Benchmarks

La Trobe financial

To improve the disclosure of information about mortgage operators in Australia, ASIC requires operators to provide information about specific operating benchmarks and apply disclosure principles. Information about these benchmarks and disclosure principles is outlined below. This information is disclosed in our Product Disclosure Statement dated 15 September 2015 ("this PDS") and is updated as required on La Trobe Financial's website at latrobefinancial.com

ASIC has also issued an independent guide for investors about unlisted mortgage funds called 'Investing in mortgage schemes' which can be obtained on the 'Moneysmart' link from ASIC's website asic.gov.au

Benchmark and Disclosure Principle 1 – Liquidity

Description

This benchmark and disclosure principle addresses the Fund's ability to satisfy its expenses, liabilities and other cash flow needs including the requirement for preparing approved twelve (12) month cash flow estimates. The liquidity of a mortgage fund is key to its ability to meet its representations about whether investors can withdraw from the Fund and whether the Fund can meet its other ongoing commitments. This principle applies to our Cash & Mortgages and Pooled Mortgages Options.

Our policy on liquidity management for our pooled investment options is set out in this PDS at pages 18 to 21 and 34.

La Trobe Financial's response

We comply with this benchmark and disclosure principle. In relation to the Cash & Mortgages Option and the Pooled Mortgages Option of the Fund, we maintain cash flow estimates for the next twelve (12) months, and ensure that at all times these Options have cash or cash equivalents sufficient to meet the projected cash needs over the next twelve (12) months. We have a policy of ensuring that sufficient assets are held in readily realisable investments in order to meet expected future withdrawal requests.

We monitor historical rolling 12 months' inflows and outflows and regularly revise our cash flow estimates based on this historical data as material assumptions underlying our cash flow which we periodically stress test against relevant scenarios, such as increased levels of redemption requests and disruption to cash flows. We do not expect there to be any change to the scheme's expenses, liabilities and other cash flow needs that will affect our cash flow estimates. Any material changes will be reflected in our cash flow estimates.

In relation to the Select Mortgages Option and the High Yield Credit Option, liquidity is dependent on the borrowers repaying the loans on the due date, and investors are only entitled to withdraw from the Fund once the loans have been repaid by the borrowers.

Benchmark and Disclosure Principle 2 – Fund borrowings

Description

This benchmark and disclosure principle addresses the Fund's policy on borrowing, including the fund's actual and intended borrowing. Some mortgage funds borrow against the assets of their fund to pay for distributions, redemption requests or scheme operations generally.

La Trobe Financial's response

We comply with this benchmark and disclosure principle. As at the date of the PDS, the Fund does not have any borrowings and does not intend to borrow.

Benchmark and Disclosure Principle 3 – Loan portfolio and diversification

Description

This benchmark and disclosure principle addresses the Fund's lending practices and portfolio risk, including concentration risk. The criteria responsible entities use to decide what loans to make vary and are especially prone to risk where:

- loan-to-valuation ratios are often higher than for traditional lending; and
- the loans made are highly concentrated to particular types of commercial activities, locations or borrowers.

ASIC has prescribed the information that we are required to disclose about the Fund's investment portfolios which meets this benchmark and disclosure principle.

This benchmark and disclosure principle apply to our Cash & Mortgages and Pooled Mortgages Options. The Fund's loan portfolio and diversification information is set out in this PDS at pages 8 to 13.

La Trobe Financial's response

The Cash & Mortgages and Pooled Mortgages Options comply with this benchmark and disclosure principle. Each of these options holds a portfolio of assets diversified by size, borrower, class of borrower activity and geographic region. No single asset exceeds 5% of the total scheme assets and no single borrower exceeds 5% of the scheme assets. Full details are contained in the Fund Portfolio Report in section 3 of this PDS.

This benchmark and disclosure principle does not apply to the Select Mortgages and High Yield Credit Options.

Benchmark and Disclosure Principle 4 – Related party transactions

Description

This benchmark addresses the risks associated with related party lending, investments and transactions, including details of any related party transactions. Some funds lend or invest fund monies and/or transact with associated companies or businesses.

La Trobe Financial's response

We comply with this benchmark and disclosure principle insofar as it relates to the Cash & Mortgages, Pooled Mortgages and Select Mortgages Options.

For the High Yield Credit Option only, the Fund may invest in corporate debt or notes issued in Residential Mortgage Backed Securities (RMBS) trusts, Commercial Mortgage Backed Securities (CMBS) trusts or securitisation warehouses trusts, where the Investment Manager and/or other entities associated with the Investment Manager or the RE is the borrower or the servicer, originator and/or trust manager for such trusts and/or hold notes in the securitisation structure. This will be disclosed to investors in the relevant SPDS.

La Trobe Financial and associated companies, businesses and individuals may invest in the Fund from time to time on terms equal to other investors.

The Fund, through La Trobe Financial as the Responsible Entity, and as empowered by its Constitution, has retained an associated company, La Trobe Financial Services Pty Limited as investment manager and sub-custodian for the Fund on arm's length, reasonable commercial terms. La Trobe Financial pays the investment manager and sub-custodian out of the fees that it receives from the Fund as its Responsible Entity. La Trobe Financial does not lend to La Trobe Financial Services Pty Limited. The Board of La Trobe Financial has a policy on related party transactions, including arrangements to manage conflicts of interest, as required under the Corporations Act 2001, which are reviewed regularly and it monitors these at its Board meetings to identify, mitigate and manage any associated risk.

Benchmark and Disclosure Principle 5 – Valuation policy

Description

This benchmark and disclosure principle addresses the Fund's policy in relation to obtaining valuations on the properties over which mortgages are registered, including when an independent valuation is required. The valuations that different schemes rely on are carried out on a variety of bases, with differing assumptions and instructions. These valuations are fundamental to determining how much the Fund may lend.

La Trobe Financial's response

We comply with this benchmark and disclosure principle in relation to the Pooled Mortgages Option. All properties that are used as security for loans made from the Fund are valued on an 'as is' basis and, for construction and development property, also on an 'as if complete' basis.

We have a clear policy on how often we obtain valuations which is disclosed in this PDS at section 8 under our "Asset Selection Guidelines" and page 33 relating to Fund capital risks under "Investment Risks". We have a panel of valuers, all of whom must be appropriately registered and include in their valuation reports a warranty that their reports comply with all relevant industry standards and codes.

We do not meet this benchmark for the Cash & Mortgages Option, because in some cases we may rely on the value stipulated in the most recent municipal rates notice valuation where the value of the loan is to be 40% or less of the municipal rates notice valuation.

Loans made in the Select Mortgages or High Yield Credit Options will always disclose the valuation basis in the Supplementary Product Disclosure Statement relating to that loan signed by the investor.

Benchmark and Disclosure Principle 6 – Lending principles: loan-to-valuation ratios

Description

This benchmark and disclosure principle addresses the Fund's property-related lending practices, including the loan to value ratios permitted.

La Trobe Financial's response

We comply with this benchmark and disclosure principle in relation to the Pooled Mortgages Option. We maintain the following maximum loan-to-valuation ratios for loans made by the Pooled Mortgages Option:

- where the loan relates to property development – not more than 70% on the basis of the latest 'as if complete' valuation; and
- in all other cases – not more than 75% on the basis of the latest market valuation.

We do not meet this benchmark for the Cash & Mortgages Option in relation to property development loans. We consider in certain circumstances it is appropriate to lend based on a higher maximum loan-to-valuation. The Cash & Mortgages Option allows the following maximum loan-to-valuation ratios:

- not more than 75% on the basis of the latest 'as if complete' valuation; and
- in all other cases – not more than 75% on the basis of the latest market valuation.

A loan made in the Select Mortgages or High Yield Credit Option may exceed these ratios, but this is disclosed in the Supplementary Product Disclosure Statement relating to that loan signed by the investor.

Where the loan relates to property development, we always ensure that the Fund only provides funds to the developer in stages, that is, on a 'cost to complete' basis, based on reliable external evidence of the progress of the development. More information is disclosed in this PDS at page 31 under our "Asset selection Guidelines".

The Cash & Mortgages Option may invest in development loans with Loan-to-Cost ratios no more than 90%.

The Pooled Mortgages Option may invest in development loans with Loan-to-Cost ratios no more than 80%

Benchmark and Disclosure Principle 7 – Distribution practices

Description

This benchmark and disclosure principle addresses the transparency of the Fund's distribution practices including whether current distributions are paid from scheme borrowings, and disclosure of the source of distributions. Some funds pay distributions out of sources other than income, such as borrowings.

La Trobe Financial's response

We comply with this benchmark and disclosure principle. In general, we only make distributions from income made from the Fund's investments, and this has been our practice since the commencement of the Fund. We do not expect to change our practice in this regard.

The Pooled Mortgages Option also enjoys the benefit of an Investor Reserve that may be used to manage income risks. For investors in Select and High Yield investments their income is dependent on the borrower meeting their payment obligations. More information is disclosed at page 35 relating to Fund income risks under "Investment Risks".

In certain instances relating to the Select Mortgages or High Yield Credit Options, La Trobe Financial and/or the Investment Manager may temporarily fund distributions on the basis of reimbursement (at no cost) from future distributions (if any). Distributions are not funded, wholly or in part, from borrowings of the scheme.

Benchmark and Disclosure Principle 8 – Withdrawal arrangements

Description

This benchmark and disclosure principle addresses the transparency of a mortgage fund's approach to withdrawals of investments when the scheme is liquid and when the scheme is non-liquid. Some mortgage funds promote short withdrawal periods to attract investors, although the maximum period allowed in the fund's constitution is much longer.

La Trobe Financial's response

We have set out in the Fund's Constitution and the PDS, in section 5 under "Investment Options", how Investors can access their money.

We comply with this benchmark and disclosure principle as it relates to the Pooled Mortgages Option.

We do not meet the benchmark as it relates to the Cash & Mortgages Option.

The maximum time allowed for withdrawals from the Cash & Mortgages Option and the Pooled Mortgages Option is 12 months. This is because we seek to align the cash position of the Cash & Mortgages Option with the best interests of investors in a variety of market conditions. However, whilst we have no obligation to do so, we aim to process your withdrawal request from the Cash & Mortgages Option within 2 business days of receipt of your signed written withdrawal notice, and from the Pooled Mortgages Option subject to Maturity Date of investment within 21 days of the end of the month in which your investment matures.

In relation to the Pooled Mortgages Option, your funds are automatically rolled over for a new term of 12 months unless you provide us the required notice to withdraw.

This benchmark and disclosure principle relates to pooled investments and therefore is not applicable to the Select and High Yield investments in the Fund as investors in those options have no right to withdraw from the investments until the loan to which the mortgage relates has been repaid.