La Trobe financial

The Resilience of Property Credit

Looking out for ***you***®

Agenda

1. La Trobe Financial

2. The Resilience of Property Credit

3. The La Trobe Australian Credit Fund

La Trobe
financial

La Trobe Financial

Looking out for ***you***®

Awards & Brand Development

340+ employees

Served over
140,000 clients

Broad Loan
Product Range

Asia-Pacific's Best
Credit Fund*

Blackstone
NYSE Listed
USD $512bn
La Trobe financial

2017 Strategic
Partnership

66+ Years
of continuous operation

140,000
customers since 1952

$17 billion+
total investment mandates

$10 billion+
Loan applications assessed each year

10x
Award-winning Credit Fund *Money* Magazine

2019*
Wealth Management Company of the Year & Credit Specialist of the Year - Asia Pacific

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Funding Sources

- La Trobe Financial builds strong and diversified funding sources to meet growth prospects.
- Substantial wholesale funding lines from the largest banks in Australia and international banks combine with capital market securitisation transactions, its A$3.0b retail Credit Fund, and corporate debt facilities and cash to provide necessary debt finance.
- A diversified range of funding sources gives support to lending growth and maintains liquidity during times of cyclical liquidity distress in particular markets.
- Current capacity across group funding lines is approximately A$2.0b - monthly settlements average c$350m resulting in 12 months headroom.
- La Trobe Financial expects to be a regular RMBS issuer with approximate current RMBS outstanding A$2.0b.
- Adequate head room is maintained across all funding lines commensurate with current expected loan settlement run rates.

Our Asset Class: Property Credit

Looking out for ***you***®

A Blackstone Portfolio Company

Property Credit

- Market size: $2.5 tn (December 2018)
  - Residential mortgages: $1.78 tn
  - Commercial Mortgages: $658 bn
- Residential credit growth slowing (6% YoY)
- ADI Market Share peaked in December 16 (93.6%) and returning to historical norms (circa 80%?)
- Owner-occupied credit now driving market

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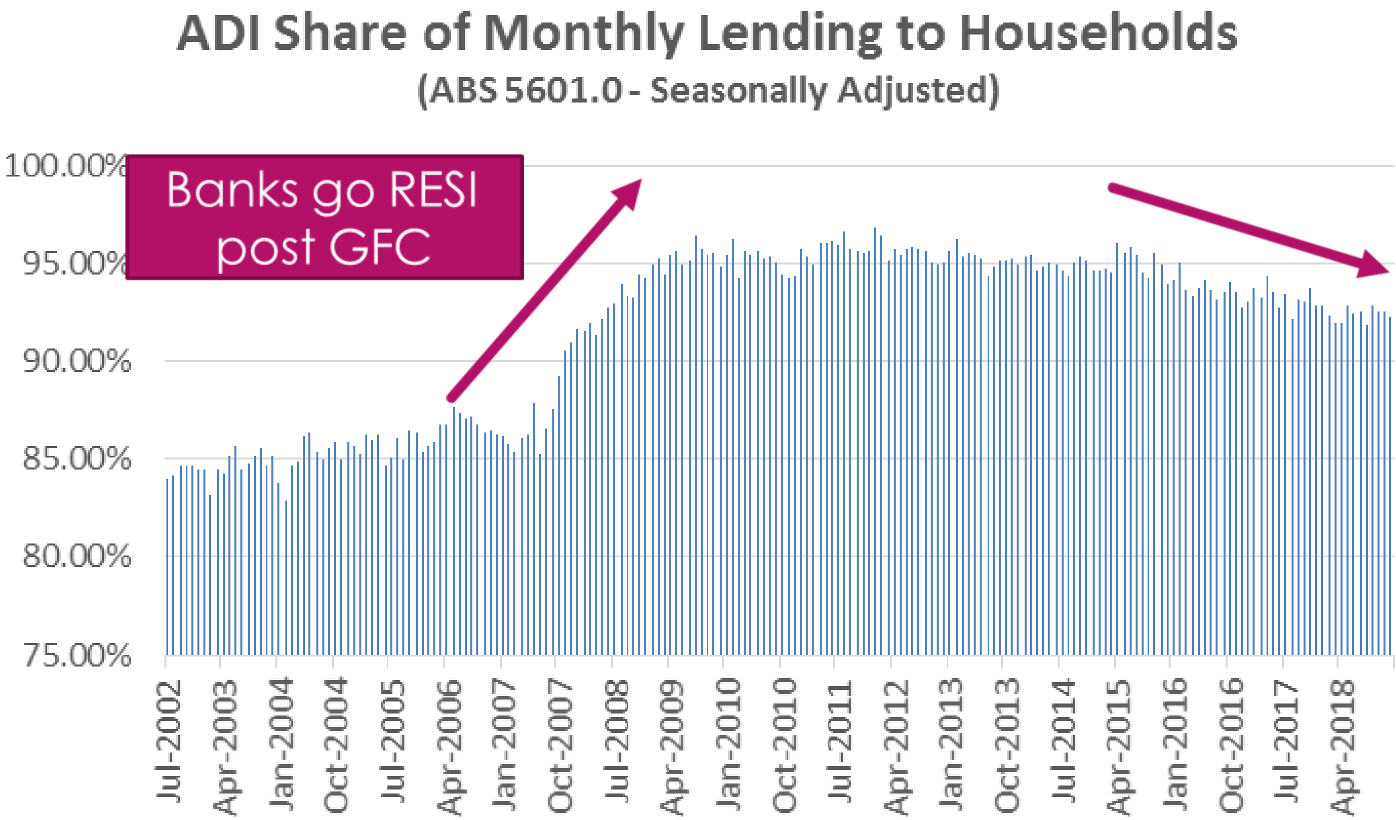
Rise of the Non-Banks…



- ADIs still hold over 93% of housing stock
- Non banks appear to be increasing market share, but yet to reflect significantly in ABS Stats

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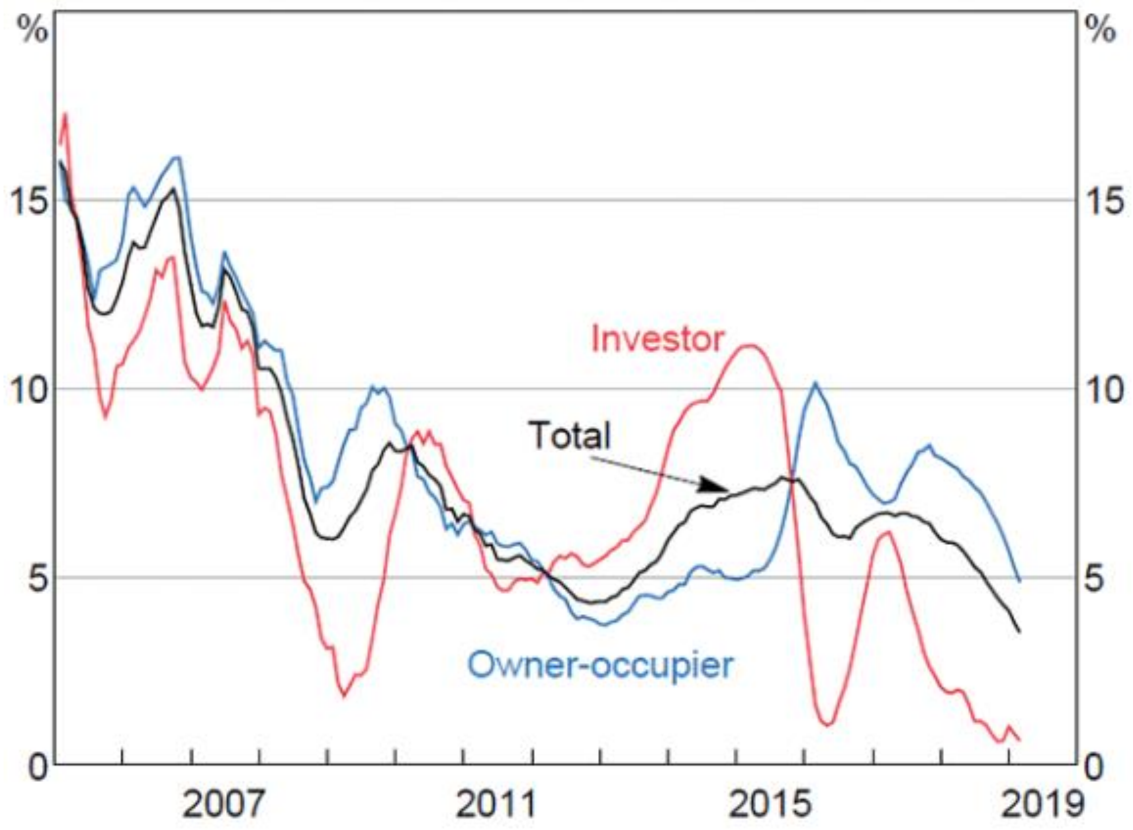
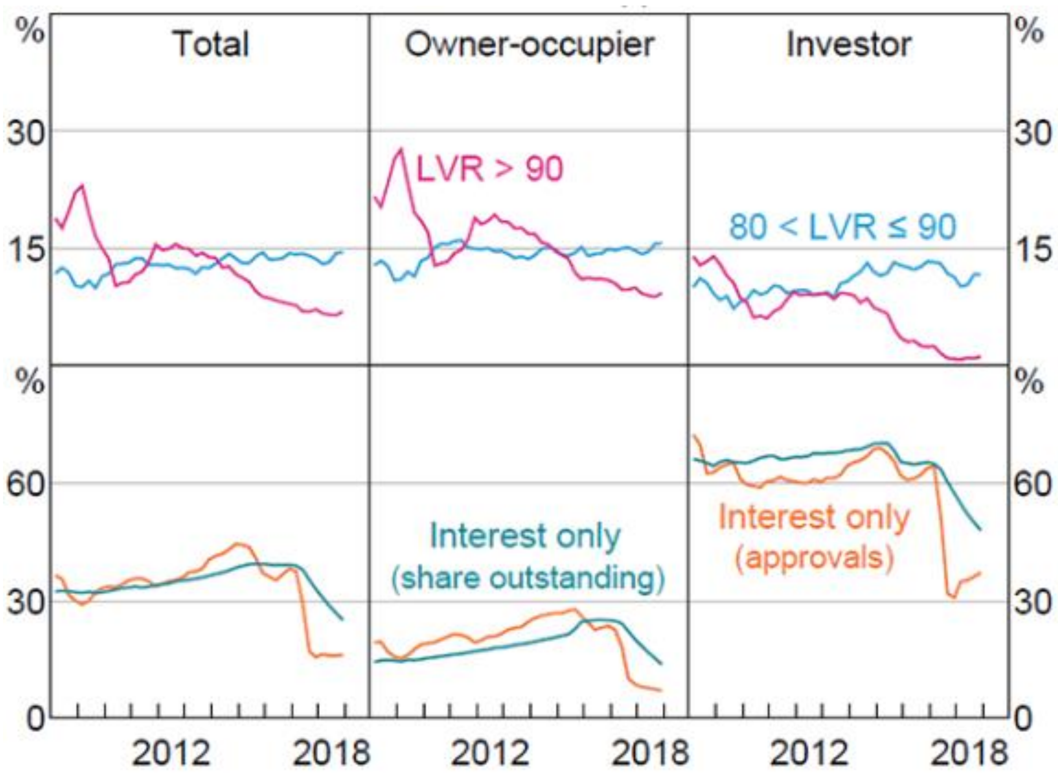
Property Credit

Property Credit Growth



Sources: APRA; RBA

Property Credit – improving characteristics



* Series are break-adjusted for reporting changes; interest-only series are seasonally adjusted

Sources: APRA; RBA

Macro-Prudential Reform

Dec 2014

APRA announces
- (i) Speed limit curtailing investment lending to 10%
- (ii) Serviceability to include a 2% buffer & minimum floor of 7%
- (iii) Supervisors would be alert to :
  - High LVR lends % & loan-to-income ratios
  - Owner-occupiers loans with lengthy IO periods.

ASIC announces a review of lenders' interest-only lending practices & responsible lending obligations.

2015

APRA requests lenders to complete hypothetical borrower exercises ("HBE") providing serviceability assessment for two hypothetical owner occupier and investor loans.

Variability amongst lenders resulted in lender specific recommendations provided by APRA.

July 2016

APRA announced an increase in capital requirements banks using the internal ratings-based (IRB) approach (Major Banks + Macquarie) an increase in average risk weights from about 17 per cent to at least 25 per cent.

May/June 2016 - Citing responsible lending guidelines, banks noted they were shying away foreign lending. Some measures imposed include:
1. Placing LTV caps (eg. 60%)
2. Applying steep hair-cuts to any foreign income assumed for serviceability

Most non-bank follow a similar path to the banks (given warehouse funding is predominantly provided by the Australian major banks).

March 2017

APRA notes:
- New interest-only lending to be limited to 30%
  - (i) Strict internal limits on interest-only lending with LVR >80%; and
  - (ii) Ensure strong scrutiny and justification of IO lending >90% LVR;
- Investment lending speed limit of 10% remains
- Ensure serviceability metrics, including interest rate and net income buffers are appropriate; and
- Cautions restrain to higher risk segments (eg. high loan-to-income, high LVR loans, and loans for long terms).

2017

APRA
- Monitoring growth in securitisation warehouses. Not to exceed growth in bank's own portfolio or lending standards be at a lower quality than industry wide sound practices.
- Non-ADI Lender Rules Incorporated into the Banking Act.
- Reviewing mortgage lending capital requirements (particularly higher risk forms of mortgages) as part of FSI unquestionably strong.
- 2018 - Switching from LTI to DTI and in January APRA finalised reporting Standard ARS 223 - Residential Mortgage Lending.

2018

APRA
- To remove 10% investment lending growth cap subject to Boards confirming:
1. Lending has been below the investor loan growth benchmark for at least the past 6 months;
2. Lending policies meet APRA's guidance on serviceability;
3. Lending practices will be strengthened where necessary; and
4. For ADIs that use the internal ratings-based (IRB) approach to capital adequacy, capital ratios will meet the 'unquestionably strong' benchmarks by January 2020.

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The Royal Commission: Summary of key issues

Royal Commission Discussion Points	La Trobe Financial Response
Serviceability Lenders criticised for over-reliance on benchmarks (HEM & HPI) and inadequate verification of expenses.	La Trobe Financial has a multi-step verification process including: • Multi-point collection of living expenses (9 categories); • Rigorous validation process including investigation of unusual or low amounts; • Telephone interview direct with the applicant; and • Using the higher of validated living expenses and HPI.
Manual vs Automated Underwriting Banks have been criticised for applying insufficient rigour to loan assessment processes using AU (viz: Westpac v ASIC enforcement action).	Our approach is to have at least two (2) experienced and skilled credit analysts assess the merits of each loan application. We do not use automated credit scores and we do not apply mechanical or automated decision making processes. The loan assessment process includes analysis of key risk areas such as suitability of overall loan characteristics and suitability of any interest only periods. Key data points such as income and expenses are manually verified.
Broker Remuneration The use of introducers and the approach to commission payment structures, which has included volume based incentives, has been brought into question.	La Trobe Financial do not use introducers and all brokers must be a member of a regulatory body such as the FBAA. La Trobe Financial does not have any volume based incentive arrangements in place with brokers or aggregators. We anticipate a move away from trail commissions. No material impact is anticipated on our business model.
Aggregators A focus on the role of brokers within the broader mortgage industry along with their ability to mitigate fraud risk and conflict of interest.	Aggregators have been self-policing their members via a greater focus on loan file reviews and compliance checks. Aggregators are reporting increased feedback from lenders in relation to performance of individual brokers.

Property Markets

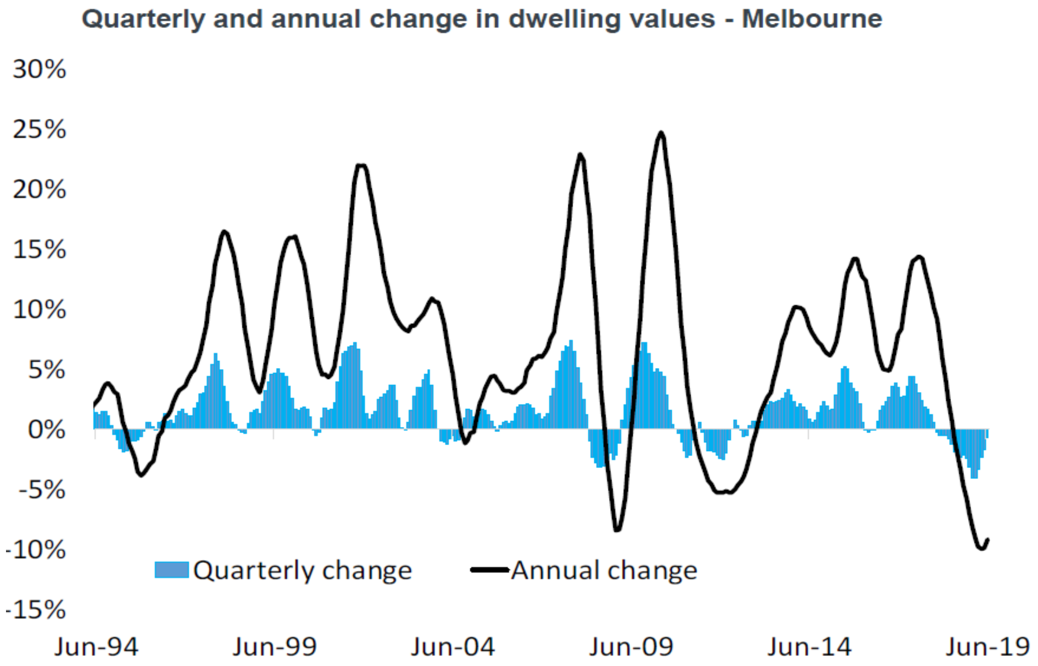
Index results as at 30 June 2019

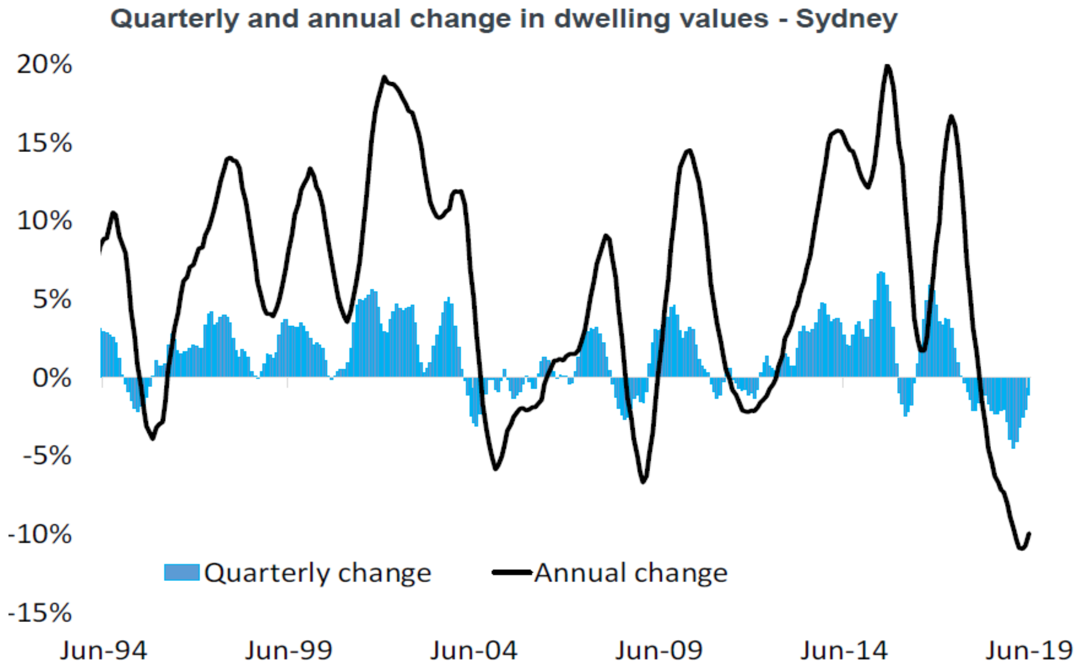
	Change in dwelling values					
	Month	Quarter	Annual	Since peak	Median price (all)	Rental yield (all)
Sydney	0.1	-1.1	-9.9	-14.9	$ 777,693	3.5
Melbourne	0.2	-0.6	-9.2	-10.9	$ 619,383	3.7
Brisbane	-0.6	-1.4	-2.6	-2.9	$ 486,121	4.6
Adelaide	-0.5	-0.4	-0.3	-1.0	$ 430,654	4.5
Perth	-0.7	-2.1	-9.1	-19.8	$ 439,732	4.3
Hobart	0.2	-1.1	2.9	-1.1	$ 453,033	5.2
Darwin	-0.9	-3.6	-9.3	-30.1	$ 387,382	6.0
Canberra	-0.9	-0.7	1.4	-1.1	$ 585,193	4.8
Capitals	-0.1	-1.1	-8.0	-10.2	$ 590,431	3.9
Regional	-0.4	-0.9	-3.1	-3.4	$ 374,991	5.1
National	-0.2	-1.0	-6.9	-8.4	$ 516,713	4.1

Corelogic: Home Value Index

- Orderly correction of July 2017 – early 2019 appears to be nearing its end.
- Sydney and Melbourne now showing MoM house price growth
- Auction clearance rates in Sydney & Melbourne strengthening significantly.
- Sentiment change following election result has buoyed investors – still too early to show in official statistics.
- Overall strong long-term demand/supply fundamentals support values and provide protection against disorderly retracement
- We expect a subdued but broadly stable and predictable market on aggregate basis with pockets of softness to persist.
- LTF not bullish – decline has been orderly as predicted and comfortable with low growth in values as markets appear to hit bottom.

Property Markets – key cities turning the corner?





Source: CoreLogic

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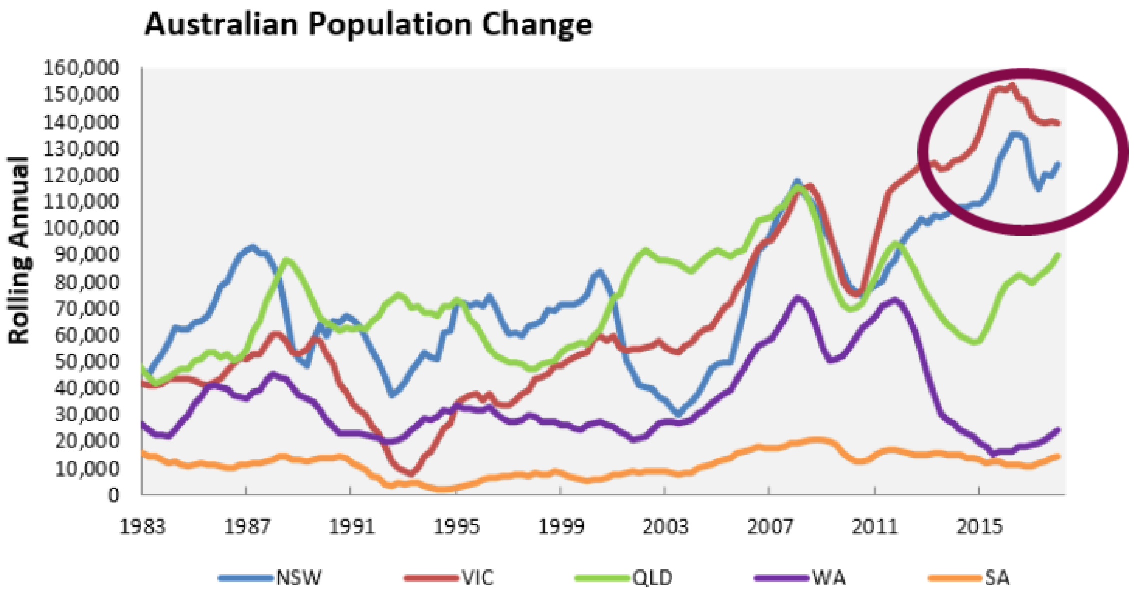
Population Growth



Source: Macrobusiness, June 2019

Source: Trading Economics, July 2019

Incorporating increasing new home sales, expect housing in SYD/MEL to work back towards structural shortfall – potentially as soon as 1HFY20 (later this year!). Expect the housing discussion to move back towards affordability challenges in the medium term.

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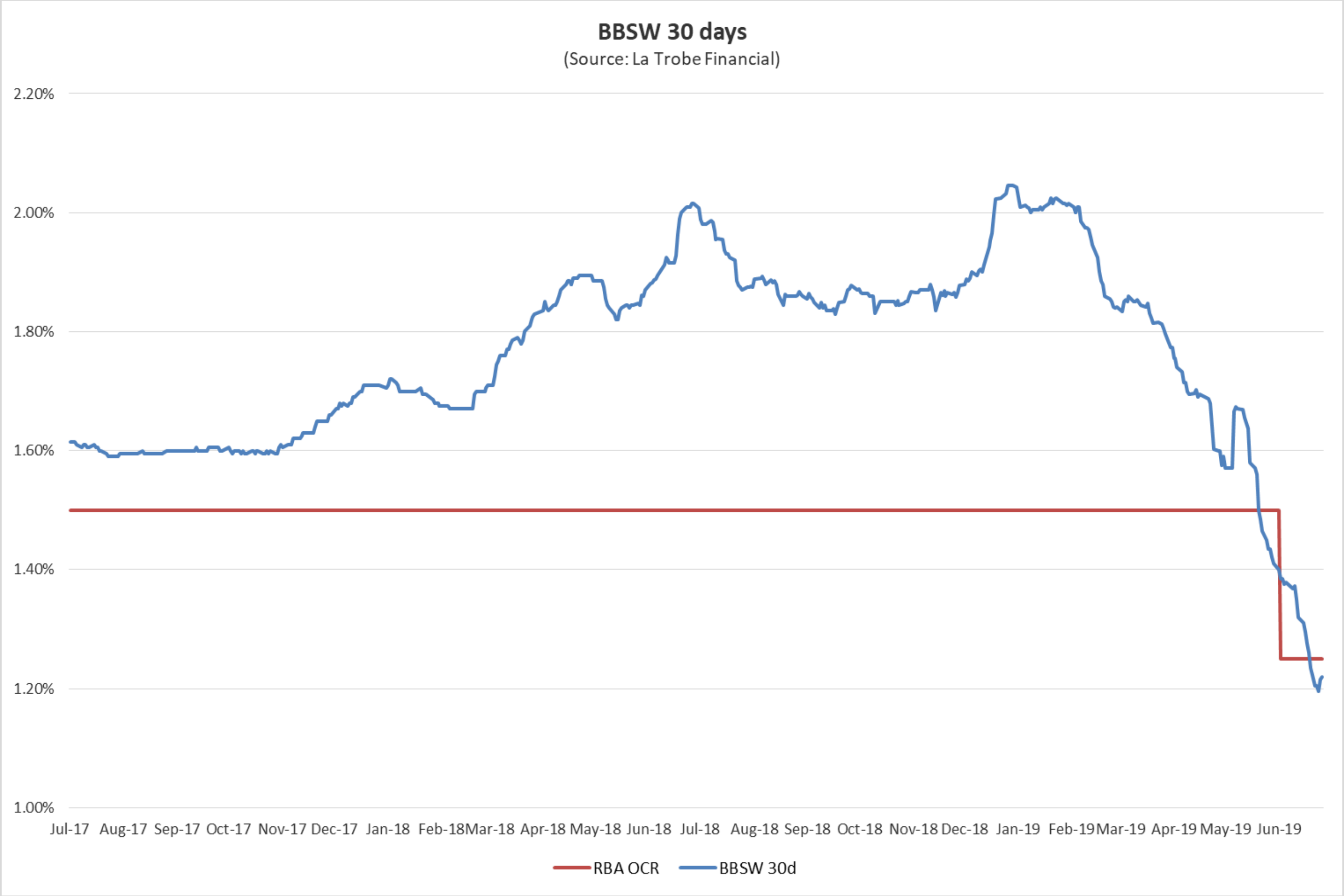
Funding Costs

- BBSW (bank bill swap rate) is the key market index and basis for fund costs
- Historically tracks at relatively stable margin over OCR
- Nov 17-Jan 19 saw divergence between 30d BBSW & OCR.
- Causes include rising US interest rates and reduced liquidity in the domestic market (bank levy, US Tax Cuts & Jobs Act - 8% tax on repatriation – down from 35%)
- Lenders re-priced retail book in response –albeit in a constrained manner due to Royal Commission and reputational risks issues
- 2019 has seen convergence by mean reversion
- Current low BBSW suggests rates 'lower for longer'.
- Watch for benchmark changes (LIBOR, BBSW) – from 2021 LIBOR will not be supported by FCA – work continues on replacement reference rates for circa $350 trillion of derivatives
- Current environment beneficial for property credit however intensifies modern thematic of difficulty for investors to gain meaningful returns from investments.
- Funding costs and Interest Rates fundamental challenge for investors.



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The La Trobe Australian Credit Fund

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La Trobe Australian Credit Fund

La Trobe Financial Credit Fund
Five investment options

Pooled options

Classic 48 hour Account
Access to funds generally available within 2 business days

2.60%*#
p.a. var

Segregated pool of assets

90 Day Notice Account
Access to funds generally available within 90 days

3.10%*#
p.a. var

Segregated pool of assets

12 Month Term Account
12 month term investment

5.20%*
p.a. var

Segregated pool of assets

High Yield Credit Account
Investing for 4 year term investment

6.70%*
p.a. var

Segregated pool of assets

Peer-to-Peer(P2P) option

Select Investment Account
Investing for term Peer-to-Peer

from
6.00%*
p.a. var

Investment in specified asset(s)

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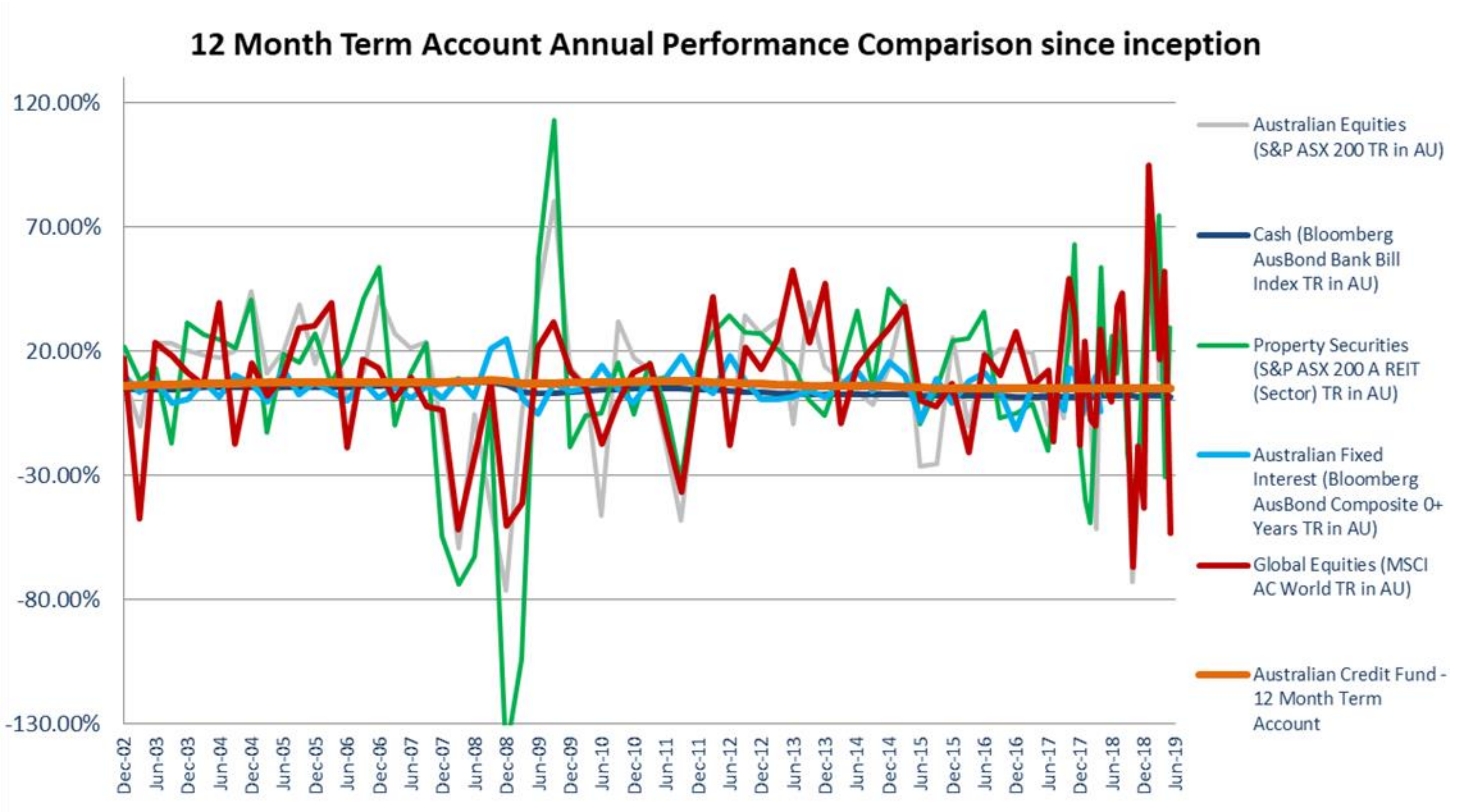
Key Statistics – La Trobe Australian Credit Fund

Credit Fund

- Total FUM: $3.5 bn
- # investors: 38,000

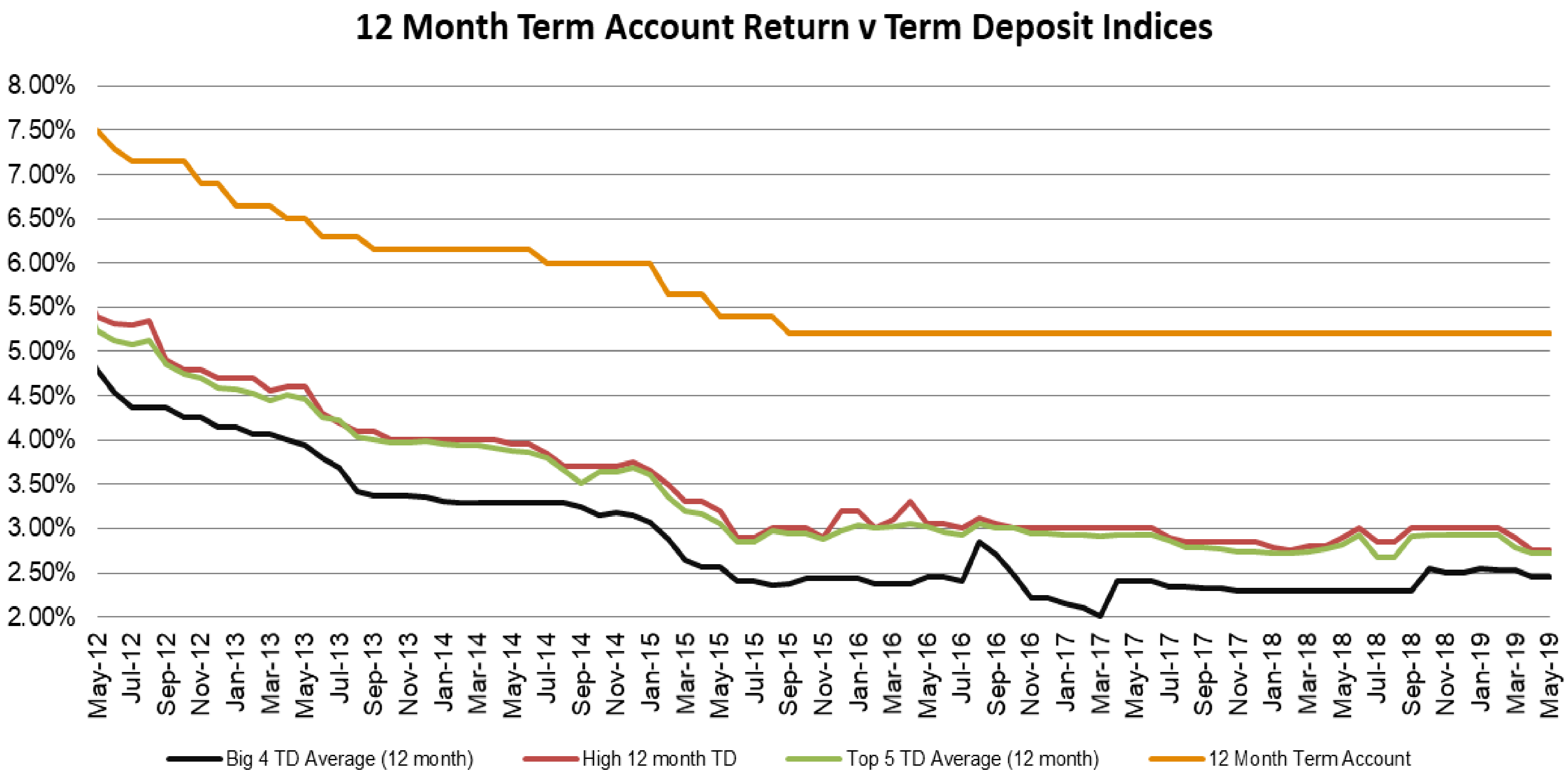
12 Month Term Account

- 12 Month Term FUM: $2.3 bn
- Inception: October 2002
- WAV LVR: 62.0%
- Current yield: 5.20% p.a. var (monthly)
- Last yield adj: September 2015



Performance

Sustained outperformance of Top Five 12 month term (average) deposits.



An investment in the 12 Month Term Account is not a term deposit with a bank and has a different risk profile. You should take this into account when considering an investment in the Fund.

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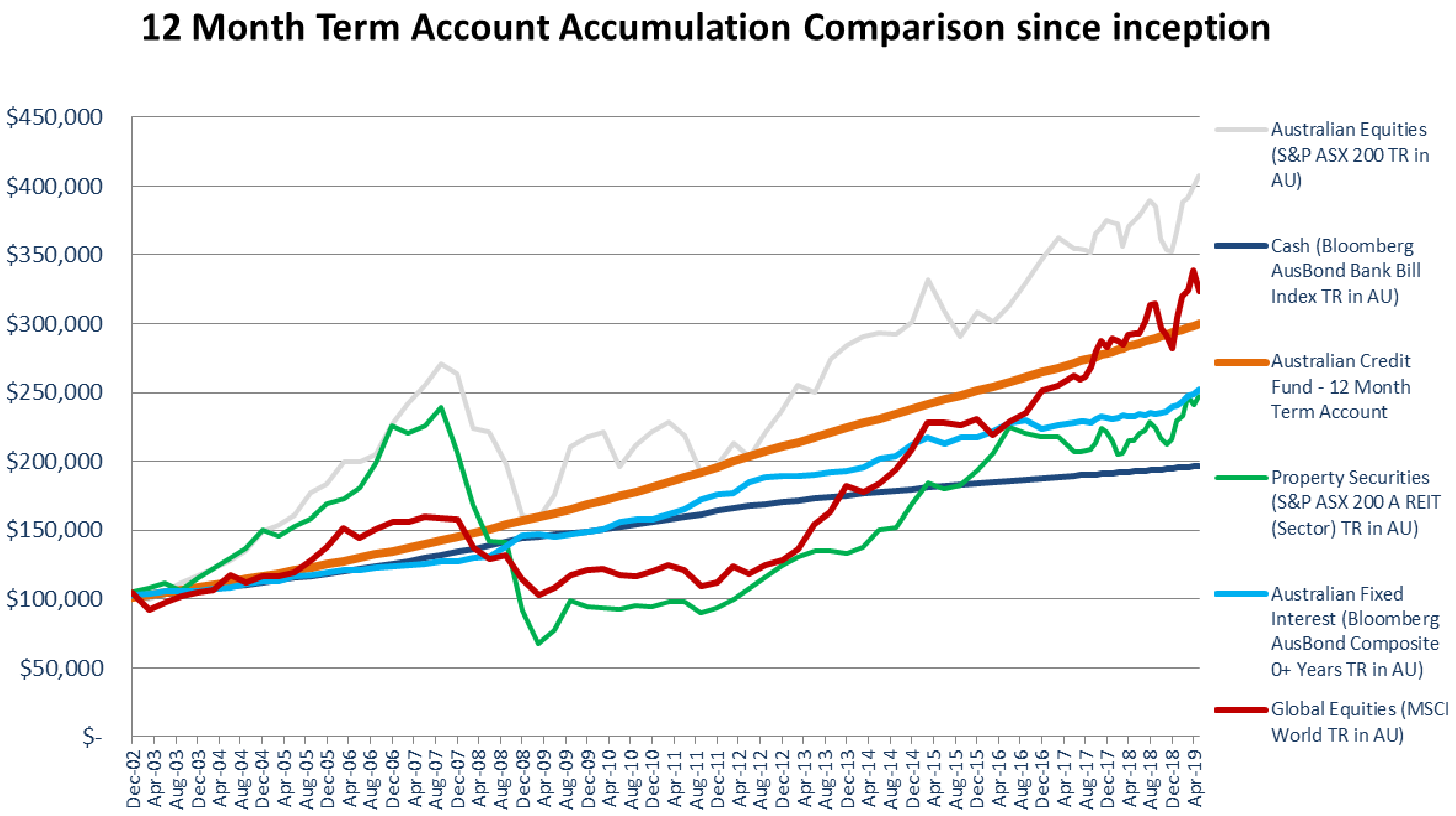
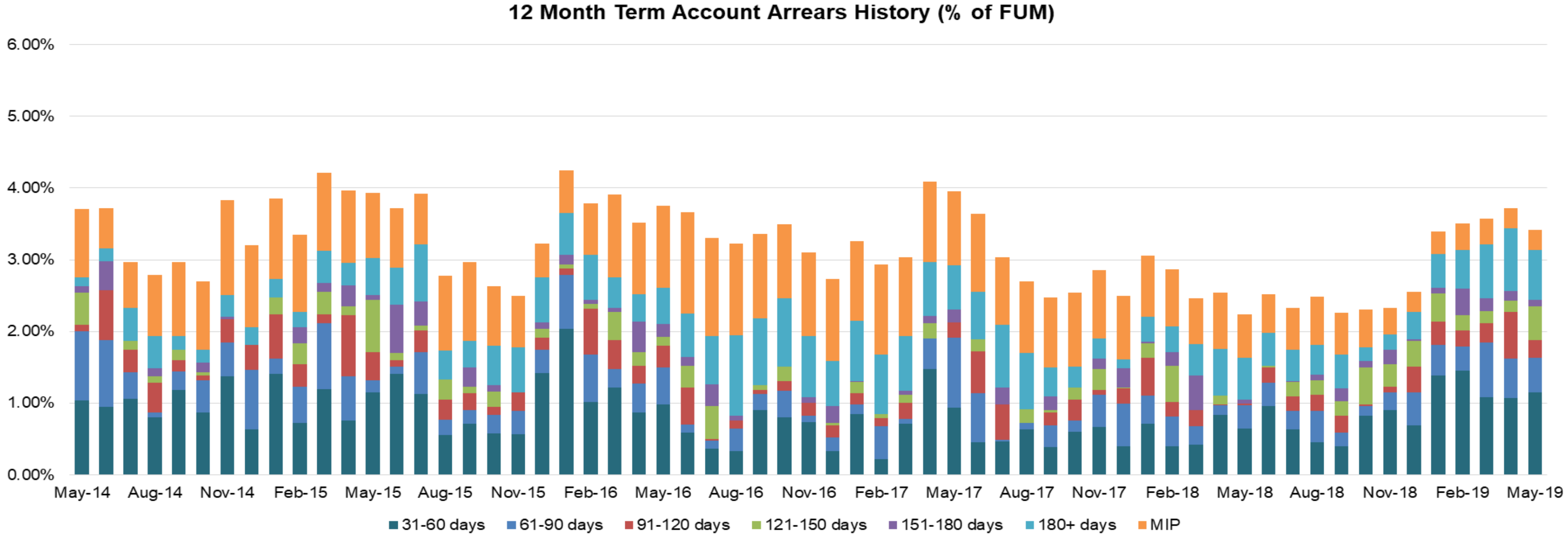
Performance



12 Month Term Account - Arrears



Shortfall History - 12 Month Term Account	31 May 2019
PERIOD	Annualised Losses (% of FUM)
1 year	0.14%
3 years	0.16%
5 years	0.13%
7 years	0.13%
Since Inception	0.12%

Peer to Peer - Investment Innovations

West Melbourne, VIC

Commercial Industrial

Available Investment:

$228,930

Return	LVR	Months
6.29 *Variable*	65.00	28 *remaining*

More info >

Wulkuraka, QLD

Residential – Construction

Available Investment:

$253,363

Return	LVR	Months
8.30 *Fixed*	58.58	13 *remaining*

More info >

Chiswick, NSW

Residential – Owner Occup

Available Investment:

$845,000

Return	LVR	Months
6.19 *Variable*	75.00	55 *remaining*

More info >

Request SPDS:

If you would like to invest in this property please fill in your details below and click the request spds button. This will send an email to La Trobe Financial with your details and an SPDS will be emailed to you.

- ○ New Investor
- ◉ Existing Investor

Amount to invest:

Investor Number

Account Name

Phone

Email

Special Instructions

Request SPDS ▶

Close

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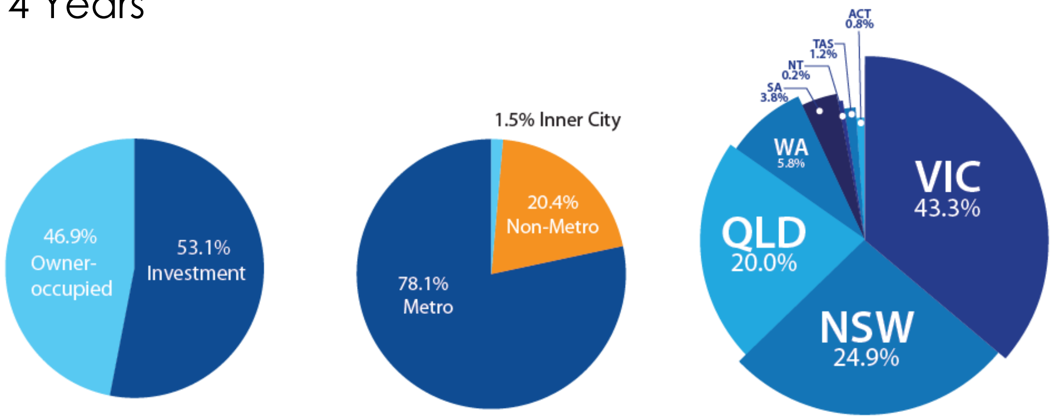
High Yield Credit Account

Investment Return	6.70%p.a (variable)
Investment Objective	Provide Retail Investors access to a class of credit investments which historically has only been available to institutional and professional investors.
Minimum Investment	$250,000
Investment Term	4 Years
Portfolio composition	



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Chief Investment Officer
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Portfolio Manager
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Head of Investor
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Manager
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Conclusions

1. Property credit remains a resilient asset class

2. Asset class fundamentals are controlled and improving

3. Investor demand is strong at retail and institutional levels

4. La Trobe Financial products available on:
   - APLs: 250
   - Platforms: CFS, MQG, IOOF, AMP, Netwealth, Hub24 etc

Awards & Ratings

1 2 3 4 5

2013,2014,2015, 2016,2017,2018, 2019

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MELBOURNE | SYDNEY | SHANGHAI | HONG KONG

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* Returns on our investments are variable and paid monthly. Past performance is not a reliable indicator of future performance. The rates of return from the Credit Fund are not guaranteed and are determined by the future revenue of the Credit Fund and may be lower than expected. Investors risk losing some or all of their principal investment. An investment in the Credit Fund is not a bank deposit. Withdrawal rights are subject to liquidity and may be delayed or suspended. Visit our website for further information.

While we have 12 months under the Credit Fund's Constitution within which to honour your redemption request if there is insufficient liquidity in this Account at the time of your request, we will make every endeavour to honour your redemption request from your Classic 48 hour Account within 2 business days, and your 90 Day Notice Account within 90 days. At the time of this document, there has never been a case in the history of the Fund when we have not honoured a redemption request on time due to a lack of liquidity.