diligence conducted on brokers by its mortgages aggregators while undertaking its own due diligence on directly accredited mortgage brokers not associated with larger mortgage aggregators. All brokers are required to be a member of the MFAA and/or the FBAA, ensuring the meeting of all standards of prudence and insurance.

La Trobe Financial Group continuously monitors and reviews the performance of the finance brokers by measuring the volume of applications received, loans settled and the performance of the loans. La Trobe Financial Group's Origination & Credit Committee oversees the client relationship program in conjunction with Cory Bannister, Chief Lending Officer, and a team of 28 state-based Business Development Managers. Regular reports and reviews are provided to the Origination and Credit Committee to appraise the overall origination process.

2. Australian Unity Select Income Fund:

Before assessing a loan for an application, Australian Unity Funds Management (AUFM), utilises services from related parties to ensure the contract is "not unsuitable" by:

- Ensuring loan documentation meets mutual requirements and objectives.

- Assessing the borrower's capacity to meeting the financial obligations of the credit contract without substantial difficulty.
- An internal review of the information in the Mortgage Loan Application Form and making an assessment in accordance with Australian Unity's lending criteria.

Key to establishing the loan security, AUFM conducts an assessment of the borrower's creditworthiness. Three key elements compose this stage:

1. Value of borrower's property
2. Loan to Value Ratio
3. Loan management

3. Balmain Discrete Mortgage Income Trust :

The Trust will only offer investors' exposure to loans through its Sub-Trusts, by approving only registered First Mortgages over a variety of different property sectors. This includes property in Australia across the office, retail, industrial, residential, hotels, specialist property, land, construction and developments.

The initial stage of the process involves identifying loans and pre-qualifying loans and borrowers. The mortgage originators will source potential loans and be the initial point of contact. Origination staff, while not responsible for or able to influence credit decisions, are held accountable for and required to assist remediate any defaulting loan. This responsibility goes beyond financial cost (cessation of the trail, clawback of fees, etc) as all origination staff face disciplinary action for not complying with their obligations to Balmain's lending instructions.

Approximately 60% of all loan enquiries are rejected at the origination level due to the loan enquiry not fitting Balmain origination guidelines. Of the 45% of enquiry that does proceed from origination the Trust looks at approximately 80% of these loans, it actively considers approximately 40% and accepts less than 10% as complying with the Trust's criteria.

Balmain has recently expanded its lending network through the Metro Finance business which deals exclusively with leasing finance brokers. Balmain product lines including the Balmain Private Debt platform have been opened to the origination of commercial property loans from these sources.

Balmain has a process in place to review the performance of originators. This review focuses on the credit performance of an originator's portfolio. Balmain's loan origination and settlement software system (BOSS) informs both origination staff and management of expired or defaulting loans on their system login and 'home page'.

The origination team operates one of the largest loan origination networks outside the major Australian banks across offices in Sydney, Brisbane, Gold Coast, Melbourne, Canberra, Central Coast and Parramatta.

4. EQT Mortgage Income Fund:

The Fund applies a bottom-up approach to every loan. The investment process is divided into eight distinct stages; initial enquiry, analysis, approval, offer, acceptance, valuation, legal review and settlement.

There are two key criteria used when assessing a potential loan for the Fund. They are the Interest Cover Ratio (ICR) of at least 1.50 times and the Loan to Valuation Ratio (LVR) of a maximum of 66.67%.

Within each of these criteria are a number of additional hurdles that are assessed when making the lending decision.

When considering the ICR, heavy reliance is placed on the review of leases. This consists of the lease term, tenant, rental, rent reviews (and its mechanism), documentation and concentration. Where business income is used, the most recent three years' financial statements are obtained and analysed.

When considering the LVR, the services of an external valuer are used. The Fund adjusts the LVR for property type, loan structure, location, saleability, ability to let and use.

5. Firstmac High Livez:

The Fund will seek to achieve its investment objective by mainly investing in Asset-Backed Securities which will be medium-term residential mortgage-backed securities ('RMBS') with a minimum risk assessment of 'Category 3'. The Fund will invest in Australian dollar-denominated RMBS issued by Australian issuers with underlying Australian residential mortgage collateral. The Fund will also invest in Short Term Money Market Securities with a minimum risk assessment of 'Category 2'. Investment guidelines for Asset-backed securities range from 50.00%–90.00% while short term money market securities can range from 10.00%–50.00%.

The Fund's risk assessment of the counterparty's ability to meet its financial commitments is set out across various categories. Category 1 is an assessment that the counterparty's capacity to meet its financial commitment on the obligation is 'extremely strong'. This is the highest possible category. Category 5 is assessed to be speculative in nature and vulnerable to adverse economic conditions.

In terms of a minimum assessment of Category 3, this means that an obligation is more susceptible to adverse effects in the change of circumstances and economic conditions. However, the counterparty's capacity to meet its financial commitment on the obligation is still assessed to be 'strong'. An assessment of Category 2 means that the counterparty's commitment to meets its financial commitment on the obligation is 'very strong'.

6. Boston Private Income Fund:

Boston Private Income Fund is not involved in lending. The BPIF purchases notes that are issued by a Non-Bank Financial Institution (NBFI) called Think Tank Group Pty Ltd.

Boston does not have any input or direction in to Think Tank's lending procedures, credit assessment criteria or other policies. The policies, procedures and credit assessment guidelines employed by Think Tank were assessed and approved by the Investment Committee of Boston Managed Investments Limited during the initial due diligence program. Any variations to lending policies and procedures must be approved by CBA, Westpac Banking Corporation (WBC), Challenger Life Company Limited (Challenger) and Boston Managed Investments Limited before its implementation.

With the majority of Think Tank loans funded by CBA, The agreement between CBA and Think Tank has a term of 24 months with a 12-month evergreen. This committed facility is set in place under the initial Master Trust and then reiterated in each of the Issue Supplement agreements that have been put in place since the trust was established.

The 24-month term with the 12-month evergreen effectively means that should CBA opt to leave the funding agreement and all other noteholders approve of CBA leaving the Think Tank is afforded a 24 month period in which to renew the funding structure with another incoming fund provider.

The Investment Committee is provided with detailed loan book metrics (including arrears management data) every month. This allows the Investment Committee to identify and assess any potential deviations from the policies, procedures and credit assessment guidelines. The Investment Committee has not detected any deviations in credit policies, procedures and/or guidelines since the Boston Private Income Fund commenced.

7. RF Eclipse Select Credit Fund:

The Fund's philosophy is to identify and confine risk by evaluating the fundamentals of the transaction, the property, the borrower, and the particular asset and/or market conditions.

The Fund operates as a contributory mortgage scheme and offers investment in a mortgage investment secured by a registered mortgage over legal interests in real property.

After being accepted as a Member, the Member may then participate in one or more Syndicates after approving the terms of the Mortgage Investment and signing the Syndicate Acceptance Form in the Syndicate PDS that applies to the mortgage investment.

The Syndicate and the mortgage investment is an asset of the Syndicate Members, not an asset of the Fund. The syndicate members hold the mortgage investment as tenants in common.

The mortgage is registered in the name of Eclipse as nominee for the Syndicate Members. The Fund does not operate as a pooled fund, debenture trust or unit trust and the member has the absolute discretion whether to invest in any mortgage investment offered to the member.

The Fund enables Members to select mortgage investments that meet their risk profiles and objectives. The details of the mortgage investment are set out in the Syndicate PDS.

8. Trilogy Monthly Income Trust:

The investment process consists of three distinct stages - loan origination, loan approval and portfolio construction. Trilogy conducts research in-house and using external sources.

Externally Trilogy subscribes to Veda Advantage (Veda) – a service allowing Trilogy to obtain information about the credit history of potential borrowers and other parties to the loan.

The following information is reported by Veda on individuals:

- Default accounts;
- Winding up or bankruptcy petitions;
- Directorships of past failed companies; and
- Prior credit applications (limited to the reporting detail of the institutions involved).

The Investment team utilises external information from Valuers, Quantity Surveyors and Property Consultants and Agents.

9. AIMS Commercial Mortgage Trust:

Mortgages are sourced from an accredited network of 20 established independent mortgage originators in most states of Australia and from the AIMS Home Loans distribution network which has over 100 brokers, referrers and AIMS Home Loans representatives. Mortgage originators range from sole proprietors to major corporations, with the majority of the mortgage originators having been involved with the Fund for over 10 years. Mr G Wang, Mr Petruccelli and Ms Aileen Yan are ultimately responsible for managing mortgage originator relationships. However, Mr Petruccelli, in particular, has established a strong working relationship with several existing brokers given his experience and involvement in the Fund.

Mr G Wang and/or Mr Petruccelli interview new originators and if acceptable, recommend their accreditation to the Board of AIMS. Given the long-term relationship with existing mortgage originators, a register of the performance of the mortgage originators is not maintained; rather Mr G Wang and/or Mr Petruccelli bases decisions on previous dealings with the originators.

SQM Research would like to note that the mortgage trusts under review showed strong lending processes and adhered to protocols on a strict basis. Each investment/ loan is managed from an end-to-end approach. Risk Management procedures carried out by rated mortgage trusts were thorough, in that risks are managed from the individual borrower level to the portfolio risk level. Mortgage Trusts rated by SQM Research showed efficient procedures in place to deal with issues such as arrears and defaults.

SQM Research 5-Star Rating Process

An SQM Research review uses a range of processes and stringent proprietary methodologies to arrive at an overall rating. The product assessment methodology employed by SQM Research aims to provide a rigorous, well-considered opinion on the investment merits of a given fund.

Before each rating begins, a comprehensive quantitative and qualitative request for information is sent to each manager. The request for information covers the areas of each fund that SQM Research examines during the review process. This includes historical returns, key portfolio characteristics, asset allocation, management biographies, and outlines of the key investment processes.

The review includes visits, where necessary, to the fund manager and other key related counterparties that are seen as integral to the processes and management of the underlying fund. These interviews are undertaken at the start of the review process and contact with the managers is maintained throughout the review to ensure that recent and relevant data and information is at hand. The aim of each interview is to gain an understanding of each fund's management processes and to gain insight into key management and company philosophies.

When rating each fund, SQM Research utilises a combination of qualitative and quantitative research techniques to determine each fund's strengths and weaknesses. The quantitative aspects encompass markets, portfolio allocations, fees and various statistical measures to dissect past performance. The qualitative components include process analysis, assessment of the investment management team and a review of corporate governance.

The information generated by the rating process is incorporated into the SQM Research assessment model at the completion of the assessment process. This model generates a product score, which correlates to a specific star rating out of a maximum of five stars. Each star rating covers a scoring range, allowing funds to be ranked within star clusters and compared to their peers. Quarter star increments are used to provide granularity within the given star ranges.

All ratings are subject to regular reviews. SQM Research will constantly monitor ratings, which can be reassessed at any time due to changing circumstances or events.

Individual Components

The rating process is defined by a structured and disciplined analysis of the important components of a managed fund. To achieve a high rating, a fund needs to score very well in each of these individual components.

The **Corporate Governance** component takes into account factors relating to the independence and performance of the Responsible Entity and ultimate parent company. Risk management procedures, the independence of board members, and potential conflicts of interest are reviewed. The critical objective is to determine if the appropriate institutional framework is in place, to ensure that investment decisions are made in the best interest of unitholders.

The **Management and People** component incorporate factors relating to the experience and qualifications of the portfolio managers and analysts. Each investment team's stability is examined to determine if the fund has been able to operate smoothly or if it has been affected by disruptions and high turnover. SQM Research reviews whether or not staff numbers are appropriate for the fund's operational requirements.

The **Product Features** component examines the overall packaged fund that is offered to investors. This takes into account the level of fees and commissions. The management expense ratio is of particular interest.

The **Investment Analysis** component takes into account the fund's returns. A range of quantitative measures are employed to dissect and assess performance. Returns are considered on a risk-adjusted basis to determine whether or not the risk-return trade-off is appropriate. Funds that rate highly in this component are those that demonstrate consistently solid performance over time, generating positive excess returns in relation to peers and the benchmark, at lower levels of risk.

The **Process Analysis** component takes into account the fund's overall investment process. This focuses on the fund's stock research, modelling and research process. The key elements of valuation and any applicable ranking models are reviewed. Funds that rank highly in this section have well-structured, consistent and appropriately detailed valuation models and research processes. SQM Research examines how the different outputs from models and other tools are integrated into the overall asset allocation decision.

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