



SQM Research releases its Annual Australian Mortgage Trusts Sector Review. Arrears and default rates reach new lows for the sector

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As part of its annual domestic mortgage trust sector review, SQM Research has today released a sector report covering the seven most recognised Australian Mortgage Trusts.

Managing Director of SQM Research, Louis Christopher said, *“Australia’s mortgage trust sector is now growing from strength to strength. Mortgage loan arrears have fallen over the course of the year and are now lower on average compared to the four major banks. Overall the mortgage trusts on offer to investors have been moulded into sturdy investment products that match the liquidity profile of the underlying loans. As a consequence, we have observed that investor confidence in the sector is improving with a net increase in reported funds under management.*

That said, there are still some issues with regard to certain financial products offered by investment product providers on the fringe which have not been properly tested or even researched by a third party. Investors need to be aware of these additional risks when investing with less recognised operators.”

For this review period, SQM Research initiated coverage on three funds: La Trobe Australian Credit Fund – Select Mortgage Option (SMO), Australian Unity Select Mortgage Income Fund and EQT Wholesale Mortgage Income.

The Mortgage Trust sector report has been split between pooled mortgage funds and contributory mortgage funds (peer-to-peer mortgage funds). Of the funds reviewed, four operate pooled mortgage fund structures and three funds operate contributory mortgage fund structures.

For the year to December 2015, the Authorised Deposit-taking domestic mortgage market recorded a 7.7% annual increase in mortgages. For the mortgage funds reviewed, funds under management increased by an average of 37.5%, reflecting an ongoing recovery in this asset class. Arrears overall for the mortgage market remain muted with a low level of bad debt and non-performing assets as impaired commercial property exposure was 0.5% of total commercial property exposure, a 20.8% annual decline in problem loans. With regards to residential property, arrears greater than 30 days were 1.2% in November 2015 according to Moody’s Investor Service.

Each of the Mortgage Trusts reviewed recorded returns reflective of the underlying risks of their respective mortgage portfolios. Credit performance was solid with only two funds recording low arrears, consistent with their long term averages. Average arrears across the rated universe was just 1.93%.



The following four funds operate pooled mortgage structures. Of the three pooled Mortgage Trusts previously rated, two maintained the ratings received in 2015 and Trilogy Monthly Income Trust was upgraded to 3.75-star rating.

	2016	2015
Mortgage Trusts		
La Trobe Australian Credit Fund – Pooled Mortgages Option	4.25	4.25
AIMS Commercial Mortgage Fund	3.75	3.75
Trilogy Monthly Income Trust	3.75	3.50
EQT Wholesale Mortgage Income Fund	4.00	N/A

The following three funds operate contributory mortgage structures (mortgage peer-to-peer). During the review cycle, SQM Research initiated coverage on La Trobe Australian Credit Fund – Select Mortgages Option (SMO) and Australian Unity Select Mortgages Fund.

	2016	2015
Mortgage Trusts		
La Trobe Australian Credit Fund – Select Mortgages Option (SMO)	4.00	N/A
Balmain Private (Balmain Discrete Mortgage Income Trusts)	3.75	3.75
Australian Unity Select Mortgages Fund	3.75	N/A

A contributory mortgage fund is structured to allow investors to acquire a fractional interest in a specific mortgage of their choosing. The structure allows investors to individually control their investments and invest only in a mortgage that matches individual risk and return profiles. The trade-off for investor control over investment decisions is a lack of diversification. To achieve diversification, investments need to be made to multiple mortgages which when compared to pooled mortgages can be expensive.

Contributory mortgage structures (mortgage P2P lenders) are increasing footprint with new products from recognised fund managers such as Australian Unity, being released into the market.

Overall, the mortgage trusts reviewed delivered satisfactory returns and credit performance was strong with only funds recording arrears.



For further information and access to the sector report please contact:

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About SQM Research

SQM Research Pty Ltd is an independent investment ratings and forecasting research house which specialises in providing accurate investment related advice, research and data to financial institutions and investors

For more information please visit www.sgmresearch.com.au

Research Methodology

In general, the assessment approach adopted by SQM Research incorporates a combination of qualitative and quantitative research techniques to assess property investment products,

Information generated is passed through the SQM Research assessment model at the completion of the assessment process. The assessment 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 products to be ranked within quarter star increments.

Following are descriptions for each of the star ratings, which have been developed as a guide for dealer group research teams and investment committees:

4.5 stars and above – Outstanding. Highly suitable for inclusion on APLs.

4 stars to 4.25 stars – Superior. Suitable for inclusion on most APLs.

3.75 stars – Favourable. Consider for APL inclusion.

3.5 stars – Acceptable. Consider for APL inclusion, subject to advice restrictions.

3.25 stars – Caution required. Not suitable for most APLs.

3 stars – Strong caution required. Not suitable for most APLs.

Below 3 stars – Avoid or redeem. Unapproved.

Hold – The rating is currently suspended until SQM Research receives further information. A rating is typically put on hold for a period of 2 days to 4 weeks.

Withdrawn – The rating is no longer applicable. Significant issues have arisen, and investors should avoid or redeem units in the fund.