



SQM Research releases its 2018 Australian Mortgage Trusts Sector Review

Monday 16 April 2018

- **Funds Under management has experienced a significant expansion**
- **Arrears remain at lows for the cycle**
- **Number of funds has increased**
- **Mortgage refinancing risk in the broader market may increase as lending criteria tightens.**

As part of its annual domestic mortgage trust sector review, SQM Research has today released a sector report covering the 12 most recognised Australian Mortgage Trusts.

Managing Director of SQM Research, Louis Christopher said, *“Australia’s mortgage trust sector has experienced rapid growth over the past 12 months. From our observations, funds under management has nearly doubled.*

In our view, arrears in the sector have remained very low, keeping overall default risk at bay. However risks may increase as tightening of lending criteria affects refinancing of existing loans. Additionally, the rapid increase in Funds under management creates a counter risk of a rapid withdrawal event should managers not prudently safeguard these inflows.

While the lending book of mortgage trusts are dominated by Interest Only loans, the strict lending criteria applied by mortgage trusts reduces refinancing risk. LVRs are considerably lower compared to the broad market and the scrutiny applied on the borrower is also significantly higher.”

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.

Key points:

- For the year to December 2017, fund under management rose by 92% to 2.5 billion dollars for the mortgage funds reviewed.
- Arrears overall for the mortgage market remain muted with a low level of bad debt and non-performing assets was less than 1.0% of total loans.
- There has been an increase in pooled mortgage products while peer to peer mortgage funds have received additional investor interest.

The following funds operate pooled mortgage structures. Some of which (Firstmac High Livez, Boston Private Income Fund) operate a securitised mortgage fund. Of the six pooled Mortgage Trusts rated, five maintained the ratings received in 2017 and one was an inaugural rating.



Mortgage Trusts	2018	2017
La Trobe Australian Credit Fund – Pooled Mortgages Option	4.25	4.25
AIMS Commercial Mortgage Fund	3.75	3.75
Trilogy Monthly Income Trust	4.00	4.00
EQT Wholesale Mortgage Income Fund	4.00	4.00
First Mac High Livez	4.00	4.00
Boston Private Income Fund	3.50	N/A

The following four funds operate contributory mortgage structures (mortgage peer-to-peer).

Mortgage Trusts	2018	2017
La Trobe Australian Credit Fund – Select Mortgages Option (SMO)	4.00	4.00
Balmain Private (Balmain Discrete Mortgage Income Trusts)	3.75	3.75
Australian Unity Select Mortgages Fund	4.00	3.75
Rate Setter Lending Platform	3.75	3.5

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 being released into the market

Overall, the mortgage trusts reviewed delivered satisfactory returns and credit performance was strong with only minor arrears being recorded.

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.sqmresearch.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.