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AUSTRALIAN SECURITISATION JOURNAL

Incorporating Australian and
New Zealand Securitisation
and Covered Bonds

>> Issue 25 • November 2023

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Martin Barry
Chief Financial Officer
+61 2 8046 1502
mbarry@latrobefinancial.com.au

Paul Brown
Treasurer
+61 3 8610 2397
pbrown@latrobefinancial.com.au



latrobefinancial.com.au

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ASJ

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**ASF MANAGEMENT
COMMITTEE****Chair**

Will Farrant

Deputy Chairs

Matthew O'Hare

Belinda Smith

Treasurer

Heather Baister

Chief Executive Officer

Chris Dalton

asf@securitisation.com.au

+61 2 9189 1840

www.securitisation.com.au

**ASJ PUBLISHED BY****KangaNews**

www.kanganews.com

Head of Content

Laurence Davison

ldavison@kanganews.com

Senior Staff Writer

Kathryn Lee

klee@kanganews.com

Staff Writer

Joanna Tipler

jtipler@kanganews.com

Editorial Consultant

Jeremy Chunn

jchunn@kanganews.com

Head of Commercial

Jeremy Masters

jmasters@kanganews.com

Head of Operations

Helen Craig

hrcraig@kanganews.com

**Information and
Data Manager**

Alma O'Reilly

aoreilly@kanganews.com

**Office and
Administration Manager**

Brooke Onley

bonley@kanganews.com

Chief Executive

Samantha Swiss

sswiss@kanganews.com

Design Consultant

Hobra Design

www.hobradesign.com

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For more information contact Peter Riedel, CFO
+61 3 8635 8888 priedel@liberty.com.au



It is my pleasure to introduce this conference edition of the ASJ.

So far in 2023, the Australian securitisation market has successfully absorbed new primary market issuance of more than A\$40 billion (US\$25.3 billion) in the 10 months to the end of October. Full-year supply is now expected to exceed the total public issuance in 2022 of A\$42 billion. This has once again been driven by nonbank issuance plus the return of a number of authorised deposit-taking institution (ADI) issuers of residential mortgage-backed securities (RMBS).

In New Zealand, more than NZ\$1 billion (US\$583.4 million) has been issued in the first 10 months of the year.

In addition to RMBS, we have also seen strong growth in other asset classes including auto loans, credit card receivables and consumer loans. The increasing diversity of the securitisation market in Australia and New Zealand is a positive development, providing investors with a wider range of opportunities.

The Australian Securitisation Forum (ASF) has continued productive advocacy efforts with regulators and government. Recently, industry submissions to Australian Treasury and a Senate economic legislation committee are expected to clarify that the new debt deduction creation rules incorporated in the *Treasury Laws Amendment (Making Multinationals Pay Their Fair Share—Integrity and Transparency) Bill 2023* will exclude ADIs and “securitisation vehicles”.

As part of an open consultation, the ASF has been collaborating with the Reserve Bank of Australia (RBA) in relation to proposed amendments to the requirements for self-securitisation repo eligibility. Pleasingly, the RBA is prepared to consider pragmatic ways to address the practical concerns of industry.

At state level, the ASF is working with the New South Wales commissioner of state revenue to introduce clear guidance so stamp duty will not be levied on mortgage receivables transferred to or repurchased from securitisation special purpose vehicles.

The ASF has completed its review of its SME receivables data reporting template and has published version 2.0 of the reporting template for use by industry stakeholders and by the Australian Office of Financial Management for reporting under the Australian Business Securitisation Fund. It is planned that further work will be undertaken in 2024 to include ‘green’ data information for certain asset classes.

The ASF has funded and sponsored an SME research project with the University of Technology

Sydney. This project seeks to use government databases and other information sources to identify historical patterns of credit performance of Australian SME receivables. A report is expected to be released in H1 2024.

The ASF has also collaborated with Moody’s Analytics, which has constructed an Australian auto asset-backed securities (ABS) index. The initial version of the index will be available by Q1 2024.

The ASF has executed promotional activities locally and offshore. In May, the ASF held its inaugural New Zealand conference in Wellington, which was attended by more than 120 New Zealand market participants. Planning is now underway for the 2024 event. A successful annual London investor seminar was held in June. The ASF also conducted a very well attended Japanese investor seminar at the Australian embassy in Tokyo in September.

The ASF remains committed to its education programme, with more than 18 courses delivered in 2023. This includes the launch of a new programme focused on how securitisation funding can be implemented and work in practice. Details of upcoming courses can be found on the ASF website.

Over the course of 2023, networking events for Women in Securitisation have taken place in Sydney, Melbourne and Auckland. This year the flagship networking lunch was held at the Ivy Ballroom in Sydney, attracting record attendance.

ASF membership continues to broaden. We now have almost 200 Australian and New Zealand market participants constituting our membership base. We are delighted to welcome the following new members that have joined the ASF since our last publication: Ares Management, Crescent Capital Partners, Finance One, Greater Lending Solutions, HSBC Australia, Navalo Financial Services Group, QIC, Sequential, Tokenhouse Financial and VMG.

We were also pleased to welcome three additional New Zealand members: Community Financial Services, Turners Automotive Group and Webb Henderson. Finally, the European Bank for Reconstruction and Development has joined the ASF community in observer status.

As we move into 2024, we are confident there will be consistent growth and evolution in the securitisation market in Australia and New Zealand. I hope this conference edition of the *ASJ* will provide valuable insights and analysis for market participants and stakeholders, and I look forward to seeing further developments in the coming year.



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MORTGAGE HEADWINDS NEED EXPERT NAVIGATION

As a sustained period of volatility continues to test the securitisation market, shifts in the Australian mortgage landscape are affecting issuance volume and assets, with the nonbank sector in particular facing into significant headwinds. National Australia Bank's Sharyn Le, Melbourne-based global head of securitisation origination, and Stephen McCabe, Sydney-based executive director, share their views on the path ahead.

Pent-up demand for loans after COVID-19 initially saw the nonbanks benefiting from a hot property market and buyers seeking fast credit approval.

Increased mortgage origination activity saw A\$17.1 billion (US\$10.8 billion) of nonbank prime issuance in public residential mortgage-backed securities (RMBS) market funding across 18 deals in the nine months to 31 October 2022 according to data from KangaNews and National Australia Bank (NAB).

Since then, authorised deposit-taking institutions (ADIs) have continued to increase competition in the prime mortgage space through low fixed-rate loans and compelling cash-back deals, among other offerings.

As a result, in a relatively cooler market, front-book originations have gone to the majors and other ADIs while back-book pre-payment rates have skyrocketed as nonbank customers seek to refinance to the better deals in market. The impact of these changing conditions – especially in the nonbank prime space – has been profound, with the knock-on effects being felt in the Australian RMBS market.

Public prime RMBS issuance from nonbanks in the nine months to 31 October 2023 fell to A\$8.1 billion across 12 deals – or less than half the volume of the same period a year earlier. The fall for the sector has been countered primarily by an increase in nonconforming pools,

which rose to A\$14.1 billion in the same period this year compared with A\$7.9 billion in 2022.

SEEKING DIVERSITY

With the major banks targeting the more traditional prime space to increase market share, nonbank participants are embarking on new and alternative products to entice borrowers, maintain presence, preserve net interest margin and diversify assets. For nonbank issuers to thrive in today's environment, ongoing product innovation is clearly more important than ever.

Some of the examples aimed at increasing mortgage origination volumes include self-managed superannuation fund residential loans, bridging loans, fully pre-payable fixed-rate loans with zero penalty, equity release products and Sharia-compliant loans.

It is a space where special expertise is needed and an area the team at NAB understands well. As product innovation continues, we are working with lenders that depend on the securitisation market for funding to help refine product strategies and ensure they are fit to meet investor appetite from our global network.

Major investors in Australian RMBS continue to be global entities from the EU, UK, US and Japan, which see compelling relative value and excellent credit collateral performance compared with global RMBS.

The volume coming from offshore is predominantly in senior tranches, although we are also seeing an increasing return of the mezzanine investor.

Prime arrears from ADIs and nonbank lenders have been steadily rising as interest rates move, but this comes from near-historic lows after pandemic support. According to the S&P Performance Index (SPIN) figures for July 2023, released in September, prime loans SPIN is at 96 basis points with 90-day-plus arrears at 45 basis points. This is effectively back to historical averages of 105 basis points and 41 basis points respectively.

The nonconforming sector has also seen an increase in arrears but not even to average levels. Nonconforming SPIN is at 363 basis points and 90-day-plus arrears at 161 basis points, compared with the historical averages of 618 basis points and 300 basis points.

This means the nonconforming sector has significantly larger arrears than prime, but these are still very low compared with historical averages. One potential reason for this is the shift in nonconforming pools to near-prime borrowers from the more traditional credit-impaired borrowers.

The interaction between mortgage origination and RMBS issuance is often complex but inexorably linked. Supply and demand pressures affect both sides of the origination and issuance equilibrium, with external factors affecting the shape of both markets.

Heading into 2024, the landscape is set to continue evolving at pace. While uncertainty seems set to continue, the innovation this can drive will create exciting opportunities on the road ahead.

At NAB, we have exposure across all mortgage asset classes coupled with a deep understanding of RMBS markets. Our experienced, market-leading team is well-placed to help issuers and investors alike navigate the choppy conditions currently being experienced in mortgage origination and funding markets.

Whatever challenges remain on the horizon, NAB is here to support our customers in planning and executing their activity for ongoing business success. ■

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NAB Big Ideas

NEW LIFE IN AUSTRALIAN ABS

Over the past two years, the Australian securitisation market has seen a large rise in nonmortgage asset-backed securities issuance ranging from the more traditional auto loan securitisation to newer asset classes including personal loan and SME transactions. Moody's Investors Service examines the credit quality of the Australian market and prospects for issuance in 2024 and beyond.

In the first three quarters of 2023, Moody's rated more than 20 nonmortgage asset-backed securities (ABS) deals, including public and privately placed structures. We expect that, by year-end, 2023 will see record ABS issuance by deal count and dollar issuance volume, for the first time surpassing the A\$15 billion (US\$9.5 billion) mark (see chart 1).

Similarly, the type of ABS issuance continues to expand: it now ranges from the more traditional auto loan securitisation to personal loan ABS and, in the commercial space, from asset finance to SME ABS. It can now be said with some confidence that the Australian securitisation sector is no longer just a mortgage market.

The higher interest rate environment is challenging nonbank mortgage originators, particularly in the prime and near-prime space where origination slowed significantly during 2023.

Many of these players have diversified their product offering toward auto lending or asset finance and are now seeing a tilt in the composition of their portfolios toward these ABS assets.

Equally, there is an ongoing steady flow of first-time ABS issuers, many of which are taking advantage of the pivot away from auto and related products by Australian banks. In 2023, Moody's rated first-time deals originated by Branded Financial Services in the auto space, Grow Asset Finance in auto and asset finance and, in the SME sector, the first public securitisation by Judo Bank.

Australian ABS has performed exceptionally well. No Australian auto, personal loan or SME ABS has experienced a credit-related downgrade since the financial crisis. Conversely, Moody's has upgraded numerous ABS deals across the sub-asset classes.

This ratings performance reflects the strong credit quality of the underlying

pools as well as deal structures characterised by sequential paydown and rapid build-up of credit enhancement in the early stage of transaction life.

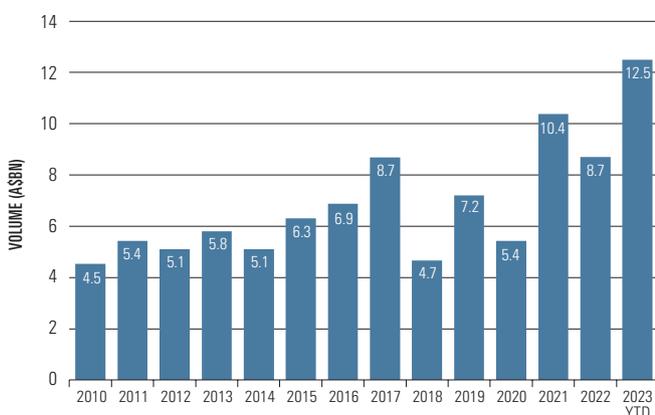
Against the backdrop of higher interest rates and cost-of-living pressures, auto and personal loan arrears and default rates have started to increase moderately (see chart 2). We expect this trend to continue as slowing economic growth, the lagged effect of interest rate rises and higher inflation weigh on borrowers' capacities to repay loans.

Moody's is particularly focused on the performance of loans made to small businesses – in the form of SME and asset finance ABS. Here, in pockets, risk associated with slower economic growth will be considerably higher as the effects of higher interest rates on SMEs' own funding are compounded by a slowdown in discretionary spending.

However, overall, performance continues to be supported by strong labour market fundamentals. Moody's expects the unemployment rate to increase to 4.2 per cent by the end of 2024 – an increase we expect to be manageable. In addition, relatively short weighted average lives and supportive deal structures should continue to hold Australian ABS in good stead.

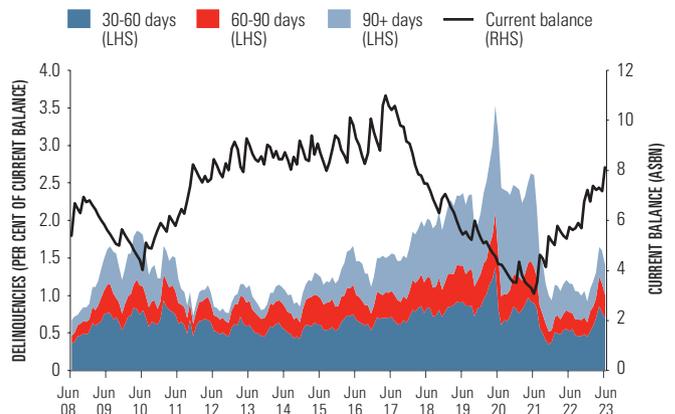
In summary, Moody's expects Australian ABS issuance to continue growing at a good clip, with credit quality to remain resilient to the headwinds in 2024 and beyond. ■

CHART 1. AUSTRALIAN NONMORTGAGE ABS ISSUANCE



SOURCE: MOODY'S INVESTORS SERVICE 15 OCTOBER 2023

CHART 2. AUSTRALIAN AUTO ABS ARREARS



SOURCE: MOODY'S INVESTORS SERVICE OCTOBER 2023

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POSITIVE MOMENTUM

The structured finance market has seen positive momentum over 2023 with significant levels of primary market activity and a robust secondary market buoyed by increasing global participation, according to Westpac Institutional Bank.

The primary issuance market for structured finance has maintained a regular cadence over 2023 despite a series of headwinds that may have otherwise subdued supply. As at the end of Q3, year-to-date public issuance ticked over A\$36 billion (US\$22.7 billion) across 56 individual transactions. This is more than last year and just shy of the 2021 equivalent total – a year that turned out to be the busiest since the financial crisis.

“A shift in operating conditions for the nonbank sector over 2022 as a result of rapidly widening spreads, declining property prices and intensifying competition in the mortgage market were factors at play coming into the new year,” says Martin Jacques, head of securitisation and covered-bond strategy at Westpac in Sydney.

This starting point, coupled with global headwinds in the form of the failure of Silicon Valley Bank and the Credit Suisse-UBS forced merger in late March, might have shifted sentiment. “But the Australian securitisation market was very quick to look through these exogenous shocks and get back to business. More broadly, stability in house prices, surprisingly resilient asset performance in light of 400 basis points of interest rate increases and the false dawn of the ‘fixed rate cliff’ have seen significant volume placed with spreads grinding tighter,” Jacques says.

Westpac’s Melbourne-based structured finance director, Brad Schwarz, highlights the level of engagement from global investors. “We have seen increasing participation from offshore investors in primary bookbuilds, reflecting sound asset performance and attractive relative value,” he comments.

In contrast to a difficult 2022 in credit markets, 2023 has seen a sharp improvement in sentiment, says Hugh Norton, executive director, credit trading at Westpac in Sydney. “Securitisation spreads have seen a profound reversal in 2023 – it has been almost a 180-degree turn on sentiment from last year,” he comments.

Residential mortgage-backed securities (RMBS) spreads widened during 2022 but have been contracting since June 2023. For instance, margins on bank prime issuance gapped wider from 60 basis points over BBSW in mid-2021 to 140 basis points last year. They have started tightening again and are now sitting around 110-115 basis points for senior tranches of second-tier bank paper.

It is a similar story in the nonconforming market, where spreads are moving in to around 150 basis points over BBSW from the high-water mark of 175 basis points seen for much of the preceding 12 months, Norton says.

Tim Stalker, director, credit relative value at Westpac in Sydney, runs a credit investment portfolio that holds first and second priority bonds. He comments: “The last two years have been a volatile period for investing. However, underlying borrowers are adapting to the higher interest rate environment and cost-of-living pressures. As an investor in the senior parts of the capital structure, we remain comfortable with the underlying asset quality and the structural features of transactions, although we see potential for further modest increases in arrears as employment softens from the current strong level.”

Norton adds: “The depth of liquidity has been surprisingly pleasing. Despite the level of supply, it has been slightly harder for investors to access bonds in primary for certain segments – such as bank RMBS. This can feed into secondary demand, which is what we have seen.” Typically, Norton adds, liquidity is better when the market is rallying because investors are going into new primary deals and are happy to trade out of holdings in the secondary market if they have made a profit.

END-TO-END SOLUTION

James Kanaris, Sydney-based head of structured finance at Westpac, notes that, over recent years, Westpac has further invested in its structured finance business – notably including growing in funding, credit sales, primary investment, secondary market and asset-backed research capabilities.

“This puts us in a leading position to assist our customers through the opportunities and challenges that lie ahead for the structured finance market,” he comments. “We aim to offer our customers a seamless path to capital markets, starting with the provision of warehouse funding all the way through to providing support facilities and services for public market issuance.”

From a trading perspective, Norton views regular market communication as key to assisting liquidity. The trading team sends out daily runs via Bloomberg with indicative pricing for a range of securities and Westpac’s inventory, and emails monthly commentary of secondary-market conditions and turnover statistics. Meanwhile, the strategy team distributes regular securitisation research via Westpac IQ.

Overall, continuity is key – and Westpac remains active in the secondary market. “We will always try to provide secondary liquidity for our clients through all market conditions, not just when it suits,” Norton says. ■

THINGS YOU SHOULD KNOW: Source: Westpac research from publicly available information current at time of publication. Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714. These products and services are available only to wholesale clients within the meaning of s761G of the *Corporations Act 2021*. You should consider whether or not these products and services are appropriate for you. Terms and conditions apply.

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Source: Westpac leading position based on IJ Global League Tables as at 30 May 2023 and Westpac research, approximate based on public information. Westpac Institutional Bank's financing exposures are not limited to green and sustainable financing. For more details of Westpac Institutional Bank's financing exposures please see westpac.com.au/investor-discussion-pack-FY22. Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714. This information is correct as at 5 June 2023. These products and services are available only to wholesale clients within the meaning of s761G of the Corporations Act 2001. You should consider whether or not these products and services are appropriate for you. Terms and conditions apply. Copyright 2023 Westpac Banking Corporation.

EV NUMBERS REVEAL NARROWING TRADE-OFFS

Electrifying the transport sector is vital in reducing Australia's carbon emissions. Increasing demand for passenger vehicles could catalyse the market's next growth phase, say Joseph Capurso, head of international and sustainable economics, and John Oh, sustainable economist, at Commonwealth Bank of Australia in Sydney.

As the world decarbonises, the electrification of passenger vehicles is gaining significant momentum. Between 2018 and 2022, the number of electric vehicles (EVs) expanded fivefold to more than 26 million globally¹, with China, Europe, and the US accounting for 95 per cent of new sales in 2022². This trend is a promising sign that EVs can become mainstream in Australia. Passenger vehicles contributed around 8 per cent of Australia's greenhouse gas emissions in 2022³ and transitioning to EVs is a key plank of governments' emissions reduction strategies.

In Australia, EV's market share is already rapidly increasing. Just 4 per cent of all new car sales in 2022, the EV figure doubled over the first half of 2023⁴. With accelerated adoption a public policy imperative, governments have so far focused on supporting EV demand via incentives that lower upfront costs.

Australia has one of the highest emissions levels per kilometre travelled, or emissions intensity, among peer nations⁵. In response, the fuel efficiency standard – due to be released in late 2023 – is expected to reduce the emissions intensity of new vehicles.

Currently, the price of popular EVs is higher than similar internal combustion

engine (ICE) vehicles. Most EVs available in Australia have a driving range of more than 400 kilometres⁶ and supply is concentrated toward larger vehicles.

In 2022, 12 of the 15 most popular EV models were SUVs and the remainder were sedans. While EV sedans tend to be priced higher than their ICE peers, SUVs have more price variety. Two of the most affordable EV models are SUVs, offering a driving range of less than 350 kilometres⁷.

International data show lower-priced cars with shorter driving range can be offered to consumers⁸. In China, people are willing to purchase smaller, cheaper EVs with a range usually below 200 kilometres. However, this is supported by widespread public charging facilities that are still being developed in Australia⁹.

Another trade-off is the comparison between upfront and ongoing operating costs. While many EVs have a higher purchase price than similar ICE vehicles, running costs are lower, driven mainly by electricity having a lower price than petrol¹⁰.

The purchase price for the most popular entry-level EV sedan is around A\$60,000 (US\$38,000). When charging through the electricity grid or rooftop solar, annual cost savings are significant – although it may take more than a decade to recoup higher upfront costs.

The EV premium stacks up financially for lower-priced SUVs with a shorter driving range. The price premium relative to ICE counterparts was A\$5,816 in July 2023, recoverable in 4–6 years through lower running costs. By estimating the net present value for lower-priced EV and ICE equivalent models and then using a business loan's variable rate as the discount rate, an EV's higher upfront cost is more than offset by operational savings over a vehicle's 13-year life.

Government EV incentives can reduce purchase costs and time to recoup, and alter the trade-off in favour of EVs. Some Australian states and territories provide incentives. Generous incentives offered in states like Queensland equalise the purchase price for some models.

Alongside lifetime cost comparisons between EV and ICE vehicles are lifetime emissions, likely to be an increasing focus among carbon-conscious consumers. For some models, EVs will produce relatively more emissions during manufacturing, with battery production around one-third of the total¹¹. But EVs have much lower driving emissions. This is where EVs travelling along 'greener' supply chains have an advantage. Supply chain emissions are already published by some manufacturers and help buyers better evaluate lifetime emissions and make informed decisions. ■

This article is an extract from the Commonwealth Bank Economic Insights, sustainable economics report, *Government strategies to help grow the passenger electric vehicle market*, which can be found at commbankresearch.com.au.

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11 Source: CBA and car brand site (chart 8).

1 Source: BloombergNEF, CBA (chart 4).

2 Source: International Energy Agency *Global EV Outlook 2023*, page 29.

3 Source: CBA, Department of Climate Change, Energy, the Environment and Water (chart 1).

4 Source: CBA, Electric Vehicle Council (chart 5).

5 Source: BloombergNEF, CBA (chart 19).

6 Source: CBA and car brand site (chart 7).

7 Source: CBA and car brand site (chart 8).

8 Source: CBA, International Energy Agency.

9 International Energy Agency *Global EV Outlook 2023*, page 28.

10 Source: CBA and car brand site (chart 8).



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SECURITISATION'S ROLE IN SME CREDIT

Improvement in access to debt financing for SMEs is a popular cause given the economic contribution made by these businesses, including employment for many millions. So says Graham Metcalf, global head of structured capital markets at ANZ in Sydney.

The potential for securitisation to improve access to funding for Australian small businesses has been identified and commented on since the 1990s. The Reserve Bank of Australia's Small Business Finance Advisory Panel, for example, has convened each year for 30 years to better understand the challenges faced by small businesses.

Many SMEs seem to find it difficult to access debt on their preferred terms, generally meaning a favourable interest rate and avoiding providing personal collateral – often residential property.

The Productivity Commission concluded in late 2021 that a “small but not insignificant number of SMEs... may be experiencing credit constraints”. Its report identified a gap in unsecured lending for amounts of A\$250,000-A\$5 million (US\$158,000-US\$3.2 million), which it attributed to commercial realities rather than regulation. The commercial realities include historical data suggesting SMEs are twice as likely to default on their loans as standard mortgage customers and large corporations.

Australian Prudential Regulation Authority (APRA) data suggest the average small business loan size is around A\$300,000 – which is similar in granularity to RMBS pools – with borrowers from diverse geographies and industries. Although some SME loans are tailored financial contracts requiring some renegotiation flexibility, they can generally be accommodated in securitisation pools.

One of the main challenges is that around 90 per cent of SME lending is provided by authorised deposit-taking institutions, mainly the major banks. The majors have concentrated their securitisation energies on their more homogenous residential mortgage books.

Even so, it is widely reported that the major banks are heavily focused on growing their small business lending books – partly due to sustained competitive pressures in residential mortgage lending. From January 2023, APRA reduced the risk weights on bank loans to SMEs and raised the threshold loan size for defining a retail SME to A\$1.5 million from A\$1 million.

Banks are investing to improve application and approval processes, with open banking contributing to this evolution. It seems likely that a lot of business lending will remain with the major banks. With the majors using public securitisation markets for less than 2 per cent of their total external funding needs, it is – unfortunately – hard to envisage a vibrant SME loan securitisation market emerging from bank sponsors in the near term.

Among this, Judo Bank's securitisation funding activities have been a bright spot. With a unique business model, a full banking licence and impressive SME loan asset growth, Judo has increased its securitisation funding as it scales. Judo's substantial warehouse facilities with international and domestic banks, and a successful A\$500 million ABS debut, have proved there is appetite for a bank sponsor securitising SME loan collateral. The placement of the full capital structure of the ABS with third-party investors further illustrates the increased analytical sophistication and depth of the domestic investor base.

GOVERNMENT SUPPORT

There is sound justification for governments to assist in developing funding markets for SME lenders, particularly newer lenders employing technology and data analytics to facilitate

lending the banks have not been providing.

Governments in the EU, UK, US, Canada and Japan have all used their balance sheets to support SME-loan-backed securitisation at various times. Australia has introduced the term funding facility with a five-times SME multiplier, the Australian Business Growth Fund, the SME loan guarantee scheme, and the Australian Business Support Fund (ABSF) – all focused on small businesses.

The ABSF funds four private warehouses, for Judo Bank, Shift, OnDeck and Prospa, and one public market transaction, for Prospa. The ABSF's administrator, the Australian Office of Financial Management (AOFM), recently announced that it will no longer require collateral pools supporting public deals to comprise a majority of loans secured by underdeveloped collateral types.

Whether nonbank lenders can achieve the scale required for sustainable profitability and benefit from these efforts is largely still to play out. From a securitisation market perspective, a longer list of sponsor names would be beneficial. To this end, the AOFM has issued a standing invitation to business lenders to submit proposals for ABSF investment.

The Australian Securitisation Forum's data template for SME loans seeks to assist the establishment of a track record within a standardised framework to support the rating process. Systems infrastructure for SME lending may be variable and there is also some definitional grey between SME loans and commercial leases to SMEs. These should be inconveniences to be worked through, however, rather than category killers. At this point, SME loan securitisation in Australia is a worthwhile pursuit but one that will require persistence and patience. ■

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Around the grounds in Australian securitisation

It has been a landmark year for Australian securitisation, headlined by the flourishing of issuance diversity many in the market have been seeking for many years – led by auto and equipment collateral but with SME loans also sparking. Meanwhile, banks have returned to the market and collateral quality has – so far – held up better than many dared to hope given the pace and extent of rate rises. ASJ speaks to a clutch of market leaders about their perspectives on 2023 and the outlook for the year ahead.

PARTICIPANTS

- ◆ **Warren Barnes** Director, Debt Markets Securitisation
COMMONWEALTH BANK OF AUSTRALIA
- ◆ **Narelle Coneybeare** Senior Director, Structured Finance
S&P GLOBAL RATINGS
- ◆ **Nigel McCook** Head of Client Management and Insights PERPETUAL DIGITAL
- ◆ **Jennifer Hellerud** Managing Director and Head of Securitisation
RBC CAPITAL MARKETS
- ◆ **James Kanaris** Executive Director and Head of Structured Finance
WESTPAC INSTITUTIONAL BANK
- ◆ **Graham Metcalf** Global Head of Structured Capital Markets ANZ
- ◆ **Paul O'Brien** Executive Director, Fixed Income Syndication
COMMONWEALTH BANK OF AUSTRALIA
- ◆ **Sarah Samson** Global Head of Securitisation, Capital Markets and Advisory
NATIONAL AUSTRALIA BANK
- ◆ **Ilya Serov** Associate Managing Director MOODY'S INVESTORS SERVICE
- ◆ **John Stormon** Head of Securitisation, Australia and New Zealand MUFG
- ◆ **Natasha Vojvodic** Head of Australian and New Zealand Structured Finance
FITCH RATINGS

ASSET RESILIENCE

Asset performance backing Australian securitisation issuance has held up better than perhaps most expected in the sense that while arrears are up, it is only to the 2014-20 average. Why is this?

- ◆ **BARNES** It is partly due to the household saving buffers build up over the COVID-19 period. But it is also testament to the strength of underwriting by issuers – particularly in the alt-doc and nonconforming sector, where understanding the financial position of the underlying customer is key.
- ◆ **SAMSON** The other key driver of this performance is the consistently low unemployment rate, coupled with many Australian households having a level of discretionary spending that can be adjusted as required to meet changing loan repayment amounts. Households have managed this responsibly.
- ◆ **VOJVODIC** Unemployment is a key driver of arrears performance, and with the unemployment rate at an all-time low we feel borrowers will prioritise their mortgage repayments over other expenses. The tight labour market also means borrowers are able to pick up extra work if needed.

Household finances were in a better position after the pandemic – savings were at record highs during COVID-19, giving a significant buffer once interest rates started to rise.

- ◆ **HELLERUD** I agree that the biggest factor supporting asset performance has been the very low unemployment rate. Unemployment is the biggest driver of default so asset performance should not deteriorate beyond long-term averages, providing employment levels remain strong.

There are other factors. Households strengthened their balance sheets during the pandemic with higher savings and offset account balances, higher mortgage pre-payment rates and accumulation of additional equity in their homes thanks to significant house price appreciation over this period. These factors continue to provide some cushion against higher rates and cost-of-living pressures.

While the savings rate has slowed, there is still a fairly large pool of savings available to households. This is not evenly distributed across the household landscape, though. Borrower cohorts that remain vulnerable are lower-income households, those that have low excess payment buffers to draw on and highly indebted households.



“A DOWNSIDE OF PRIVATE PLACEMENTS IS THAT SOME INVESTORS DON'T ALLOW PRICING TO BE DISCLOSED. THIS IS AT A TIME IN WHICH WE HAVE ALSO SEEN MORE DISCLOSURE TO INVESTORS DURING THE EXECUTION PROCESS OF PUBLIC TRANSACTIONS. THIS IS A POSITIVE DEVELOPMENT THAT SHOULD BE MAINTAINED.”

SARAH SAMSON NATIONAL AUSTRALIA BANK



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Treasurer

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☎ +61 421 381 810



Stafford Hamilton
Founder and CEO

✉ stafford@credabl.com.au
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“IN THE EARLIER PART OF THE YEAR, LIQUIDITY IN DOUBLE- AND SINGLE-B TRANCHES WAS MORE CHALLENGING. NOW, HOWEVER, SOME MEZZANINE TRANCHES HAVE PRICED WITH SIGNIFICANT OVERSUBSCRIPTION WHEN OFFERED – A NUMBER OF DEALS DO NOT MAKE MEZZANINE AVAILABLE.”

WARREN BARNES COMMONWEALTH BANK OF AUSTRALIA

The conservative credit culture in Australia has also greatly contributed to this outcome. The inclusion of mandatory serviceability buffers on residential mortgage lending, strict underwriting criteria from nonbank lenders and responsible lending obligations has ensured the Australian market is well positioned to withstand the pressures of inflation and interest rate increases.

◆ **MCCOOK** On the question of unemployment specifically, it is worth noting that the significant rise in interest rates over the last 15 months has yet to manifest in a material rise in the unemployment rate. The strength of the labour market is further emphasised by the growth in full-time, rather than part-time, employment. Since the end of the COVID-19 lockdowns the total number of people employed full-time has grown by 8 per cent, while the growth in part-time employment has lifted by just 1.5 per cent.

While most mortgage-holders have experienced a large increase in their monthly mortgage payments, the overwhelming majority has been able to meet those payments thanks to a strong labour market that has not only kept them employed but enabled them to earn additional income by working longer hours.

When the Reserve Bank of Australia (RBA) started the lift in interest rates, property prices were forecast to fall by up to as much as 20 per cent. There was an initial fall, nationwide, of 9 per cent but this has rebounded by nearly 5 per cent over the past six months – resulting in mortgage holders not experiencing a significant erosion of the equity in their properties.

Having equity provides those who are struggling to meet higher repayments the ability to sell their property and exit their mortgage, which helps keep arrears rates lower and also minimises potential losses for lenders.

Macroeconomic factors are not likely to be the only driver of the resilience in arrears – we should also acknowledge prudent lending and credit risk management by financial institutions as a driver of this resilience.

Lower loan-to-value ratios (LVRs) across lender books compared with pre-financial-crisis levels, inclusions of interest buffers at loan assessment, and proactively contacting customers who were coming off very low interest rate fixed-rate loans to understand their financial position are just some examples of how prudent lending and effective credit risk management are resulting in strong asset performance.

◆ **ONEYBEARE** Lending standards have been focused on prudent lending in recent years, particularly around serviceability. This is reflected in performance and borrower behaviour. We have previously commented on the fact that lending standards have been relatively uniform across Australian lender groups, and this is also reflected in performance.

Having said this, the economy and labour markets especially have surprised in their resilience – and this remains the key factor in our view.

◆ **METCALF** As well as the factors already mentioned, I would add the significance of the regulatory piece. The thing that has changed for people with existing debt is the interest rate, not the principal repayment profile. It is just the cost of the interest that has gone up. Very sensibly, lenders in Australia have to consider the prospect of rising interest rates when writing mortgages. APRA [the Australian Prudential Regulatory Authority]’s minimum serviceability buffer removed any temptation for bank lenders to assume BBSW would be near zero forever, so loans were written with a view to higher rates.

Nonbanks also saw the sense in adhering to this. The speed and the scale of the interest rate change has surprised a lot of people, but fundamentally the system planned for it to happen.

Should we be expecting arrears to climb from here, even in the absence of a major shock or the economic trajectory deviating significantly from the base case?

◆ **SEROV** We had been forecasting a moderate increase in arrears in RMBS [residential mortgage-backed securities] and ABS [asset-backed securities] for some time now. To date, we have indeed been observing a reversion to the long-term average after the very low arrears rates observed during 2021-22.

I agree that this resilience is primarily a function of the low unemployment rate – at 3.7 per cent, it is close to a 50-year low. We are forecasting it will rise to 4.3 per cent by the end of 2024, but even this should not affect consumer credit markets too much. That fact that households had accumulated significant savings buffers – and that it will take some time for these to erode – is also significant.

There is an important caveat to the resilience of Australian mortgage borrowers. The 2021 and early 2022 cohort of borrowers has experienced quite sharp increases in arrears. These are borrowers who took out loans at the bottom of the

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“TWO YEARS AGO, IT WAS VALID TO ASK WHETHER MORE ISSUERS COULD COME TO THE AUTO ABS MARKET. NOW, IT FEELS LIKE ALL THE ISSUERS HAVE COME OUT OF THE WOODWORK. HISTORICALLY, THE SECURITISATION MARKET WAS 85 PER CENT MORTGAGES AND 15 PER CENT ABS. ABS NOW MAKES UP A BIGGER PART OF THE TOTAL.”

GRAHAM METCALF ANZ

interest rate cycle and at a peak in house prices, so perhaps their underperformance could be expected. We are watching these vintages very closely.

♦ **STORMON** Originators and households learned to adjust during the pandemic period, and this might be the most important factor in loan performance. Households likely picked up some level of savings buffer while originators learned how to deal with challenged households.

Even so, looking at all the factors together we have to assume arrears numbers will go up – even in 90-days-plus duration. But realistically, at this point, we are talking about a robust housing market and we are not worried about a massive spike in unemployment or interest rates going to double digits. People might be stressed there could be some pain on the disposable income side, but they can adjust to a point where they can live and still pay off their mortgages, credit cards and car loans.

It is also worth remembering how low the interest rate environment we are coming out of was. We talk about the 400 basis point movement in interest rates in an incredibly short period of time but, historically, interest rates were very, very low before this. In 1991, Australia had a recession during which interest rates were in the double digits – it was a very different conversation.

♦ **KANARIS** The generational low levels of delinquency rates coming out of COVID-19, followed by 400 basis points in interest rate rises over the past 18 months, meant there was always going to be an increase in arrears as rates normalised. This said, the resilience in asset performance reflects low levels of unemployment, record savings accumulated over the preceding two years and robust underwriting standards.

There are other factors at play, too. In particular, high levels of migration, lack of housing supply and substantially increased development costs are underpinning house price performance and muting any potential loss for borrowers who need to sell.

♦ **METCALF** Every month I look at the underlying collateral performance in our securitisation facilities and, so far, there is very little to see. It always feels that it will be a problem next month, but then it just kicks down the road for another month. For us, it hasn't got worse and there are no material signs of deterioration.

As for whether this could change, I am optimistic it will stay resilient – provided we actually are close to the top of the cash rate cycle I tend to think the vast majority of borrowers will get

by. It is difficult to know if we are done or nearly done with hikes, though, because there are so many variables. But, ultimately, I am optimistic.

The other thing is, the people with debt in the banking system are skewed to the better-off in society. There are undoubtedly real issues in the economy but much of the stress is concentrated with those confronting higher rents and overall cost of living. Those who have a loan or a credit card have proved their ability to pay it, absent something unforeseen happening – so the banking system will continue to be okay.

Perhaps the biggest subject of attention in the lending market since the pandemic has been the fixed-rate mortgage ‘cliff’: the vast volume of loans written with very low fixed rates while banks had access to stimulus funding, but that are now reverting to much higher variable rates after 400 basis points of rate hikes. But, so far, there does not appear to have been a major impact. How close are we to being able to say that the fixed-rate mortgage cliff has simply not eventuated?

♦ **VOJVODIC** I think we can say the fixed-rate cliff concern was overblown, for several reasons. First, borrowers on low fixed rates had time to save more than variable-rate borrowers on higher rates, meaning that, all things being equal, fixed-rate borrowers are in a better position than variable-rate borrowers.

Second, banks have been proactive at contacting fixed-rate borrowers to find out whether they are at risk and, if they are, offer them assistance such as switching to interest-only loans or offering them a competitive variable rate.

Finally, there has been so much publicity about the cliff, making borrowers aware of the risk and encouraging them to plan ahead and seek advice if needed.

♦ **CONEYBEARE** Although there are still large numbers of borrowers out there who will be rolling off fixed loans in the coming 6-12 months, we have noticed that, to date, this is being managed well. I agree that, to some degree, the widespread media coverage of this issue has probably helped – the impact of rising rates for borrowers as well as what steps people can take have been very well telegraphed.

♦ **METCALF** We are close to being able to say the cliff has not eventuated. I think we are already at the point where we can say

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“UNEMPLOYMENT IS A KEY DRIVER OF ARREARS PERFORMANCE, AND WITH THE UNEMPLOYMENT RATE AT AN ALL-TIME LOW WE FEEL BORROWERS WILL PRIORITISE THEIR MORTGAGE REPAYMENTS OVER OTHER EXPENSES. THE TIGHT LABOUR MARKET ALSO MEANS BORROWERS ARE ABLE TO PICK UP EXTRA WORK IF NEEDED.”

NATASHA VOJVODIC FITCH RATINGS

there will not be catastrophic system issues from the so-called cliff.

Most borrowers who are the focus of the issue made a very sensible decision in 2021 when they decided to fix all or part of their mortgages. Locking in a 2 per cent mortgage was hardly entering into a financial ‘instrument of mass destruction’, and I think we can already see the result will not be anywhere near as bad as the media was portraying. The data are suggesting we are past the peak in terms of percentage of borrowers that have moved from fixed to floating and it will largely roll through by September 2024.

Although I don’t expect the cliff to end up as a major issue in the mortgage sector, the extra 4 per cent people are paying on their loans needs to come from somewhere. For the lucky ones it will be salary increases, but for the most part it would be unrealistic to expect people’s main financial liability to increase and for this to not have an impact on consumer spending. It is something ANZ is keeping a close eye on.

♦ **STORMON** I do not know if we are definitely past the period of rolling off the fixed-rate mortgage cliff but it certainly has not come to fruition the way some elements of the media suggested it would. Part of this must be because most of the fixed-rate loans are not written by nonbanks but by banks.

If there is a mortgage cliff, I would rather have it in the ADI [authorised deposit-taking institution] sector than with nonbanks, because an ADI is likely to have more wherewithal to adjust. The nonbanks have always been quite disciplined from this perspective.

The other thing is that fixed-rate mortgages should be, and presumably were, written with serviceability tests. Although the rate increase has gone through the buffers, what these tests likely imposed will have accounted for quite a lot of the increase. Many borrowers will also have been shrewd, either putting money away in savings to offset future increase in payments or paying down their mortgage to lessen the blow once the fixed-rate period ends.

A cliff does not always equate to jumping off a cliff. Sometimes it can roll into a downward-sloping hill, which is not as dramatic as the term sounds. Like most things in the economy, I expect we will work through it. There are some very intelligent people in the industry and we are talking about loans written by ADIs that are very good risk managers.

In sum, I view this as an ordinary transition back to variable rates for fixed-rate borrowers. They have had their time in the

sun and have been lucky at the right time. But I believe most of them have been able to adjust in preparation for the time when their rate does indeed reset. There is not as much gloom as has been suggested and certainly not as much as commentators in the media are suggesting.

♦ **SEROV** The point that nonbank lenders don’t originate significant volumes of fixed-rate mortgages is correct and it means fixed-rate mortgage conversion has not affected the RMBS portfolio we are monitoring in a material way. Instead, borrowers in nonbank RMBS pools experienced increases in their variable interest rates immediately after the interest rate tightening cycle started – this partly explains the quick run up in arrears for the 2021-22 vintages.

For bank-sponsored RMBS, we have not yet seen fixed-rate conversions translate into a sharp increase in arrears. However, we think there is a lag effect here and the full impact of the interest rate increase will typically be felt by borrowers only after a few months. We expect bank RMBS arrears will rise somewhat.

♦ **KANARIS** For the Australian securitisation market specifically, the fixed-rate cliff is not as significant. This is because nonbanks have been the dominant issuers of RMBS over the past three years and fixed-rate lending is not a significant component of their origination.

Are there any lingering grounds for concern when it comes to the mortgage cliff?

♦ **HELLERUD** I am not convinced we can yet say definitively that we have avoided the cliff. We are just over half-way through the stock of fixed-rate loan expiries. There is also a lag, with households adjusting behaviour to accommodate higher mortgage repayments.

Studying nonbanks’ portfolio performance is instructive as to whether the mortgage cliff will eventuate, as their portfolios are predominantly variable rate. Australian prime nonbank originators’ 30-days-plus RMBS arrears have increased by 0.46 per cent since the first rate hike in May 2022, and nonconforming 30-days-plus arrears have risen by 1.45 per cent. However, it should be noted that these trends suggest a return to the long-term average rather than any material deterioration beyond this level.

♦ **MCCOOK** It agree that it is probably still a little too early to say the mortgage cliff will not eventuate as there is still a considerable

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Kit Chan

Senior Director
Business Relationship Management
Kit.Chan@fitchratings.com



Spencer Wilson

Director
Business Relationship Management
Spencer.Wilson@fitchratings.com

International bid for Australian securitisation

GLOBAL INVESTORS HAVE BEEN IMPORTANT SUPPORTERS OF AUSTRALIAN SECURITISATION ISSUANCE OVER MANY YEARS. THEIR DEMAND HELD UP IN 2023 DESPITE CHANGEABLE MARKET CONDITIONS, AND THERE IS A DEGREE OF OPTIMISM ABOUT ONGOING ENGAGEMENT.

What role has the international bid played in 2023 and what is the outlook for next year? How does Australian product stack up on a relative value (RV) basis – and does reduced global supply have an impact?

O'BRIEN The Australian securitisation market has demonstrated consistent support from a core set of international participants through 2023, which in itself demonstrates the value Australian dollar product brings to the international investor portfolio from an RV perspective. This is coupled with increasing activity in the secondary market: enhanced liquidity is also favoured by international investors.

KANARIS Australian securitisation is becoming more and more attractive to offshore investors, and I agree that this is not just because of the RV on offer but also observed liquidity.

In particular, the performance of the market during the LDI [liability-drive investing] liquidation in

September and October 2022 cannot be understated. Large volumes of Australian RMBS [residential mortgage-backed securities] and ABS [asset-backed securities] were moved in a very short period, with limited impact on primary spreads and volumes. This demonstrated the depth of the Australian market to global investors.

HELLERUD Representing more than half the books for some transactions, the international bid is crucial to the Australian securitisation market. These tickets tend to be larger and provide an anchor for the syndicate to build the book.

Australia still compares very favourably with other developed economies from an economic and collateral performance perspective, which has driven sustained participation from offshore investors. Australian ABS and RMBS have represented attractive RV for UK and European investors particularly.

Japanese investors have also been very active in 2023, as the higher

interest rate environment has seen overall returns improve relative to the skinny spreads throughout the COVID-19 period.

For investors in the UK and Europe, compliance with European Securities and Markets Authority reporting has been an increased focus over 2023. Additionally, investors in the UK and Europe have a continued focus on sustainability, including a request to see emissions data on auto portfolios.

Will there be more foreign currency issuance in 2024? Will the US dollar, euro or yen options be most productive for Australian issuers?

HELLERUD Yes. Issuance currency will largely be driven by investor demand and reverse enquiry, or it will form part of an issuer's programmatic participation in key geographies. Although this is expensive, issuers recognise it is also important for investor diversification.



“Representing more than half of books for some transactions, the international bid is crucial to the Australian securitisation market. These tickets tend to be larger and provide an anchor for the syndicate to build the book.”

JENNIFER HELLERUD RBC CAPITAL MARKETS

value of loans to expire as well as a likely lag on the expiry of these loans potentially going into arrears. In other words, it is reasonable to expect that a borrower is not going to fall straight into arrears once they move to higher repayments.

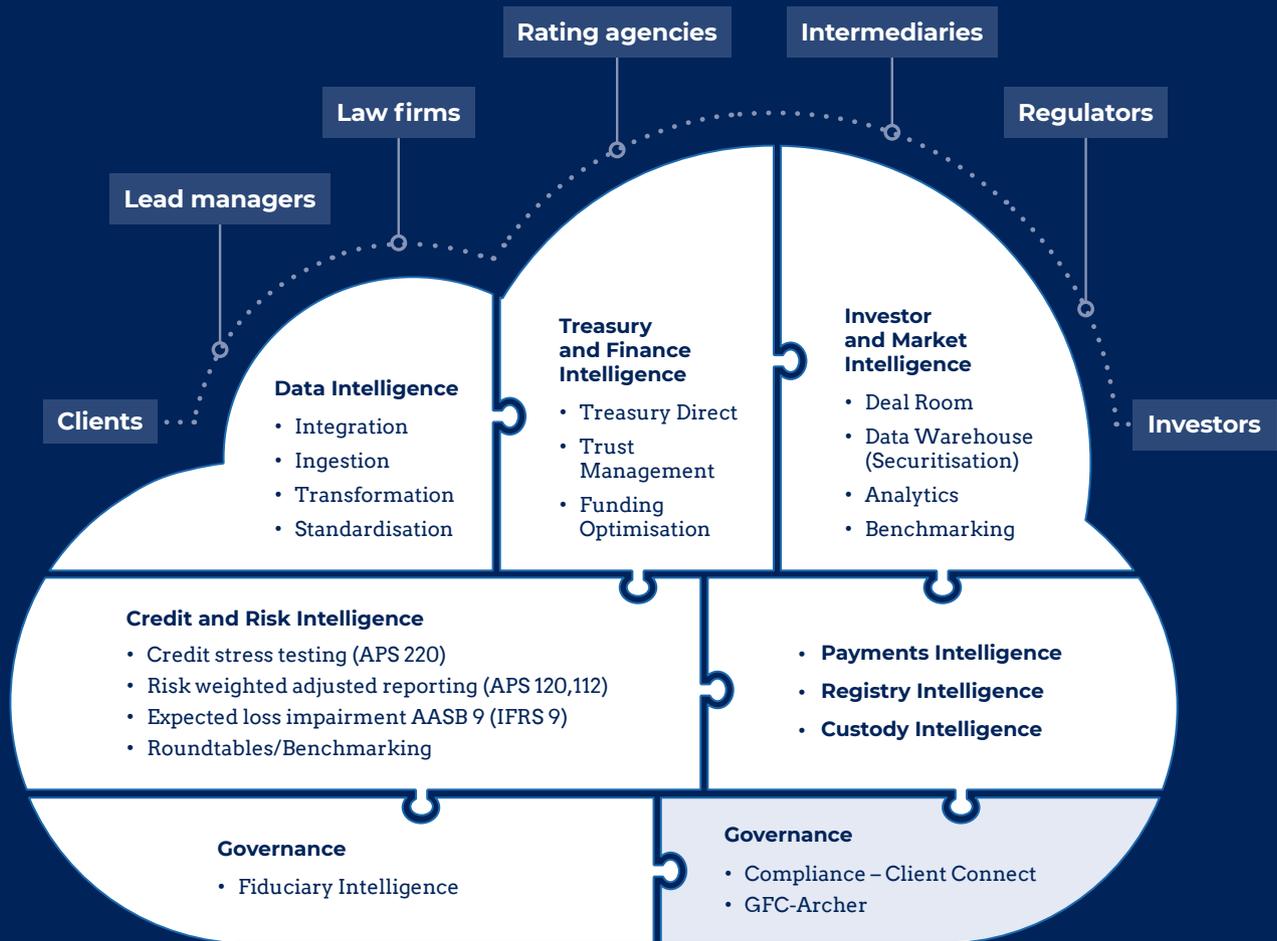
Potentially, many could hang on for a period of time before doing so. According to the RBA, the peak of expiring fixed-rate loans was in June 2023: a little more than 6 per cent of the share of total fixed-rate housing loans by value expired in this month

alone. Roughly 30 per cent of the total will expire in the second half of this year.

Based on this, we still have some months to go before we can confidently say the mortgage cliff did not eventuate. It will likely be toward the end of this year, assuming we have not experienced a significant rise in arrears during this time.

It is worth noting that the media has also called a number of other mortgage cliffs, most recently the end of COVID-19

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“WITH RISING INTEREST RATES AND INCREASING COST OF LIVING, IT WOULD HAVE BEEN REASONABLE TO EXPECT OFFSET AND REDRAW BALANCES TO HAVE DECLINED CONSIDERABLY OVER THE PAST 12 MONTHS. BUT WE HAVE ONLY SEEN A VERY MINOR DECLINE, SUGGESTING THERE IS STILL CONSIDERABLE SAVINGS RESERVE.”

NIGEL MCCOOK PERPETUAL DIGITAL

payment deferrals in early 2022 and the interest-only loan restrictions that were put on lenders in 2017. Neither resulted in a significant rise in mortgage arrears.

Is a relatively positive outlook for Australian collateral predicated on the idea that rates are not going up much further, if at all, and that unemployment will remain relatively low? How much more capacity do Australian borrowers have to adjust their spending to maintain payments?

◆ **SEROV** We forecast inflation to return to the low 3 per cent range in 2024 so perhaps there is some light at the end of the tunnel with interest-rate rises.

Our data suggest mortgage arrears are rising most outside of major cities, especially in regions where the median household income is in the bottom third of the state. Mortgage borrowers in these areas are bearing the brunt of high interest rates and inflation: while arrears increased by only 0.2-0.3 per cent in the top third of income distribution, in the bottom third it increased by around 0.6 per cent and close to 1 per cent in South Australia. There is some pain out there but at this stage it seems to be focused on nonmetropolitan areas.

◆ **CONEYBEARE** Our outlook for mortgages considers the interest rate forecasts of our economics team, which is now suggesting we are mostly through the rate-rise cycle. Materially higher rates would change our view of how borrowers could manage repayments but this is not our base case.

The expectation for unemployment in the coming 1-3 years is a key factor as well. We expect unemployment will move to around 4.4 per cent next year, which is consistent with benign market conditions in mortgage payments. Similar considerations apply for consumer ABS.

◆ **VOJVODIC** Our outlook is based on inflation easing, interest rates being almost at their peak and unemployment continuing to be lower than its pre-pandemic average. If these things change, we expect performance would deteriorate. In addition, if interest rates remain higher for longer, more borrowers may go into stress – particularly if inflation is not reined in.

◆ **MCCOOK** A very large portion of Australian borrowers have already adjusted their family budgets so they can maintain payments. The ability to adjust further may be limited given the household savings ratio, as published by the Australian Bureau of

Statistics, has fallen to 3.2 per cent. This is the lowest level since June 2008.

Having said this, the household savings ratio is a broad aggregate measure and is not necessarily representative of mortgage holders – who are likely to have higher incomes and, potentially, more savings. There is some evidence of this in the RMBS data Perpetual oversees, in which we saw a significant rise in the average balance of accounts with either an offset or funds available for redraw during the COVID-19 lockdown.

With rising interest rates and increasing cost of living, it would have been reasonable to expect offset and redraw balances to have declined considerably over the past 12 months. But we have only seen a very minor decline, suggesting there is still considerable savings reserve among a considerable portion of borrowers.

◆ **HELLERUD** During the pandemic, discretionary spending fell to record lows. As we emerged from lockdown, the ‘YOLO’ – you only live once – effect fuelled a significant increase in discretionary expenditure by households. With rising rates and high inflation, households have adjusted spending accordingly. We believe households can further reduce discretionary spending to accommodate higher rates and cost-of-living pressures.

SECURITISATION ISSUANCE

The securitisation market response to challenging conditions in 2022 and into 2023 was to minimise execution risk, for instance by increased use of private placements and pre-placement of bonds. The downside of this approach is that it does not allow issuers to take full advantage of rallying spreads should they emerge during execution. Should market participants expect to see a return to fully public execution if markets are more conducive in 2024? Are there any components of recent execution practice that should be maintained?

◆ **O'BRIEN** During periods of volatility it is understandable that issuers will seek to minimise execution risk where possible. Private placement-style transactions have facilitated this, whether for mezzanine tranches or complete transactions. But the Australian market in 2023 has not been exclusively private

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“ORIGINATORS AND HOUSEHOLDS LEARNED TO ADJUST DURING THE PANDEMIC PERIOD, AND THIS MIGHT BE THE MOST IMPORTANT FACTOR IN LOAN PERFORMANCE. HOUSEHOLDS LIKELY PICKED UP SOME LEVEL OF SAVINGS BUFFER WHILE ORIGINATORS LEARNED HOW TO DEAL WITH CHALLENGED HOUSEHOLDS.”

JOHN STORMON MUFG

placement-style transactions. There has been a mix of public and private offerings, driven in part by issuer objectives and investors’ bespoke demand. Pricing outcomes have not been materially different for issuers on either avenue to execution.

♦ **STORMON** Originators have increasingly moved to locking in funding ahead of trades. It makes sense that they would want to remove the volatility from execution before putting their name in the headlines. To be fair, the really good originators and operators have always done this in a way, through multiple and ongoing engagements with their investor base.

The difference now is that everyone is doing it to a degree, whereas before it was just a handful that were. I do not expect this to change, in the sense that I expect all issuers will respect the buy side a lot more and engage with investors on an ongoing basis.

It is true that the downside of this is not being able to take advantage of rate movements, which could go both ways. But this cuts both ways, and the best outcomes are achieved by good originators and investors who respect each other. For example, we recently completed a trade where the originator and the investors showed good discipline in not trying to take too much – they all recognised that, like most issuers, this name would return to the market soon and would be asking the same people for money.

Market access is not a short-term thing, which I suspect is one aspect that even those that did not previously are starting to appreciate. Issuers build a following, and if they maintain their discipline they will receive the right reaction from the investor base. It becomes symbiotic and a true relationship over time.

Another market development is that, in some instances, junior and mezzanine tranches feature an investor right of first refusal in term trades because the same buyer has supported an issuer’s warehousing funding over what might be a matter of years. The right pricing is still required, and we do not see these types of arrangements changing.

Overall, I believe everyone has learned a lot through this cycle and we will all come out much better for it as we work through it together.

♦ **HELLERUD** I agree that private placements and preplacement activity are an appropriate response to minimise execution risk during times of market volatility or for first-time issuers. But they don’t allow for true price discovery or broader market participation. If this was to become a permanent feature, I think

the distortion it creates could impede the development and efficient functioning of the market. Something that was driven by the short-term strategy of some intermediaries may not necessarily be able to be relied upon as part of issuers’ longer-term funding plans.

Extensive soft sounding and pre-placements have become commonplace, particularly since the pandemic. In the mezzanine part of the capital stack, some of this behaviour is driven by warehouse right of first refusal terms. The limited availability of mezzanine notes in term deals is starting to cause frustration especially as we continue to see new mezzanine investors enter the market and the return of mezzanine demand in general.

The recent improvement in credit markets hopefully heralds a return to full public execution. However, it should also be noted that geopolitical risk and external events are now front and centre again. Pre-placement and private placement activity may continue.

♦ **SAMSON** We expect a return to fully public securitisation executions. The securitisation market has been resilient and agile in adjusting to changing conditions to meet issuer and investor needs over a long period. And it is true that private placements can be a useful funding source and, obviously, minimise execution risk. On the other hand, it is also true that pricing may already be locked in if spreads rally while a private placement is being executed – though this may not always be the case: it depends on the investor.

Another downside of private placements is that some investors don’t allow pricing to be disclosed, so it is often unknown to the market where spread levels are actually set. This is at a time in which we have also seen more disclosure to investors during the execution process of public transactions, including more availability of deal updates to the market.

This is a positive development that should be maintained: investors value the transparency and the ability to understand how transactions are progressing – including the availability of coverage ratios within tranches.

What is the overall status of demand for mezzanine notes?

♦ **SAMSON** Mezzanine liquidity has been one of the real challenges over the past 18 months, in warehouse and capital market transactions. This has been due to a couple of factors,



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“IN 2022 AND 2023, WE RATED MORE ABS THAN RMBS BY DEAL COUNT AND WE EXPECT THIS TO CONTINUE INTO 2024. WE ARE LIKELY TO SEE ABS ISSUANCE FROM LENDERS SPECIALISING IN A GIVEN PRODUCT AND FROM PLAYERS THAT ARE DIVERSIFYING AWAY FROM MORTGAGES. AUTO AND ASSET FINANCE ARE STILL OFFERING SOME GROWTH.”

ILYA SEROV MOODY'S INVESTORS SERVICE

including the growing underlying need for mezzanine funding – due to more nonbanks in the market and significantly higher funding needs in 2021-22. Other reasons are ongoing global market uncertainty and specific requirements from some mezzanine funders – such as risk-retention compliance – external ratings, minimum size and drawn amount.

♦ **BARNES** In the earlier part of the year, liquidity in double- and single-B tranches was more challenging. Now, however, some mezzanine tranches have priced with significant oversubscriptions when offered – a number of deals do not make mezzanine notes available. Warehouse mezzanine funding interest remains very strong.

♦ **HELLERUD** I agree that the situation was challenging, particularly in H1 2023. In term markets, the pressure was particularly felt in non-investment-grade tranches, as investors were looking for additional credit enhancement or materially wider pricing to compensate for the perceived incremental risk.

Likewise, warehouse mezzanine investors were looking for materially wider pricing as well as commitment fees or minimum drawn balances to offset elevated return targets in the higher rate environment.

In the second half of 2023, we have seen demand return as economic conditions have stabilised. Mezzanine investors are seeking warehouse and term ABS and RMBS opportunities. The combination of rising rates and sound asset performance has also piqued the interest of private credit funds.

Since mid-year, we have seen pricing on mezzanine tranches tighten – in investment grade and non-investment grade – and mezzanine investors have resumed taking up warehouse rights in term ABS and RMBS transactions.

♦ **SAMSON** We haven't necessarily seen a change in mezzanine financier requirements in relation to attachment points. The challenge has been sourcing the right mezzanine investor for the right issuer opportunities. We expect this to remain a challenge, but we are seeing more mezzanine funders emerge and this will be helpful for the market.

NONBANK BOOKS

The nonbank sector has pivoted away from prime RMBS as a result of lending competition, which has meant more nonconforming and nonmortgage issuance. What is the outlook for

the shape and size of nonbank issuance moving into 2024?

♦ **SAMSON** Prime mortgage lending in Australia remains dominated by major banks and we do not expect this to change. However, the competitive environment in this sector has started to change. Almost all banks have withdrawn from offering material cash-back offers to borrowers and are refocusing on the NIM [net interest margin] in their books, resulting in less pricing pressure.

This, coupled with funding margins starting to contract, will enable the nonbanks to be more competitive in prime lending. We are already starting to see a slowdown in the pre-payment rates in nonbank prime back books, and also higher new origination volume.

The nonbanks also continue to diversify their products – including within the prime mortgage space. This is less of a focus for major banks and will provide some growth in the nonbank sector overall. As a result, we expect to see more prime RMBS issuance from the nonbank sector in 2024, largely similar nonconforming RMBS and higher nonmortgage issuance – as the newer entrants in this space continue to grow their books and therefore their funding requirements.

♦ **SEROV** In 2022 and 2023, we rated more ABS than RMBS by deal count and we expect this to continue into 2024. We are likely to experience further ABS issuance from lenders specialising in a given product and from players that are diversifying away from mortgages. Auto and asset finance are still offering some growth.

On the flip side, nonbank mortgage originators are still finding it difficult to compete with the banks, especially in the prime and near-prime space. We expect the volume of nonbank prime RMBS to fall further. From a credit perspective, it will be interesting in the sense that the average quality of RMBS pools may start to revert toward nonconforming after many years of migration toward prime.

♦ **CONEYBEARE** Nonbanks have historically specialised in more complex lending so it is not surprising that they are looking at nonprime segments in the current market. However, we may see more prime lending from the nonbanks when property sales volume increases, and execution and approval times become key considerations for borrowers.

We still expect regular issuance from established nonbanks in both the prime and nonconforming space, although it is difficult

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“THE INDUSTRY AS A WHOLE HAS BEEN FORWARD-THINKING ABOUT HOW TO APPROACH ISSUES SUCH AS STANDARDISATION. WE VIEW THIS AS POSITIVE. SME ABS, LOCALLY AND GLOBALLY, IS SUCH A VARIED SPACE THAT IT PRESENTS A CHALLENGE – BUT THE FOCUS ON DATA AND TRANSPARENCY SUPPORTS THIS SECTOR.”

NARELLE CONEYBEARE S&P GLOBAL RATINGS

to forecast. At this stage, we expect similar levels of issuance as 2023 albeit risks are tilted to the downside as lending volume remains subdued.

♦ **HELLERUD** We expect nonbank prime issuance to remain subdued in the near term due to sustained competition from the major banks. Over the medium term, however, it is possible that the competitive landscape may shift as major banks prioritise vanilla mortgage loans – that is, owner-occupied with an LVR less than 80 per cent and repaying principal and interest – which attract more beneficial capital treatment compared with investment or interest-only loans.

We expect nonbanks to capture this part of the market, which, along with more niche prime products like construction loans, SMSF [self-managed superannuation fund] loans and nonresident loans, will help nonbank prime issuance return to meaningful levels.

We expect nonconforming issuance to remain very strong. For the year to date, nonconforming issuance is already around A\$9.5 billion (US\$6 billion) and on track for a record year since the financial crisis. This figure also excludes private placements, of which there have been many in 2023.

♦ **KANARIS** Recent result presentations from the nonbanks have shown a consistent theme that origination of prime mortgages had slowed, given strong pricing competition from the banks. Low introductory rates, lump sum cash-backs and funding cost increases have all negatively affected nonbank origination.

We are now in a more stable interest rate environment and many of the cash-back incentives have been withdrawn – so these factors should have less of an impact for the nonbanks. The feeling within the sector is generally more positive than it has been over the last 12 months, and the general view is that there is increased potential for origination.

♦ **STORMON** The nonbank sector has experienced some changes over the last couple of years: COVID-19, followed by competition from the big-four banks in the prime mortgage space. But the nonbanks always do so well to adjust.

Nonbanks have increased their nonconforming side as the big-four banks have increased competition in the prime mortgage origination space. I do not see as many adverts for cash-backs on loans any more and I take this to mean there has been a shift in how banks are approaching the market. Hopefully, it means the nonbanks can return to the prime mortgage lending space, which is good for everyone.

Anecdotally, I have heard that some nonbanks have experienced a recent increase in prime origination numbers. This is not across the board, but there are some good signs and hopefully this continues. Competition is not a bad thing for the big-four banks, consumers or the market overall.

A healthy market has many issuers supplying various types of credit, not just serving as one-trick ponies. It is good to have nonbanks issuing in the prime mortgage space because they offer competition and flexibility to borrowers, which hopefully translates to better rates and a better operating market overall.

Hopefully, overall issuance will continue to grow – but it depends on interest rates. With high interest rates, in general fewer people can borrow – though this is not always the case.

While everyone concentrates on mortgages, the other thing I find interesting and exciting for the market is the transition of nonbanks into auto ABS.

We recently joint-led an auto ABS transaction for Volkswagen Financial Services and there have also been a couple of new auto issuers over the past 12-18 months, such as Firstmac and Angle Auto Finance. Diversity in this space can only be a good thing.

♦ **METCALF** It has been a rough period for nonbanks, particularly for profitability. Competing with deposit-funded banks – that are competing with each other, too – has been a real problem for nonbanks. This is why they try to work in the market gaps the banks leave, offering different types of products such as lending to SMSFs.

From a securitisation business perspective, it would be reasonable for the nonbanks to expect things to get better from here rather than worse. The banks are stopping cash-back refinancing offers – which was taking a lot of business in the residential mortgage space – and credit spreads in securitisation markets have been improving. The competitive equation is better.

On the other hand, nonbank issuance levels are a function of this competitiveness as well as overall system asset growth. In this sense, the latest reporting suggests that while owner-occupied and investor lending is still growing, the demand for credit from households and businesses is subdued overall.

It is hard to forecast demand for credit rapidly increasing given the economic overlay. For example, it is hard to imagine people going out to invest in their businesses on a discretionary basis and thus loading themselves up with more debt.



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Bank securitisation rebounds – but is supply sustainable?

THE SECOND HALF OF 2023 SAW A REVIVAL OF SECURITISATION ISSUANCE FROM AUTHORISED DEPOSIT-TAKING INSTITUTION (ADI) FUNDERS – INCLUDING SOME RECORD-VOLUME DEALS AND WHAT MARKET SOURCES SAY WERE POSITIVE DEMAND AND PRICING RESPONSES. SUPPLY SHOULD REMAIN SOLID BUT THE AVAILABILITY OF ALTERNATIVE FUNDING OPTIONS WILL LIKELY CAP ISSUER USE OF THE ASSET CLASS.

There was a notable rebound in ADI securitisation in Q3, including some eye-catching transactions and supply from a range of issuers. Why did this happen, and how likely is it that securitisation will remain an active funding option for banks in 2024?

O'BRIEN A number of ADI issuers entered the market in 2023 after a lengthy absence. Domestic and international investors have demonstrated consistent demand for ADI RMBS [residential mortgage-backed securities].

Subsequent transactions have delivered meaningful volume outcomes as well as consistent price progression. On these metrics alone, we expect RMBS will remain an important funding avenue for Australian ADI issuers into 2024.

SAMSON Securitisation has always been a useful tool for ADIs, be it for funding-only or funding and capital relief. However, in recent years the ADIs have had much lower funding requirements due to the RBA [Reserve Bank of Australia] term funding facility (TFF), so we saw almost no issuance from the ADI sector during this period.

As the ADIs are now in the repayment phase of the TFF, they are more active issuers in capital markets across all products. We expect securitisation to remain a viable funding option in 2024, particularly with the tightening movement of spreads in recent months.

SEROV I agree that it will remain part of the toolkit. With the TFF running off by 30 June 2024, we expect some banks to increase their RMBS issuance – which would be similar to what we have observed in the covered-bond market. This said, we don't expect bank securitisation to rebound to the levels from a few years back.

KANARIS The ability to obtain capital-relief securitisation makes a huge amount of sense as ADIs seek to diversify their sources of funding and capital. We expect this will continue into the new year.

STORMON Investors have returned to the market and see its value. The investors I have spoken to were not worried about asset performance even going back to the pandemic period, but rather how to price it accordingly.

We saw some skepticism about performance over the course of

last year but, as we have discussed, performance has held up. We are not through this period yet, but my sense is that investors are now more confident in the underlying collateral – or, perhaps more accurately, they have always been confident but have now seen this confidence borne out.

More money has come back into the market and there have been some very successful deals such as ING Bank Australia's IDOL 2023-1 Trust transaction, which was a very good one for the market. Other recent ADI issues from Bank of Queensland, AMP Bank and MyState Bank have all done very well, too.

I suspect the fact that these issuers are all offering prime loans is helpful. With the nonbanks issuing more nonconforming, there is a dearth of prime mortgages coming to market and, clearly, investors will run to the opportunities.

The major banks have several funding levers to pull. The regional banks have fewer, which means I suspect they will most likely be programmatic, regular RMBS issuers.

Issuance margins are not at incredibly low levels but they are down and returning to somewhere in the average range historically. I expect this will be good enough that we witness more ADIs issuing more regularly – assuming margins do not blow out.

METCALF I am not sure specifically why Q3 has seen a rebound. Securitisation will definitely remain an option for ADIs – but the word 'option' is very important. Australian banks have great funding options. They have strong and resilient deposit bases and ready access to wholesale markets.

Overall, adding these factors together, I can imagine the 2024 operating environment will be very similar to what we have experienced this year. The nonbanks have been able to get deals away with the collateral mix they have been writing – whether it be SMSF lending, nonresident lending or high-LVR loans. They have done well, and I believe they will continue to issue in good volume next year.

AUTO ABS

Diversity in the Australian auto lending and asset finance market has been sparked by the exit of large bank books, and securitisation supply has jumped as a result. Will auto ABS be a bigger market on an ongoing basis?

Securitisation offers some diversification, a reasonable match of funding tenor to the underlying assets and, in some cases, capital relief. But is sometimes viewed as just a slightly more complicated alternative to other issuance options. Having a strong securitisation market that can offer more favourable terms than other options at least periodically is a big part of the equation on ADI supply.

My view is that investors will continue to express strong demand for ADI securitisation – they recognise value in APRA [the Australian Prudential Regulation Authority]’s ADI regime with its “unquestionably strong” capital and liquidity requirements, and thorough reporting regime. We continue to believe the asset class offers attractive returns for low risk.

In the past 12 months or so, there has been a technical issue affecting ADI RMBS issuance. Under Australian prudential standards, banks with significant concentrations of low fixed-rate loans in a securitisation pool may be at risk of becoming a “net payer” on associated interest-rate swaps. If this is the case, the sponsor can be viewed as providing implicit support to the securitisation trust holding the mortgages, leading to capital deductions for that sponsor.

Hopefully this has just been an issue of being at a specific point in the

cycle – low fixed-rate collateral colliding with a sharply rising BBSW rate and relative wide credit margins – that we are mainly looking back on. However, it has been a challenge for ADI issuers in 2023.

When it comes to deal structures, will bank securitisation transactions come to market primarily in capital-relief format, funding only, or a genuine mix of both? What are the likely drivers of issuers’ decisions on whether or not to go for capital relief – and how much weight are issuers giving to the risk of losing capital relief on transactions if they are viewed as providing ongoing support?

HELLERUD I expect second-tier, regional and smaller banks will seek to achieve capital relief. Operating under the standardised approach to determining regulatory capital moves the needle far more for this group than for the major banks.

As rates were rising, the issue of implicit support through the basis swap was a big concern for ADIs, to the point of influencing timing on coming to market for some issuers. As we are likely at or close to the peak of the rate cycle, I think this issue has dissipated for the time being.

STORMON Regarding the concern about losing capital relief, I think an issuer would address upfront whether or not it is going for capital relief. There have been some clarifications on the rules on ongoing support in recent times and these are now quite well understood.

An issuer will enter the trade either targeting capital relief or not. A lot of the issuers we work with target it because the underlying funding may be capital relief so there is a need to continue this treatment, otherwise the issuer will need to make an adjustment in its numbers – which it would presumably like to avoid.

Other issuers consider capital relief because they are taking assets off the balance sheet, funding and taking a capital adjustment on the way through. It is horses for courses.

I suspect issuers will continue to do this while good rates remain available and for as long as most of them can achieve capital relief. If issuers have a different mix of funding sources available, they are likely to weigh different options – but they don’t all have this.

I therefore believe capital relief will always remain attractive to ADIs providing they can get the right weighted-average maturity on the trade relative to the underlying and a flow through to their balance sheet optimisation calculations.

“The ability to obtain capital relief securitisation makes a huge amount of sense as ADIs seek to diversify their sources of funding and capital. We expect this will continue into the new year.”

JAMES KANARIS WESTPAC INSTITUTIONAL BANK



♦ **HELLERUD** Definitely. This is already a record year for Australian dollar ABS and we expect the momentum to continue into 2024. The number of issuers in the domestic market has increased materially in 2023, with more than 20 unique nonbanks coming to market compared with fewer than 15 in 2022.

This trend has been driven in the first instance by financiers established over the past 3-5 years now having sufficient scale

and track record to access the term ABS market – names like Judo Bank, Zip, NOW Finance, Plenti, Wizr and Firstmac’s auto book. The second growth driver is recent acquisitions of bank portfolios by nonbanks. Volume also continues to be supported by issuance from established programmes such as Pepper Money’s SPARKZ, Metro Finance, Flexicommercial, Liberty Financial and Volkswagen’s Driver programme. Some of these

players have also picked up volume with the exit of major banks from these noncore businesses.

♦ **METCALF** Macquarie Bank, Westpac Banking Corporation and the old Esanda Finance businesses were significant players in this market and their exit left a big opportunity for others. Securitisation-funded specialist lenders such as Allied Credit and Metro Finance, as well as nonbanks that are usually identified as mortgage lenders – for example Firstmac and Pepper Money – have grown strongly in recent years.

It is an interesting part of the market. Five years ago, we were asking where we might find a new ABS issuer. There are now many more auto- and asset-backed issuers in the market, which is a positive development. It feels like a whole new group

of issuers has come out of the woodwork. Only five years ago, the ABS market was maybe a dozen issuers doing A\$4 billion or so locally whereas this year it is 30 or more issuers heading for A\$15 billion.

Clearly, sponsor strength is different and it is yet to be seen if this will be a constraint. Some auto issuers have large books of assets but not much equity capital. Collateral performance is currently very good, which is key to getting equity capital and printing large volume ABS deals to enable further growth.

This sector has become mainly about the nonbanks, because the banks are out and the finance ‘captives’ of the large manufacturers tend to use Australian capital markets for senior-unsecured issues rather than public ABS.

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“THE AUSTRALIAN MARKET IN 2023 HAS NOT BEEN EXCLUSIVELY PRIVATE PLACEMENT-STYLE TRANSACTIONS. THERE HAS BEEN A MIX OF PUBLIC AND PRIVATE OFFERINGS, DRIVEN IN PART BY ISSUER OBJECTIVES AND INVESTORS’ BESPOKE DEMAND. PRICING OUTCOMES HAVE NOT BEEN MATERIALLY DIFFERENT FOR ISSUERS ON EITHER AVENUE TO EXECUTION.”

PAUL O'BRIEN COMMONWEALTH BANK OF AUSTRALIA



♦ **BARNES** There is a significant opportunity for nonbanks in this space and, as the securitisation market is their primary source of funding, we expect to see increased term issuance. We also expect this to be well received by investors.

♦ **SAMSON** We know the banks have become less interested in this asset class and have, in some cases, divested to nonbanks. It is also true that the auto- and asset-finance market is well suited to securitisation funding. It is also one of the best-performing asset classes globally from a collateral and liquidity perspective.

We expect nonbank mortgage lenders to continue to diversify their product offerings. Many have commenced, or are expected to commence, auto lending businesses either organically or via the acquisition route.

♦ **CONYBEARE** There has been a really interesting shift in this space. One of the challenges for the sector historically was the lack of regular and predictable issuance, and the limited number of originators. The shift has produced more issuance, more regularly – which also provides better transparency and market data. We believe this lays the ground for more investors to participate, which should lead to a larger securitisation issuance market.

We also expect there will be new players in this space, although the rate of market entry has slowed recently. On the other hand, we believe a slowing economy will act as a brake on significant expansion in the near term.

♦ **KANARIS** Year-to-date issuance in the ABS market now exceeds A\$10 billion and this is a record for the sector. We also expect this dynamic to continue as retail auto and equipment lending becomes predominantly serviced by the nonbank sector. This will add supply to the Australian ABS market.

The other main area where Australian securitisation issuance has grown and diversified over the course of 2023 in particular has been ABS of SME loan collateral. What do participants think is the potential for further growth in this area? When it comes to possible headwinds for this emerging sector, how well is the market dealing with the challenges of transparency, standardisation of loan format and reporting?

♦ **CONYBEARE** Again, this is an area that has historically been relatively limited regarding number of originators and issuance

volume but now has a bit more history and a few more issuers. The industry as a whole has been forward thinking about how to approach issues such as standardisation. We view this as positive. SME ABS, locally and globally, is such a varied space that it presents a challenge – but the focus on data and transparency supports this sector.

♦ **HELLERUD** The Judo Bank ABS transaction in September was a very strong result for the issuer, and it assists in laying the groundwork for further development of SME ABS.

The heterogeneous nature of the underlying collateral in SME transactions necessitates a more detailed education process for investors. However, this was not an impediment to a successful transaction. A diverse range of investors participated in the Judo deal, which upsized to A\$500 million from the initial A\$350 million.

We expect SME ABS transactions in the coming 12-24 months to likewise require early engagement with investors as the market comes up to speed with the product. As to reporting, we welcome the Australian Securitisation Forum (ASF) SME data reporting template.

♦ **METCALF** There is potential for further growth. However, we also need to be realistic and expect that many SME loans will continue to be written by banks.

Judo is a pretty unique business and several nonbanks are trying for scale. However, more than 90 per cent of this type of lending is still being done by the banks – which prefer to securitise residential mortgages rather than business loans, partly due to standard contracts and better reporting. Judo's ABS issue this year was a breakthrough: it was a proper SME loan ABS that was sold down the capital stack. I believe this will be helpful for the market.

It is also clear that support from the Australian Office of Financial Management is available through various funds to help small businesses fund themselves, including via securitisation warehouses and public issues. The government debt management agency has been able to qualify four small business lenders and invest in their warehouses. Hopefully, others can follow. But it is probably unrealistic to expect many more in the immediate future.

There is good work going into the ASF data template for SME loans, which seeks to support the establishment of a track record within a standardised framework to support the rating process. Again, it will take time but this will ultimately prove worthwhile. ■

SEC RE-PROPOSES CONFLICT OF INTEREST RULE FOR ABS

On 25 January, the US Securities and Exchange Commission issued the proposed Securities Act rule 192, prohibiting certain conflicts of interest in securitisation transactions¹. Rule 192 is intended to implement the prohibition against such conflicts as set forth under section 27B of the Securities Act 1933². These new regulations will likely have an impact on Australian securitisation transactions with US investors.

Section 27B directed the Securities and Exchange Commission (SEC) to adopt implementing rules “not later than 270 days after 21 July 2010”. In September 2011, the SEC proposed *Securities Act* rule 127B³. Proposed rule 127B tracked almost identically the broad provisions of section 27B and did not define key terms or otherwise provide the additional specificity and nuance that implementing rules typically contain. Instead, the rule

1. See SEC release No. 33-11151, available at:

<https://www.sec.gov/rules/proposed/2023/33-11151.pdf>

2. Section 27B, which was added to the *Securities Act* by section 621 of the *Dodd-Frank Wall Street Reform and Consumer Protection Act 2010*, reads as follows:

(a) IN GENERAL. An underwriter, placement agent, initial purchaser, or sponsor, or any affiliate or subsidiary of any such entity, of an asset-backed security (as such term is defined in section 3 of the *Securities Exchange Act 1934* (15 U.S.C. 78c), which for the purposes of this section shall include a synthetic asset-backed security), shall not, at any time for a period ending on the date that is one year after the date of the first closing of the sale of the asset-backed security, engage in any transaction that would involve or result in any material conflict of interest with respect to any investor in a transaction arising out of such activity.

(b) RULEMAKING. Not later than 270 days after the date of enactment of this section, the [SEC] shall issue rules for the purpose of implementing subsection (a).

(c) EXCEPTION. The prohibitions of subsection (a) shall not apply to:

(1) Risk-mitigating hedging activities in connection with positions or holdings arising out of the underwriting, placement, initial purchase or sponsorship of an asset-backed security, provided that such activities are designed to reduce the specific risks to the underwriter, placement agent, initial purchaser or sponsor associated with positions or holdings arising out of such underwriting, placement, initial purchase or sponsorship; or
(2) Purchases or sales of asset-backed securities made pursuant to and consistent with:

(A) Commitments of the underwriter, placement agent, initial purchaser, or sponsor, or any affiliate or subsidiary of any such entity, to provide liquidity for the asset-backed security, or
(B) *Bona fide* market-making in the asset backed security.

(d) RULE OF CONSTRUCTION. This subsection shall not otherwise limit the application of section 15G of the *Securities Exchange Act 1934*.

(e) EFFECTIVE DATE. Section 27B of the *Securities Act 1933*, as added by this section, shall take effect on the effective date of final rules issued by the [SEC] under subsection (b) of such section 27B, except that subsections (b) and (d) of such section 27B shall take effect on the date of enactment of this act.

3. See SEC release No. 34-65355, available at: <https://www.sec.gov/rules/proposed/2011/34-65355.pdf>.

127B proposing release offered, and requested comment on, “interpretive guidance” relating to rule 127B.

Ultimately, the SEC did not adopt proposed rule 127B and did not issue any alternative proposal until now. According to the proposing release, rule 192 “takes into account developments in the ABS [asset-backed securities] market since 2011 and the comments received in response to the 2011 proposed rule to provide greater clarity regarding the scope of prohibited and permitted conduct”⁴.

The proposing release does not specify a compliance date. Unless the adopting release provides otherwise, rule 192 will become effective upon the issuance of final rule.

Although rule 192 is much more prescriptive and detailed than proposed rule 127B, there remain significant points of ambiguity and concern.

SECURITISATION PARTICIPANTS

Rule 192 applies to each “securitisation participant,” which is defined as an “underwriter,” “placement agent,” “initial purchaser” or “sponsor” of an ABS, or any “affiliate” or “subsidiary” of any such person.

The proposing release states that the functions performed by securitisation participants “are essential to the design, creation, marketing, and/or sale of an ABS”⁵. The SEC goes on to state that rule 192 is focused on parties that could have “the incentive to market or structure ABS and/or construct underlying asset pools in a way that would position them to benefit from the actual, anticipated, or potential adverse performance of the relevant ABS or its underlying asset pool”⁶.

On its face, the definition of securitisation participant under rule 192 mirrors the provisions of section 27B and proposed rule 127B. However, unlike section 27B and proposed rule 127B, rule 192 includes definitions of key terms.

As proposed, rule 192 applies to foreign affiliates and subsidiaries. This raises a number of legal and practical issues, not least of which being whether the SEC has such authority over foreign entities⁷. Unfortunately, rule 192 does not go into detail about foreign affiliates and subsidiaries, but rather only mentions that they could be scoped into the rule. This is of particular relevance to the Australian securitisation market. Questions to be asked include:

4. See proposing release at 7-8.

5. See proposing release at 19.

6. *Id.*

7. Note that the proposing release seeks comment on the extraterritorial application of rule 192. See request for comment number 31 in the proposing release at 53.

- How would a large entity with information barriers that are otherwise legally mandated ensure compliance with this rule while maintaining those barriers?
- How would a large organisation, even in the absence of information barriers, ensure compliance across a wide range of divisions that have no interaction with one another?
- It is unclear when rule 192 would apply to third-party servicers. Will they need to cease entering into certain transactions based on the possibility that they could fall within the definition of sponsor?

Given that the proposed definition of securitisation participant includes affiliates or subsidiaries, investment advisers that are affiliates or subsidiaries of an ABS underwriter, placement agent, initial purchaser or sponsor would also be considered securitisation participants. As such, rule 192 would go substantially further than the *Investment Advisers Act 1940* with respect to conflict resolution for investment advisers.

This latter act generally focuses on appropriate disclosure to advisory clients and informed client consent. Under rule 192, disclosure and consent would not be sufficient to address any putative conflict between the investment adviser – as a deemed securitisation participant – and an ABS investor, as rule 192 contemplates absolute prohibitions with only limited, conditional exceptions.

This result is particularly incongruous because an investment adviser has a fiduciary duty to its advisory clients but the *Advisers Act* nevertheless generally permits investment advisers to address conflicts with advisory clients through disclosure and consent. On the other hand, no securitisation participant – let alone an investment adviser that is deemed to be a securitisation participant merely because of its affiliation with an ABS underwriter, for example – has a fiduciary duty to ABS investors.

PERIOD OF APPLICABILITY

Rule 192 applies to a securitisation participant as soon as that person “has reached, or has taken substantial steps to reach, an agreement that such person will become a securitisation participant with respect to an asset-backed security”⁸. Rule 192 does not define “agreement” or “substantial steps to reach . . . an agreement” in the context of the commencement point⁹.

Fortunately, the SEC does clarify that rule 192 would not apply to a party that took substantial steps to reach an agreement but never actually reached such agreement, and thus never became a securitisation participant¹⁰.

Rule 192 ceases to apply to a securitisation participant one year after the date of the first closing of the sale of the related ABS. This end date comes directly from the statutory text of

8. The SEC states: “An ‘agreement’ need not constitute an executed written agreement, such as an engagement letter. Oral agreements and facts and circumstances constituting an agreement, even absent an executed engagement letter, can be an agreement for purposes of the rule. We expect that market participants would know and understand when an agreement has been reached.” See proposing release at 56, fn 101.

9. See Proposing release at 57.

10. *Id.*

section 27B. The questions to consider and other ambiguity in this area include:

- As proposed, it appears that the determination of a commencement point would be backward-looking and difficult to determine at the time investment decisions are being made.
- How would a facts and circumstance analysis of “substantial steps” be possible without guidelines about what they might be?

DEFINITION OF ABS

The term “asset-backed security” is defined in rule 192 to have the same meaning as the one previously set forth in section 3(a)(79) of the *Securities Exchange Act 1934*, except that it also includes – but does not separately define – synthetic ABS as well as hybrid cash.

Thus, ABS under rule 192 refer to ABS issued in registered public offerings, as well as ABS issued in unregistered private offerings, such as those that rely on rule 144A¹¹.

As noted, rule 192 does not define the term “synthetic ABS”. Instead, the SEC states that “synthetic transactions are generally effectuated through the use of derivatives such as a CDS [credit default swap], a total return swap or an ABS structure that replicates the terms of such a swap. We believe that our previous descriptions of synthetic securitisations are well understood by market participants and adequately address the key issues raised by commenters, and that market participants have been able to readily distinguish synthetic ABS from other types of transactions.”¹²

MATERIAL CONFLICTS OF INTEREST

Rule 192 states that a securitisation participant shall not “directly or indirectly”¹³ engage in any transaction that would involve or result in any material conflict of interest” between the securitisation participant and an investor in the ABS.

What is unclear is how a securitisation participant would be able to determine what a “reasonable investor” would consider to be material to an investment decision – especially when

11. In addition, the SEC states that although most municipal entities do not typically issue ABS, a municipal entity that satisfies the definition of “sponsor” and that issues *Exchange Act* ABS would be subject to the requirements of rule 192. See proposing release at 12, fn 29.

12. See proposing release at 14.

13. The SEC notes that it chose not to use the “directly or indirectly” modifier in rule 192(a)(3)(iii), the catch-all provision dealing with the purchase or sale of any instrument or entry into any transaction by which the securitisation participant stands to benefit from the adverse performance of the ABS or the asset pool. The SEC reasoned that the use of the “directly or indirectly” modifier in that context is “unnecessary because any transaction under which a securitisation participant would receive a benefit that can be traced back to the actual, anticipated, or potential adverse performance of the relevant ABS or its underlying asset pool would already be captured by proposed rule 192(a)(3)(iii).” See proposing release at 69. However, the SEC does not explain why the “directly or indirectly” modifier is used in the general statement of the prohibition against conflicts as set forth in clause (a)(1) of rule 192 or how that use is different from the unnecessary use cited by the SEC with respect to clause (a)(3)(iii). Note also that the “directly or indirectly” modifier is not found in section 27B – the statutory basis for rule 192 – nor in the previously proposed rule 127B.

EXCEPTIONS AND RELATED CONDITIONS WITH RELEVANT DISCUSSION FROM THE PROPOSING RELEASE

<p>Risk-mitigating hedging activities</p> <p><i>Permitted Risk-Mitigating Hedging Activities.</i> Risk-mitigating hedging activities are generally permitted so long as they meet certain conditions.</p>	<p>Proposing release discussion</p> <p>This proposed exception would allow a securitisation participant to hedge retained ABS positions and exposures in connection with warehousing assets in advance of ABS issuance. Hedging can be on an aggregated basis and not only trade-by-trade¹⁴.</p>
<p><i>Conditions.</i> Risk-mitigating hedging activities are permitted only if each of the following conditions is met.</p> <p>A. At the inception of the hedging activity and at the time of any adjustments to the hedging activity, the risk-mitigating hedging activity is designed to reduce or otherwise significantly mitigate one or more specific, identifiable risks arising in connection with and related to identified positions, contracts, or other holdings of the securitisation participant, based on the facts and circumstances of the identified underlying and hedging positions, contracts or other holdings and the risks and liquidity thereof.</p> <p>B. The risk-mitigating hedging activity is subject, as appropriate, to ongoing recalibration by the securitisation participant to ensure the hedging activity satisfies the requirements pertaining to this exception and does not facilitate or create an opportunity to benefit from a conflicted transaction other than through risk reduction.</p> <p>C. The securitisation participant has established – and implements, maintains, and enforces – an internal compliance programme that is reasonably designed to ensure the securitisation participant’s compliance with the requirements pertaining to this exception, including reasonably designed written policies and procedures regarding the risk-mitigating hedging activities that provide for the specific risk and risk-mitigating hedging activity to be identified, documented and monitored.</p>	<p>To meet condition (A), the SEC makes clear that securitisation participants may not “overhedge” their risks – ie create a net short exposure to the relevant ABS¹⁵.</p> <p>The SEC emphasises that, in order to be permissible, the hedging activity must relate to “specific and identifiable” risks, not general risk or speculative activity¹⁶.</p> <p>The SEC describes condition (B) as requiring the securitisation participant to adjust its position during the rule 192 applicability period to ensure it is not overhedged¹⁷.</p> <p>According to the SEC, this “proposed condition is designed to promote robust compliance efforts... while also recognizing that securitisation participants are positioned to determine the particulars of effective risk-mitigating hedging activities, policies and procedures for their own business”¹⁸.</p> <p>The proposing release is silent as to how or to what extent, if any, the SEC will monitor requirement (C).</p>
<p>Liquidity commitments</p> <p>Purchases or sales of the ABS made pursuant to, and consistent with, commitments of the securitisation participant to provide liquidity for the ABS.</p>	<p>Proposing release discussion</p> <p>The SEC rejected a comment that the term “commitment” should be defined to mean a contractual obligation to provide liquidity¹⁹.</p>
<p>Market-making activities</p> <p>Permitted <i>bona fide</i> market-making activities. Subject to conditions, <i>bona fide</i> market-making activities, including market-making related hedging, of the securitisation participant relating to the ABS, the underlying assets or financial instruments that reference the ABS and underlying assets.</p>	<p>Proposing release discussion</p> <p>The SEC acknowledges that the <i>bona fide</i> market-making activity exception to rule 192 is drawn from, but differs in certain respects from, similar exceptions found in the Volcker Rule, other <i>Exchange Act</i> provisions and other rules and regulations²⁰.</p> <p>Like the exception for permitted risk-mitigating hedging activities, and similar to the Volcker Rule, this exception does not need to be analysed on a trade-by-trade basis. Instead, the SEC is focused on overall market-making and “the reasonably expected near term demand of the securitisation participant’s customers”.</p> <p>The SEC explicitly states that “hedging the risk of a price decline of market-making-related ABS positions and holdings while the market maker holds such ABS would qualify for the re-proposed exception”. Conversely, the SEC states that this exception most likely does not permit “a securitisation participant to issue a synthetic securitisation and purchase the CDS protection through such issuance”²¹.</p>
<p><i>Conditions.</i> <i>Bona fide</i> market-making activities are permitted only if each of the following conditions is met:</p> <p>A. The securitisation participant routinely stands ready to purchase and sell one or more types of the financial instruments described above as a part of its market-making related activities in such financial instruments and is willing and available to quote, purchase and sell, or otherwise enter into long and short positions in, those types of financial instruments, in commercially reasonable amounts and throughout market cycles on a basis appropriate for the liquidity, maturity, and depth of the market for the relevant types of financial instruments.</p>	<p>The SEC notes that “the mere provision of liquidity” may not be sufficient to meet condition (A). The SEC explains that satisfaction of condition (A) requires that the securitisation participant has established patterns of providing price quotations and trading with customers on each side of the market and is willing to facilitate customer needs in upward and downward moving markets. Like in the Volcker Rule, the SEC expects “commercially reasonable” to mean that the securitisation participant is “willing to quote and trade in sizes requested by market participants in the relevant market”²².</p> <p>The SEC states that satisfaction of condition (B) is a facts and circumstances determination and sets forth a nonexhaustive list of facts and circumstances that would be relevant: “Historical levels of</p>

- B. The securitisation participant’s market-making related activities are designed not to exceed, on an ongoing basis, the reasonably expected near-term demands of clients, customers or counterparties, taking into account the liquidity, maturity and depth of the market for the relevant types of financial instruments described above.
- C. The compensation arrangements of persons performing the foregoing activity are designed not to reward or incentivise conflicted transactions.
- D. The securitisation participant is licensed or registered to engage in the activity described in the market-making activities described in this exception in accordance with applicable law and self-regulatory organisation rules.
- E. The securitisation participant has established – and implements, maintains and enforces – an internal compliance programme that is reasonably designed to ensure the securitisation participant’s compliance with the requirements of this exception, including reasonably designed written policies and procedures that demonstrate a process for prompt mitigation of the risks of its market-making positions and holdings.

- 14. See proposing release at 85-86.
- 15. See proposing release at 88-89.
- 16. See proposing release at 88-89.
- 17. “For example, if a securitisation participant enters into a hedge that would be permitted under the exception and subsequent to that hedge, the risk exposure is reduced, under the proposed condition, the securitisation participant would be required to ensure that it is not ‘overhedged’ so that the position would not constitute a bet against the relevant ABS, which could require the securitisation participant to adjust or recalibrate its hedge.” See proposing release at 90.
- 18. See proposing release at 95.
- 19. See proposing release at 103.
- 20. See proposing release at 105-106.
- 21. See proposing release at 104-110.
- 22. See proposing release at 111-113.

customer demands, current customer demand and expectations of near-term customer demand based on reasonably anticipated near-term market conditions, including, in each case, inter-dealer demand.” Providing an example, the SEC states that facilitating a secondary-market credit derivative transaction with respect to an ABS in response to a current customer demand would satisfy condition (B) but building an inventory of CDS positions in the absence of current demand and without any reasonable historical or anticipated basis to build that inventory would fail to satisfy condition (B). The SEC also specifies that the size of the trade is irrelevant to satisfaction of condition (B).

For condition (C), the SEC states that it “would be consistent with this proposed condition if the relevant compensation arrangement is designed to reward effective and timely intermediation and liquidity to customers. It would be inconsistent with this proposed condition if the relevant compensation arrangement is instead designed to reward speculation in, and appreciation of, the market value of market-making positions that the securitisation participant enters into for the benefit of its own account.”

For condition (D), the SEC states that ABS market makers engaged in dealing activity are required to register under one or more of sections 15(a), 15C and 15F(a) of the *Exchange Act*, barring an exception or exemption. The SEC goes on to note that registered broker-dealers, licensed banks and registered security-based swap dealers meet condition (D).

The SEC specifies that to satisfy condition (E), the securitisation participant must have a compliance programme that clearly identifies the market-making financial instruments that may be used and the processes for determining customers’ near-term demand for such instruments. Internal controls and a system of ongoing monitoring and analysis is also required. Although “prompt” is not defined, the SEC expects that otherwise excepted market-making activity that may be adverse to the relevant ABS remain open for the least time possible.

The SEC believes the compliance programme in condition (E) reduces the risk of “speculative activity disguised as market-making”. The proposing release is silent as to whether the SEC will monitor this through any kind of oversight or disclosure requirements.

only “substantial steps” have been taken by such a securitisation participant, but some of the material terms of the proposed ABS remain to be determined.

Will investors’ historical acceptance of a securitisation participant entering into a particular type of ABS transaction mean there is not a substantial likelihood that a reasonable investor would consider such a transaction important to the investor’s investment decision, including a decision whether to retain the ABS? Why is the determination not to be made after, or by giving effect to, typical ABS disclosure – or, if then available in the relevant case, the actual ABS disclosure?

It also remains to be seen whether there would be unanticipated consequences on the market from a blanket ban on using disclosure to cure potential conflicts of interest.

EXCEPTIONS AND CONCLUSION

Rule 192 exempts risk-mitigating hedging activities, liquidity commitments and *bona fide* market-making activities from the prohibition against material conflicts of interest, so long as they meet certain conditions (see table). This leaves the following questions to consider and other ambiguities:

- While rule 192 has more defined parameters than the original proposal and rule 127B, it still requires a substantial amount of facts and circumstances determinations by securitisation

participants. How would these determinations be made across various industry participants in the market?

- To what extent will the SEC be reviewing and monitoring required internal compliance programmes?

Rule 192 and the proposing release provide significantly more detail about the scope and nature of the prohibition on material conflicts of interest as compared with those provided in proposed rule 127B. However, certain aspects of rule 192 – such as the definition of “sponsor” – expand the potential scope of the rule far beyond that contemplated by rule 127B.

There remain many ambiguities and potential points of conflict between what the rule is intended to achieve and what it might incidentally achieve. The proposing release contains 112 separate requests for comment, indicating that the SEC itself is cognisant that considerable public input and subsequent revisions will be required before rule 192 is ready for adoption. ■

◆ FOR MORE INFORMATION PLEASE CONTACT:

Amanda Baker Partner
amanda.baker@mayerbrown.com
+1 212 506 2544

Paul Jorissen Partner
pJORISSEN@mayerbrown.com
+1 212 506 2555

Stuart Litwin Partner
slitwin@mayerbrown.com
+1 312 701 7373

Jon Van Gorp Partner
jvangorp@mayerbrown.com
+1 312 701 7091

AUSTRALIAN AND NEW ZEALAND AUSTRALIAN SECURITISATION FORUM MEMBER AND SECURITISATION INVESTOR PROFILES

Australian Securitisation Forum membership continues to grow – as does the group of investment firms with securitisation on their radar. The following sections profile members from across the industry – including a focus on investment firms.

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◆ CONTACT DETAILS

Brendan Weir

Executive Director,
Loan Servicing
+61 417 771 441
brendan.weir@amal.com.au

www.amal.com.au

Nick Procter

Executive Director,
Corporate Trust
+61 400 668 340
nick.procter@amaltrustees.com.au

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◆ CONTACT DETAILS

Graham Metcalf

Global Head of Structured Capital Markets
+61 2 8937 8606
graham.metcalf@anz.com

www.anz.com/institutional

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◆ CONTACT DETAILS

Gwenneth O'Shea

Head of Securitisation
+61 2 9257 5823
gwenneth_oshea@amp.com.au

www.amp.com.au/securitisation

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◆ CONTACT DETAILS

Jennifer Schlosser

Partner
+61 2 9258 5753
jennifer.schlosser@ashurst.com

www.ashurst.com

Emma Malone

Partner
+61 2 9258 5726
emma.malone@ashurst.com

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◆ CONTACT DETAILS

John Pearce

Head of Debt and Collateral,
Securities and Payments
john.pearce@asx.com.au

Mike Thomson

Senior Manager, Business
Development, Austraclear
mike.thomson@asx.com.au

www.asx.com.au/austraclear

Mahdi Akbari

Analyst, Debt and Collateral
mahdi.akbari@asx.com.au

ATLAS SP



Atlas SP Partners is a global investment firm that seeks to provide stable funding and capital markets services to companies seeking innovative and bespoke structured credit and asset-backed finance solutions. The company is proud to build upon a legacy of excellence anchored in deep expertise and client service across the asset management landscape.

◆ CONTACT DETAILS

Anthony Hermann

Head of APAC Credit
ahermann@apollo.com

www.atlas-sp.com

BLUESTONE HOME LOANS

Bluestone.

Established in 2000, Bluestone Home Loans is a diversified originator of residential home loans in Australia and New Zealand. With a dedicated team of professionals across Australia, New Zealand and the Philippines, Bluestone effectively manages around A\$13 billion in home loans for Australian and New Zealand customers. This includes about A\$5 billion in loans held within its own mortgage book.

Bluestone was acquired by the global investment firm Cerberus Capital Management in 2018, injecting significant capital and leveraging operational and credit expertise. Recently, Bluestone has strategically shifted its focus toward a higher proportion of nonconforming and alternative document assets, expanded its range of products and built broader relationships with investors. Bluestone is an active participant in the Australian RMBS market, with 39 public securitisation trusts since 2002, including 22 transactions from 2013 to 2023.

◆ CONTACT DETAILS

Milos Ilic-Miloradovic

Treasurer
+61 429 877 715
milos.ilic-miloradovic@bluestone.com.au

www.bluestone.com.au • www.bluestone.net.nz

BNY MELLON



BNY Mellon powers capital markets around the world through comprehensive solutions that help clients manage and service their financial assets throughout the investment lifecycle. It is the only international bank to provide full-service corporate trust solutions in Australia, offering clients a suite of services to support domestic and international funding. BNY Mellon's global footprint and market expertise deliver a comprehensive range of issuer and related investor solutions such as trustee, paying agent, trust management, investor and RBA reporting. Securitisation services are delivered through a robust analytics platform.

BNY Mellon had A\$46.9 trillion in assets under custody or administration and A\$1.9 trillion in assets under management as of 30 June 2023. BNY Mellon has been named among *Fortune's* world's most admired companies and Fast Company's best workplaces for innovators. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation.

◆ CONTACT DETAILS

Robert Wagstaff

Head of Market for Australia, Corporate Trust
+61 2 9260 6039
robert.wagstaff@bnymellon.com

www.bnymellon.com/au/en/index.jsp

BofA SECURITIES



BofA SECURITIES

Across the world, BofA Securities partners with leading corporate and institutional investors through offices in more than 35 countries. The firm provides a full suite of financial products and services, from banking and investments to asset and risk management. It covers a broad range of asset classes, making it a global leader in corporate and investment banking, and sales and trading.

To support institutional investor clients globally in their investing and trading activities, the global markets team provides financing, securities clearing, settlement and custody services. Global markets product coverage includes securities and derivative products in the primary and secondary markets. BofA Securities also works with commercial and corporate clients to provide risk management products using interest rate, equity, credit and commodity derivatives, and fixed-income and mortgage-related products.

◆ CONTACT DETAILS

Tim Richardson

Managing Director and Head of Australia
and New Zealand Structured Credit Origination
+61 448 461 567
timrichardson@bofa.com

www.bofa.com/international

COMMONWEALTH BANK OF AUSTRALIA



Commonwealth Bank of Australia

Commonwealth Bank of Australia (CBA) is a leading provider of personal banking, business and institutional banking, and equities trading services in Australia. The group has a strong capital position with a common equity tier-one capital ratio of 12.2% as at 30 June 2023, well in excess of regulatory minimum capital requirements.

Despite ongoing market volatility, the bank's global markets division has delivered solid performance – particularly in trading – and remains well positioned to support clients in a challenging macro environment. Aligned to the bank's commitment to support Australia's climate change goals and help reduce its clients' emissions, CBA has assisted on 64 sustainable finance transactions across loans, bonds and trade finance, totalling A\$15 billion, and continues to invest in carbon capabilities in line with the strategy of the bank's institutional banking and markets business.

◆ CONTACT DETAILS

Justin Mineeff

Managing Director,
Debt Markets Securitisation
+61 410 662 921
justin.mineeff@cba.com.au

www.commbank.com.au/institutional

Matt Barca

Associate Director,
Debt Markets Securitisation
+61 459 895 277
matthew.barca@cba.com.au

BANK OF QUEENSLAND



Bank of Queensland (BOQ) is a public company, incorporated with limited liability under the laws of Australia. BOQ is domiciled in Australia, is listed on the ASX and is regulated by APRA as an ADI. At 31 August 2023, BOQ had total assets of A\$105.3 billion. BOQ is in a strong financial position to support its customers and deliver its transformation priorities to strengthen, simplify, digitalise and optimise its operations. In FY23, the ME integration programme formally closed with total annualised synergies of A\$72 million delivered.

BOQ has diversified funding access and capacity available through a range of term instruments, including domestic and offshore unsecured funding programmes, four securitisation programmes and a A\$6 billion covered-bond programme.

◆ CONTACT DETAILS

Tim Ledingham

Treasurer
+61 7 3212 3342
tim.ledingham@boq.com.au

Tim Blumke

Senior Manager
+61 7 3212 3438
tim.blumke@boq.com.au

Sid Mangain

Senior Manager
+61 412 214 567
sid.mangain@boq.com.au

www.boq.com.au



As part of one of the world's largest financial services companies with a presence in nearly 100 countries, Citi Australia has been providing financial services to Australian corporations, institutions and governments for nearly a century. Recognised for its innovative range of global products and services, Citi today counts more than 1,000 local corporate and institutional clients as valued customers.

Citi Australia provides a comprehensive range of services including banking, capital markets and advisory, markets and securities services, treasury and trade solutions, and commercial banking. It is one of the few financial groups in Australia with a full range of services and the ability to tap capital and expertise around the world for its institutional, corporate and government clients.

◆ CONTACT DETAILS

Michael Moussa

Global Spread Products, Financing and Securitisation
+61 2 8225 2513 / +61 405 323 360
michael.moussa@citi.com

www.citi.com/australia

CLAYTON UTZ

CLAYTON UTZ

Clayton Utz delivers value based on deep experience advising on the most complex issues in securitisation transactions, and drawing on the expertise of leading practitioners in the areas of tax, regulation and restructuring, and insolvency to ensure transactions are smoothly and successfully effected.

Clayton Utz has a long history in the domestic and international securitisation markets, being there from the beginning and maintaining a leading reputation with a band-one ranking in *Chambers Global*. The business also played a key role in the development of Australia's covered-bond market.

The team supports the development of the industry, including volunteering time to the Australian Securitisation Forum in various capacities.

◆ CONTACT DETAILS

Andrew Jinks

Partner
+61 2 9353 5818
ajinks@claytonutz.com

www.claytonutz.com

Sonia Goumenis

Partner
+61 2 9353 4378
sgoumenis@claytonutz.com

COLUMBUS CAPITAL



ColumbusCapital

Since incorporating in 2006, Columbus Capital (ColCap) has gone from strength to strength. ColCap's product offering ranges from standard owner-occupier and investment home loans to highly customised products for niche segments of the market, including to nonresidents and self-managed superannuation funds (SMSFs).

In October 2018, ColCap acquired Homestar Finance. This was a natural evolution to expand into the retail market while supporting the continued growth of the longstanding online lender. In 2012, ColCap acquired the Origin MMS business from ANZ, enabling the provision of white-labelled loan products to mortgage managers.

ColCap is spearheading growth in the nonbank lending market, with more than A\$13 billion in loans under management. It uses securitisation funding through its Triton programme for prime loans, its Vermilion programme for nonresident loans and the Triton SMSF programme for SMSF loans.

◆ CONTACT DETAILS

Andrew Chepul

Chief Executive
+61 2 9273 8102
andrew.chepul@colcap.com.au

www.colcap.com.au

David Carroll

Treasurer
+61 2 9273 8132
david.carroll@colcap.com.au

COMPOSITE CAPITAL



Composite Capital is a warehouse lender, providing support for mortgage brokers and nonbank lenders to grow their lending businesses with committed funding.

Composite Capital provides partners with funding, systems and support to help them originate, credit decision, fund and manage their own loan books. Established in 2020, Composite Capital is 100% Australian owned, with offices in Sydney and the Gold Coast.

◆ CONTACT DETAILS

Jamie Bang

CBO
+61 400 110 118
jyb@composite.capital

Jeremy Harris

CMO
+61 437 135 111
jah@composite.capital

www.composite.capital

DELOITTE

Deloitte.

Deloitte's market-leading securitisation practice has global reach and capabilities that allow it to leverage the skills of the world's largest professional services organisations and to access the most up-to-date market practices.

The Deloitte securitisation advisory team works closely with many industry participants on a range of projects including issuance, warehouse funding reviews, prudential standard compliance assessments, debt advisory and M&A due diligence.

◆ CONTACT DETAILS

Heather Baister

Partner, Audit and Assurance
+61 2 9322 5911
+61 409 696 886
hebaister@deloitte.com.au

Xenia Cobet

Director, Audit and Assurance
+61 2 9322 7305
+61 422 733 181
xecobet@deloitte.com.au

www.deloitte.com/au

Andre Wyrsh

Senior Manager,
Audit and Assurance
+61 2 9322 3056
+61 458 597 471
awyrsh@deloitte.com.au

DEUTSCHE BANK



Deutsche Bank is the leading bank in Germany, with strong European roots and a powerful global network. For 50 years, Deutsche Bank has been helping domestic and international clients achieve their goals in Australia. Since then, it has delivered innovative and sustainable solutions across investment banking, corporate banking and asset management.

The global securitisation group combines an ability to commit capital with an integrated approach to the debt needs of issuers and investors. The Australian team has been a market leader for more than a decade, uniting deep local expertise with Deutsche Bank's global network to provide cutting-edge client solutions and service.

◆ CONTACT DETAILS

Preethi Visweswara
Director, Global Credit Trading
+61 419 926 866
preethi.visweswara@db.com
www.db.com

ETICORE



Eticore provides corporate trustee, trust management, backup servicing, RBA reporting, European Securities and Markets Authority reporting, trust accounting and associated services to meet clients' securitisation and structured debt requirements.

Its aim is to provide exceptional service, quality solutions and deep experience. The Eticore name reflects its ethos of putting integrity at the centre of all it does.

Eticore works with clients to create flexible and bespoke solutions, using a fresh approach and the most up-to-date technology, while playing a dependable fiduciary role that is without question or exception. The team is experienced and technically proficient, and the process transparent from pricing to service levels, providing certainty for issuers and investors.

Eticore understands all the pain points, which is why it designs a solution that is easier and more agile, specifically to meet clients' needs.

◆ CONTACT DETAILS

Belinda Smith
Chief Executive Officer
+61 449 752 154
belinda.smith@eticore.com.au
www.eticore.com.au

Anita Campbell
Chief Operating Officer
+61 432 074 405
anita.campbell@eticore.com.au

EQUITY TRUSTEES



Equity Trustees

Equity Trustees is Australia's leading specialist trustee company, with more than 130 years' experience and in excess of A\$160 billion in funds under management, administration and supervision as at 30 June 2023.

The Equity Trustees group of companies provides a diverse range of services to individuals, families and corporate clients, including asset management, philanthropic services, superannuation trusteeship, responsible entity services, and debt capital markets and securitisation services for sponsors and issuers.

◆ CONTACT DETAILS

James Connell
General Manager, Debt and Securitisation Services
+61 2 9458 5509
+61 428 526 863
jconnell@eqt.com.au
www.eqt.com.au

FIRSTMAC



Firstmac is an Australian-owned financial services provider with more than 40 years' experience in residential home loans and, more recently, auto loans. It has written more than 130,000 home loans in the past decade and manages about A\$14 billion in prime mortgages, A\$1 billion in auto loans and A\$650 million in cash investments.

Firstmac is fully funded by RMBS and ABS, having issued more than A\$42 billion in RMBS since 2003.

In 2022, Firstmac was proud to receive the KangaNews Australian RMBS Deal of the Year award, and the Australian Nonbank Financial Institution Issuer of the Year award for the second year in a row.

◆ CONTACT DETAILS

James Austin
Chief Investment Officer
+61 7 3017 8883
james.austin@firstmac.com.au
www.firstmac.com.au

Prime, clean, premium credit

Firstmac is Australia's leading non-bank residential lender with \$14 billion in RMBS and \$1 billion in auto ABS under management.

Strong track record

Since 2003 we have issued more than \$42 billion in RMBS.

Firstmac RMBS is renowned for its credit quality and performance with strong support from both domestic and offshore investors.

Recent landmarks

- \$1.2 billion RMBS issue (Aug 2023).
- Largest non-bank issue of 2022 at \$1.8 billion (Oct 2022).
- Inaugural auto ABS transaction completed with Australian-first Co2 data.
- 30+ days arrears across both home and car remain benign.
- Market-leading transparency with monthly loan book data.

Award-winning



Firstmac is a two-time winner of the Kanga Award for Australian Non-Bank Financial Institution Issuer of the Year (2021 and 2022).

Find out more about our debt securities:

James Austin,
Chief Financial Officer
07 3017 8883
james.austin@firstmac.com.au

FITCH RATINGS

FitchRatings

Fitch Ratings is a leading provider of credit ratings, commentary and research. It is committed to adding value beyond ratings, through independent and prospective credit opinions. Since 1985, Fitch has built a reputation of clarity, consistency and accuracy in the global structured finance market. The firm is an active participant across core market sectors, with robust criteria, strong customer service and market engagement.

Fitch is the only credit rating agency that covers all active structured finance markets in the Asia-Pacific region, including Australia, China, India, Japan, South Korea, Singapore and New Zealand. Fitch has more than 300 analysts dedicated to structured finance globally, among whom 15 are based in Sydney.

◆ CONTACT DETAILS

ANALYTICAL

Natasha Vojvodic

Head of Australia and New Zealand Structured Finance

+61 2 8256 0350

natasha.vojvodic@fitchratings.com

www.fitchratings.com

BUSINESS AND RELATIONSHIP MANAGEMENT

Spencer Wilson

Structured Finance Business and Relationship Management

+61 2 8256 0320

spencer.wilson@fitchratings.com

HELIA GROUP



As Australia's first lenders' mortgage insurance (LMI) provider and a specialist in the field, Helia Group (formerly Genworth) has played an important part of the Australian RMBS market.

Helia offers bulk LMI cover for RMBS, which transfers the credit risk associated with shortfall losses on residential mortgages to Helia from investors. This assists lenders by lowering funding costs through reduced subordination levels. The company has provided more than A\$78 billion of bulk LMI cover for RMBS programmes across 28 lenders in Australia since 1998.

Helia's vision is to be the leading partner of choice for flexible home ownership solutions. It focuses on creating innovative ways to deliver LMI by working with lenders, regulators and policy leaders to promote a strong and sustainable housing market in Australia.

◆ CONTACT DETAILS

Chris Langton

Pricing Leader

chris.langton@helia.com.au

www.helia.com.au

Mei Liu

Pricing and Securitisation Manager

mei.liu@helia.com.au

GOLDMAN SACHS

Goldman Sachs

Goldman Sachs is a leading global financial institution that delivers a broad range of financial services to a large and diversified client base that includes corporations, financial institutions, governments and individuals. Founded in 1869, the firm is headquartered in New York and maintains offices in all major financial centres around the world.

◆ CONTACT DETAILS

David Rockliff

Co-head of FICC

+61 2 9320 1290

david.rockliff@gs.com

www.goldmansachs.com

HERBERT SMITH FREEHILLS



HERBERT
SMITH
FREEHILLS

Herbert Smith Freehills is one of the world's leading professional services businesses, with staff in 24 offices advising clients across the globe. Herbert Smith Freehills' securitisation and structured finance specialists are at the forefront of many first-of-a-kind transactions, developing innovative financing solutions that reflect the consistently changing markets in which its clients work.

The firm offers comprehensive multijurisdictional coverage, advising arrangers and lead managers, corporate issuers, originators, credit enhancers, trustees, rating agencies and other market participants on a range of products and asset classes.

◆ CONTACT DETAILS

Patrick Lowden

Partner

+61 2 9225 5647

patrick.lowden@hsf.com

www.herbertsmithfreehills.com



**Building upon a rich history of innovative ideas,
Goldman Sachs commits people and capital to help our
clients, shareholders and the communities we serve to grow.**

Find out more at goldmansachs.com

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Sachs**

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HUMMGROUP



Hummgroupp (formerly flexigroup) is an Australian company listed on the ASX since 2006 with operations spanning more than 30 years. Hummgroupp is a diversified financial services company that provides instalment plans enabling businesses and consumers to make large purchases.

In Australia, hummgroupp has been a regular ABS issuer under its Flexi ABS, humm ABS and flexicommercial ABS programmes. Hummgroupp has played a market-leading role in the green ABS market in Australia over the past seven years. This has included several market-first structures. In New Zealand, hummgroupp is a frequent issuer under its Q Card Trust programme, the first revolving master-trust programme to be established in Australasia. Since 2014, it has issued more than NZ\$1.8 billion of ABS.

◆ CONTACT DETAILS

Bianca Spata
Group Treasurer
+61 416 062 039
bianca.spata@humm-group.com

Denis Novak
Head of Group Funding – Commercial
+61 472 836 921
denis.novak@humm-group.com

www.shophumm.com/humm-group

Elly Ko
Head of Group Funding –
Consumer
+61 430 156 073
elly.ko@humm-group.com

INTEX



Intex is the industry's leading provider of cash-flow models and analytics, with its solutions facilitating the modelling of more than 40,000 RMBS, ABS, CMBS and CLO deals around the globe, including in Australia and New Zealand.

Hundreds of arrangers, investors, issuers and others rely on Intex's solutions to underpin complete, accurate and timely cash-flow models used in trading, portfolio management and risk management applications. Examples of applications developed by the business include INTEXcalc for single-security and portfolio analysis and cash-flow stress testing, the Excel add-in INTEXlink, the INTEX Subroutine API for system builders, and INTEX DealMaker for structuring new deals.

Intex is an independent, privately held company focused entirely on cash-flow modelling and data. It is headquartered in Boston, with offices in London and Shanghai.

◆ CONTACT DETAILS

sales@intex.com

https://www.intex.com/main/contact_requestinfo.php

ING



Globally, the ING Group has more than 60,000 employees who serve about 37 million customers, corporate clients and financial institutions in more than 40 countries. ING commenced coverage of wholesale banking clients in Australia in 1997. In 2013, Australian wholesale banking was integrated with the retail business. Today, ING has more than A\$73 billion in lending assets in Australia.

The wholesale banking team has deep expertise in sectors such as infrastructure, energy, real estate, telecommunications, food and agriculture, media and technology, and finance. The team also has locally developed capabilities in acquisition finance, securitisation, debt capital markets, financial markets and transactions. In Australia, ING is a wholesale banking leader in financing energy transition and is among the top three banks that finance local renewables projects.

◆ CONTACT DETAILS

Andrew Hector
Managing Director and
Head of Wholesale Banking, Australia
andrew.hector@ing.com.au

www.ing.com.au

J.P. MORGAN

J.P. Morgan

J.P. Morgan's corporate and investment bank is a global leader in banking, markets, securities services and payments. Corporations, governments and institutions throughout the world entrust the firm with their business in more than 100 countries. J.P. Morgan is a global leader in credit distribution, balance-sheet solutions and securitised products across commercial and consumer asset classes.

J.P. Morgan has had a growing presence in securitised products in Australia over the past decade and continues to provide warehouse financing solutions for key clients in Australia, as well as providing access to J.P. Morgan's network of investors globally.

◆ CONTACT DETAILS

Stephen Magan
Executive Director, Securitised Products Group, APAC
+61 2 9003 8362
stephen.s.magan@jpmorgan.com

www.jpmorgan.com.au

KING & WOOD MALLESONS

KING & WOOD
MALLESONS
金杜律师事务所

King & Wood Mallesons (KWM) is a top-tier international law firm, from Asia, for the world. A firm born in Asia, underpinned by world-class capability, KWM is driven by a simple purpose – to use its mastery of the law for the lasting prosperity of its clients, people and communities.

Strategically positioned in the world's growth markets and financial capitals, KWM's securitisation team is the most prominent practice in the region, acting on almost every landmark securitisation transaction in the Australian market. The team remains at the cutting edge of new product development, working with financial institutions, investment banks and corporates, including new entrants such as fintechs and nonbank lenders.

KWM's clients value its global network, legal expertise and relationships with regulators and market participants. KWM can help arrangers, lenders, originators, trustees and rating agencies anticipate and avoid execution, regulatory and compliance risk.

◆ CONTACT DETAILS

Ian Edmonds-Wilson

Partner, Banking and Finance
+61 2 9296 2520
ian.edmonds-wilson@au.kwm.com
www.kwm.com

Anne-Marie Neagle

Partner, Banking and Finance
+61 3 9643 4258
anne-marie.neagle@au.kwm.com

LA TROBE FINANCIAL

La Trobe
financial

La Trobe Financial is one of Australia's leading alternative asset managers, with A\$18 billion in AUM. Founded in 1952, La Trobe Financial is a proven and trusted investment partner for institutional and retail investors. La Trobe Financial is a Brookfield-owned portfolio company.

La Trobe Financial has a diversified funding programme, comprising bank mandates, Australia's largest retail credit fund and public RMBS funding. The business has issued A\$12.4 billion to Australian and international investors. Critical to its success are La Trobe Financial's high-quality granular assets, coupled with disciplined underwriting and management expertise. A portfolio weighted-average LVR of 63.6% results in natural self-selection of super-prime and prime assets.

◆ CONTACT DETAILS

Martin Barry

Chief Financial Officer
+61 2 8046 1502
mbarry@latrobefinancial.com.au

Michelle Dai

Head of Group Portfolio Management
+61 3 8610 2820
mdai@latrobefinancial.com.au

Paul Brown

Treasurer
+61 3 8610 2397
pbrown@latrobefinancial.com.au
www.latrobefinancial.com.au

LATITUDE FINANCIAL SERVICES


LATITUDE

Latitude Financial Services is a leading consumer finance business in Australia and New Zealand. It provides a wide range of consumer finance products including credit cards, interest-free promotional and retail offers, and personal and auto loans directly and through its longstanding and well-developed networks of retailer partners and brokers.

Latitude has a well-seasoned and diversified portfolio of customers and receivables, and generated A\$3.6 billion of volume for the six months to 30 June 2023, with 2.2 million open customer accounts. Its businesses have maintained profitability throughout the economic cycle, and it has a demonstrated track record of managing credit risk and delivering stable asset performance.

Latitude's funding strategy is anchored in diversity and duration, providing certainty, stability and scalability for its businesses. Its public and private funding programmes are well supported by a diverse mix of domestic and offshore investors and financiers.

◆ CONTACT DETAILS

Eva Zileli

Group Treasurer
+61 417 327 643
eva.zileli@latitudefinancial.com
www.latitudefinancial.com.au

LIBERTY FINANCIAL

 Liberty

Liberty Financial is a mainstream speciality finance group that champions free thinking. Since 1997, Liberty has helped more than 600,000 customers "get and stay financial". Liberty provides a wide range of products and services comprising home, car, commercial, self-managed superannuation fund and personal loans, and investment and deposit products. Liberty also offers consumer loan protection solutions via its group companies LFI Group and ALI Group. Liberty deploys its own capital in its operations, thereby reducing financial and operating leverage.

Liberty is Australia's only investment-grade rated nonbank issuer, at BBB- (positive outlook) from S&P Global Ratings. Liberty's term securitisation programme offers prime and nonconforming RMBS, auto ABS and SME formats. It has raised more than A\$43 billion across 89 ABS and MTN issues. Liberty has an unblemished capital markets track record whereby its rated notes have never been charged off, downgraded or placed on negative watch.

◆ CONTACT DETAILS

Peter Riedel

Chief Financial Officer
+61 3 8635 8888
priedel@liberty.com.au
www.liberty.com.au

MACQUARIE GROUP



Macquarie Group is a diversified financial group providing clients with asset management, banking, advisory and risk and capital solutions across debt, equity and commodities. Headquartered in Sydney and with offices in more than 25 countries, the breadth of Macquarie's operations, combined with a strong capital position and risk management framework, has contributed to a 51-year record of unbroken profitability.

As part of Macquarie's commodities and global markets group, the financial markets division provides clients with access to global financial markets, including currencies, equities, fixed income, futures and credit. Clients benefit from strong deal execution and specialist financing solutions that are underpinned by deep technical and fundamental market analysis. The division also provides warehousing, structuring and distribution of securitised debt for clients.

◆ CONTACT DETAILS

Alhad Bhalerao

Division Director, Debt Origination and Structuring
+61 2 8232 9980
alhad.bhalerao@macquarie.com

www.macquarie.com/au/corporate

MOODY'S

MOODY'S

Moody's is an essential component of the global capital markets, providing credit ratings, research, tools and analysis that contribute to transparent and integrated financial markets.

Moody's Corporation is the parent company of Moody's Investors Service, which provides credit ratings and research covering debt instruments and securities, and Moody's Analytics, which offers leading-edge software, advisory services and research for credit and economic analysis, and financial risk management.

◆ CONTACT DETAILS

Tim Armstrong

Vice President and Relationship Management,
Australia and New Zealand
+61 2 9270 8115/+61 450 956 930
tim.armstrong@moodys.com

www.moodys.com

MINTERELLISON

MinterEllison

MinterEllison is an international law firm, headquartered in Australia and regarded as one of the Asia-Pacific region's premier law firms. The capital markets team sits at the forefront of local and global market trends, recognised for its role in delivering some of the industry's most complex, innovative and leading-edge transactions. The firm's securitisation practice acts for major industry participants across a variety of asset classes.

MinterEllison has teams collaborating across Australia, New Zealand, Asia and the UK to deliver exceptional outcomes for its clients. MinterEllison is also actively engaged with clients in preparing and responding to regulatory developments that are having a major impact on the securitisation industry.

◆ CONTACT DETAILS

John Elias

Partner
+61 2 9921 4115
john.elias@minterellison.com

www.minterellison.com

MUFG



Mitsubishi UFJ Financial Group (MUFG) is one of the world's leading financial groups. Headquartered in Tokyo and with more than 360 years of history, MUFG has a global network of about 2,000 locations across 50 markets.

The group has around 160,000 employees and offers services including commercial and trust banking, securities, credit cards, consumer finance, asset management and leasing.

Through close collaboration among its operating companies, the group aims to respond flexibly to the financial needs of its customers, serve society, and foster shared and sustainable growth for a better world.

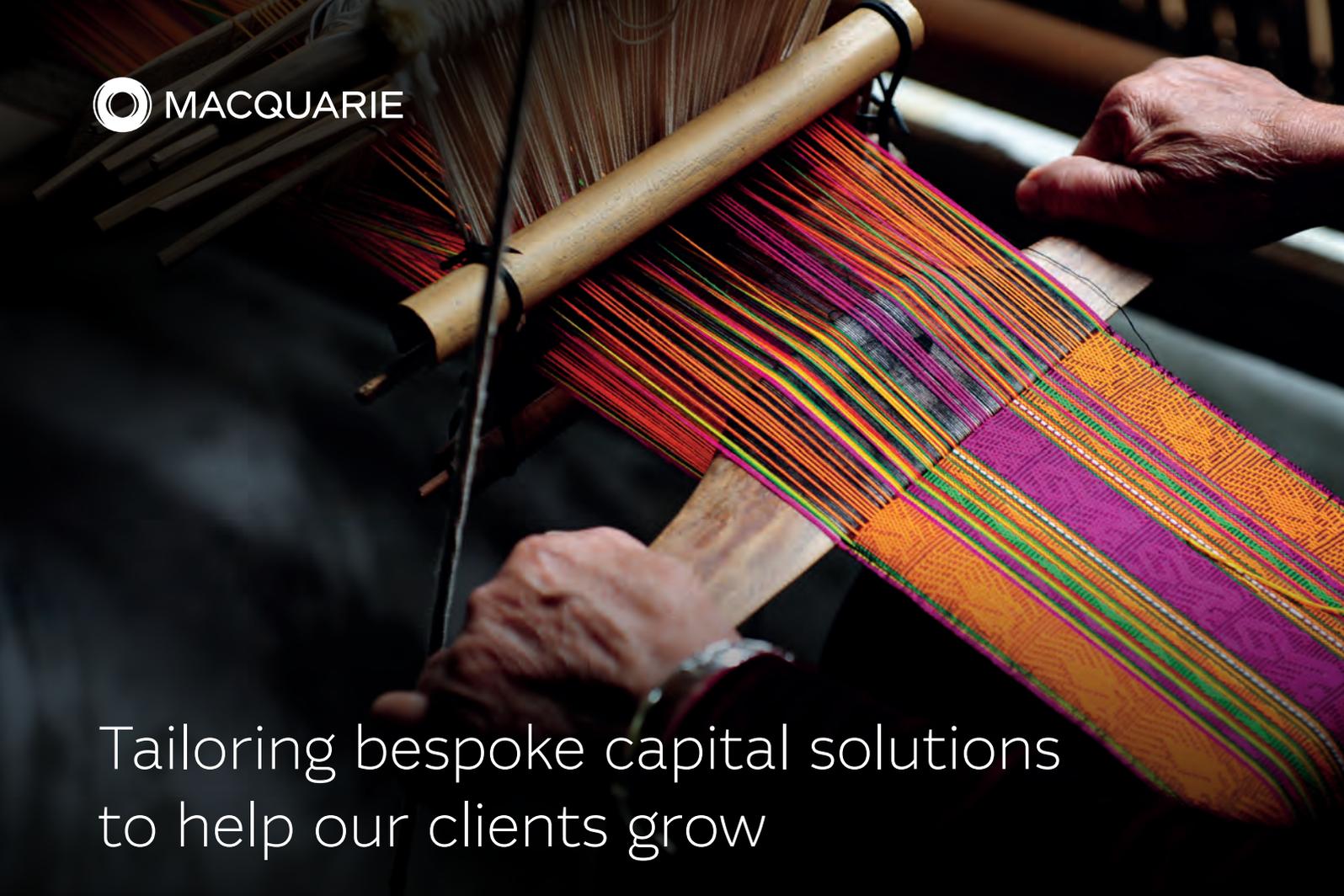
Outside Japan, the bank offers an extensive scope of commercial and investment banking products and services to businesses, governments and individuals worldwide. MUFG's shares trade on the Tokyo, Nagoya and New York stock exchanges.

◆ CONTACT DETAILS

John Stormon

Managing Director and Head of Securitisation,
Australia and New Zealand
+61 2 9296 1381
john_stormon@au.mufg.jp

www.mufg.jp/english



Tailoring bespoke capital solutions to help our clients grow

Whether it's financing, debt structuring, working capital, co-investment, arrangement or placement, Macquarie can help. Our deep industry knowledge and more than 25 years experience working in all market conditions enables us to provide highly tailored solutions for clients looking to access Macquarie's own proprietary capital or private and public capital markets across the globe.

Discover the Macquarie difference:

Alhad Bhalerao

Head of Structured Credit (Lending, Sales and Trading), APAC
+61 4 4809 9056
alhad.bhalerao@macquarie.com

Gianfranco Simionato

Global Head of Structured Credit (Lending, Sales and Trading)
+44 77 7616 5256
gianfranco.simionato@macquarie.com

David Castle

Head of Distribution, APAC
+61 4 1815 5742
david.castle@macquarie.com

Kira Eaton

Head of Distribution for APAC Issuers in EMEA
+44 78 8101 1772
kira.eaton@macquarie.com

NATIONAL AUSTRALIA BANK



National Australia Bank (NAB)'s operations in Asia, Australia, New Zealand, the US and UK serve more than 10 million customers, providing access to international financial markets and a range of specialised funding, liquidity, investment, asset-services and risk-management capabilities.

A committed and leading participant in the securitisation market, NAB's team has strong experience and capability as a key arranger and lead manager of capital markets and balance sheet transactions. NAB continually drives innovation in this sector and has a deep understanding of the needs of its issuer and investor clients.

This has placed NAB at the top of the securitisation league tables (KangaNews, Q1-Q3 2023) and as winner of the KangaNews Australian Securitisation House of the Year award for the past 11 consecutive years.

◆ CONTACT DETAILS

Sharyn Le

Global Head of Securitisation Origination

+61 477 343 668

sharyn.l.le@nab.com.au

www.nab.com.au

NATIXIS CIB



Natixis CIB is a leading global financial institution that provides advisory, investment solutions, financing, corporate solutions and capital markets services to corporations, financial institutions, financial sponsors, and sovereign and supranational organisations worldwide.

Teams of experts in around 30 countries advise clients on their strategic development, helping them to grow and transform their businesses and maximise their positive impact. Natixis CIB is committed to aligning its financing portfolio with a carbon neutrality path by 2050 while helping its clients reduce the environmental impact of their businesses.

As part of the global financial services division of Groupe BPCE, one of the largest financial institution groups in France through its retail networks, Natixis CIB benefits from the group's financial strength and solid financial ratings (S&P Global Ratings: A, Moody's Investors Service: A1, Fitch Ratings: AA-, R&I: A+).

◆ CONTACT DETAILS

<https://apac.cib.natixis.com/australia>

NEU CAPITAL



Neu Capital is a full-service debt advisory business, with a focus on securitisation, structured debt, fund finance and corporate debt across public and private mid-market companies.

Clients include Australian and New Zealand companies seeking institutional funding of A\$20-300 million or more.

Neu Capital specialises in designing and executing structured funding solutions to solve vanilla and nonvanilla securitisation structures. The firm works with originators to enable them to source optimal funding structures, refinance existing warehouses or achieve their first institutional facility. Neu Capital's global network of institutional investor relationships spans several hundred domestic and overseas banks, credit funds, private equity funds, hedge funds, pension funds and family offices.

Since inception in 2017, Neu Capital has arranged more than A\$1 billion in transactions. Neu Capital has offices in Sydney, Melbourne and London.

◆ CONTACT DETAILS

Edward Jones

Managing Director

+61 415 473 425

edward.j@neu.capital

www.neu.capital**John Powell**

Managing Director

+61 407 727 667

john.p@neu.capital

PEPPER MONEY



Pepper Money is one of the largest nonbank lenders in Australia. It commenced business in 2001 as a provider of home loans to consumers who fall just outside the criteria of traditional bank lenders. It has subsequently broadened its Australian business activities to also include the origination of prime residential mortgages, commercial real estate loans, auto and equipment finance, and third-party loan and broker servicing, as well as expanding into residential mortgages in New Zealand.

Pepper Money's approach to securitised debt funding is to be a programmatic issuer to a globally diversified investor base across a number of asset classes. As part of this strategy, Pepper Money was the first nonbank to issue green RMBS bonds and since 2003 has issued more than A\$37 billion in bonds across 60 transactions via its four programmes – Pepper-Prime, PRS, Pepper-Social and SPARKZ – in domestic and international capital markets.

◆ CONTACT DETAILS

Anthony Moir

Treasurer

+61 402 077 903

amoir@pepper.com.au

www.peppermoney.com.au**Steven Fischer**

Deputy Treasurer

+61 413 782 557

sfischer@pepper.com.au



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For more information, please contact:

Oscar Austin

Head of Global Structured Credit & Solutions Syndicate, Asia Pacific

Tel : +61 2 8063 1711
Mob : +61 423 089 052
oscar.austin@natixis.com
Natixis Australia Pty Ltd

Jack Osborne

Director, Global Structured Credit & Solutions, Australia

Tel : +61 2 8063 1736
Mob : +61 400 719 707
jack.osborne@natixis.com
Natixis Australia Pty Ltd

Fabrice Guesde

Head of Credit Markets and Global Structured Credit & Solutions, Asia Pacific

Tel : +852 3900 8451
fabrice.guesde@natixis.com
Natixis APAC Headquarters

Frazer Ross

ADI Covered Bonds
Head of DCM, Australia

Tel : +61 2 8063 1708
Mob : +61 448 355 408
frazer.ross@natixis.com
Natixis Australia Pty Ltd

PERPETUAL CORPORATE TRUST



Perpetual Corporate Trust, a specialist business within the Perpetual Group, is a leading fiduciary, custody and digital business in Australia, with operations in Singapore.

The company provides a unique range of products to help clients and the industry be more effective, efficient and economical while managing ever-increasing cyber security risks and maintaining compliance. Domestic and global financial institutions leverage Perpetual's corporate strength, commercial approach, risk and compliance practices, expertise and service excellence in debt markets, managed funds and digital solutions to enable its clients' success.

Perpetual Digital, Perpetual's innovation company, helps drive Perpetual, its clients' and the broader market's success through next-generation software and data solutions.

◆ CONTACT DETAILS

Lynsey Thorrington

Senior Relationship Manager

+61 2 9229 9536

lynsey.thorrington@perpetual.com.au

www.perpetual.com.au/corporate-trust

RBC CAPITAL MARKETS

Capital
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The most significant corporations, institutional investors, asset managers, private equity firms and governments around the world recognise RBC Capital Markets (RBCCM) as an innovative, trusted partner with in-depth expertise in capital markets, banking and finance.

RBCCM's established securitisation platform specialises in structuring, warehousing and distribution across the US, Canada, Europe, Asia and Australia. As a leading conduit provider across multiple asset classes, RBCCM offers committed balance sheet support for warehouse financing along with extensive term ABS structuring and placement expertise supported by dedicated global distribution, trading and derivatives capabilities.

◆ CONTACT DETAILS

Jennifer Hellerud

Director and

Head of Securitisation

+61 2 9033 3238

jennifer.hellerud@rbccm.com

Simone Johnson

Vice President, Securitisation

+61 2 9033 3360

simone.johnson@rbccm.com

www.rbccm.com/australia**Nikit Sawjani**

Vice President,

Securitisation Australia

+61 2 9033 3339

nikit.sawjani@rbccm.com

Kurt Wilschefski

Analyst, Securitisation, Australia

+61 2 9033 3336

kurt.wilschefski@rbccm.com

RESIMAC



Resimac is a leading nonbank residential mortgage lender and multichannel distribution business. It operates under a fully integrated business model comprising originating, servicing and funding prime and nonconforming residential mortgages, and SME and consumer finance assets, in Australia and New Zealand. Resimac has more than 250 staff operating across Australia, New Zealand and the Philippines, more than 50,000 customers and assets under management in excess of A\$13 billion.

Resimac has issued more than A\$45 billion in global fixed-income markets. The group has access to a diversified funding platform with multiple warehouse lines provided by domestic and offshore banks for short-term funding, in addition to a global securitisation programme to fund its assets over the longer term.

Resimac's asset-servicing credentials are recognised by a "strong" servicer ranking from S&P Global Ratings.

◆ CONTACT DETAILS

Andrew Marsden

Group Treasury

+61 2 9248 6507

andrew.marsden@resimac.com.au

www.resimac.com.au**Anny Chen**

Group Treasury

+61 2 9248 0373

anny.chen@resimac.com.au

SEQUENTIAL



Sequential is an Australian software company on a mission to take treasury and securitisation teams to the next level with great technology. The team behind Sequential previously built bankstatements.com.au (acquired by illion), which is used by hundreds of Australasian banks and lenders in credit decisioning.

The Sequential trust management platform gives control back to treasury teams, with an intuitive and intelligent user interface that takes away the need for writing code or SQL queries. Clients use the software to streamline trust operations, reporting and analysis while monitoring real-time impacts on portfolio performance.

Sequential is architected for the scale and complexity of modern treasury teams. By replacing Excel spreadsheets and legacy technology providers, Sequential enables banks and lenders to grow confidently without adding head count. Sequential provides services to RMBS, ABS, SME and buy-now, pay-later issuers, with trust optimisation and treasury forecasting coming in early 2024.

◆ CONTACT DETAILS

Luke Howes

Co-CEO

+61 405 321 365

luke@sequential.au

www.sequential.au

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Luke Howes

Co-CEO

luke@sequential.au

+61 405 321 365

sequential

www.sequential.au



SOCIETE GENERALE



Societe Generale is a top-tier European bank with 117,000 employees serving 25 million clients in more than 60 countries. It has been present and active in Australia since 1981. Operating from its Sydney branch, it serves clients by providing financing and advisory solutions as well as global markets solutions.

Societe Generale's asset-backed products division brings together primary markets, sectoral expertise, securitisation and structuring capabilities, secondary trading, distribution channels and debt securities financing, enabling the firm to leverage its credit capabilities and to be a single entry point for ABS-type products and illiquid loans in support of its clients.

◆ CONTACT DETAILS

Arkady Lippa

Managing Director and Co-Head of
Asset-Backed Products Asia Pacific
arkady.lippa@sgcib.com

Jonathan Mintz

Director, Asset-Backed Products Australia
jonathan.mintz@sgcib.com

www.wholesale.banking.societegenerale.com/en

Claire Bongard

Associate, Asset-Backed
Products Australia
claire.bongard@sgcib.com

S&P GLOBAL RATINGS

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At S&P Global Ratings, analyst-driven credit ratings, research and sustainable finance opinions provide critical insights that are essential to translating complexity into clarity so market participants can uncover opportunities and make decisions with conviction. By bringing transparency to the market through high-quality independent opinions on creditworthiness, it enables growth across a wide variety of organisations, including businesses, governments and institutions.

S&P Global Ratings is a division of S&P Global, the world's foremost provider of credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of its offerings, S&P Global helps many of the world's leading organisations navigate the economic landscape so they can plan for tomorrow, today.

◆ CONTACT DETAILS

Paul Potter

Director, Market Outreach – Pacific
+61 418 597 689
paul.potter@spglobal.com

www.spglobal.com/ratings

SUNCORP BANK



Suncorp Bank is a financial services provider of home and business loans, everyday deposit and savings accounts, credit cards and merchant facilities. Operating since 1902 and part of Suncorp Group, Suncorp Bank is focused on creating a brighter future for its people, customers, communities and the planet.

◆ CONTACT DETAILS

Simon Lewis

Treasurer
+61 7 3362 4037
simon.lewis@suncorp.com.au

Maddalena Gowing

Manager, Securitisation
and Covered Bonds
+61 7 3362 4038
maddalena.gowing@suncorp.com.au

www.suncorp.com.au

Adam Parry

Executive Manager, Funding
+61 7 3362 4031
adam.parry@suncorp.com.au

Christian Graham

Manager Debt Programmes
+61 7 3362 4102
christian.graham@suncorp.com.au

WESTPAC INSTITUTIONAL BANK



Westpac institutional Bank delivers a broad range of financial products and services to corporate, institutional and government customers operating in, or with connections to, Australia and New Zealand.

Westpac operates through dedicated industry relationship and specialist product teams, with expert knowledge in financing, transactional banking, and financial and debt capital markets. Customers are supported throughout Australia and via branches and subsidiaries located in New Zealand, the US, UK and Asia. Westpac works with all the group's divisions in the provision of markets-related financial needs, including foreign exchange and fixed-interest solutions.

◆ CONTACT DETAILS

James Kanaris

Executive Director and Head of Structured Finance
jkanaris@westpac.com.au

www.westpac.com.au/corporate-banking

ALEXANDER FUNDS MANAGEMENT



FUNDS UNDER MANAGEMENT (30 SEP 23)	A\$720 MILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	2

About Alexander Funds

Alexander Funds is an Australian fund manager that specialises in the fixed-income credit market. The business was established in 2009 and has produced consistent outperformance since inception.

The Alexander Funds investment team has decades of experience in the domestic and offshore credit markets, including trading and structuring all forms of credit products from vanilla corporate bonds to more complex credit vehicles and credit derivatives. The firm has managed credit portfolios through numerous business and economic cycles, including volatile market environments.

ALEXANDER CREDIT OPPORTUNITIES FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL, WHOLESALE
FUND BENCHMARK	AUSBOND BANK BILL INDEX +2%
KEY PORTFOLIO MANAGERS	CHRIS BLACK, ADAM SCULLY

The Alexander Credit Opportunities Fund targets an absolute return by identifying opportunities within the Australian and global credit markets that offer attractive risk-adjusted returns. The fund is able to invest across a broad range of credit products that include senior and subordinated bank debt, corporate debt, bank loans, private debt, RMBS, ABS, warehouse structures and credit derivatives. It aims to hedge systemic risk so downside returns are minimised in periods of volatility. The Alexander Credit Opportunities Fund's breadth within credit and its hedging programme are key to it providing sustainable returns through different market environments.

ALEXANDER CREDIT INCOME FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL, WHOLESALE
FUND BENCHMARK	AUSBOND BANK BILL INDEX +1%
KEY PORTFOLIO MANAGERS	CHRIS BLACK, ADAM SCULLY

The Alexander Credit Income Fund targets an absolute return by investing in a diversified portfolio of primarily investment-grade Australasian credit assets. The fund is able to invest across a broad range of credit products that include senior and subordinated bank debt, corporate debt, bank loans, private debt, RMBS, ABS, warehouse structures and credit derivatives. It aims to hedge systemic risk so downside returns are minimised in periods of volatility. The Alexander Credit Income Fund is able to give consistent returns in different market conditions due to its diversification within credit and its hedging programme.

◆ CONTACT DETAILS

Chris Black
Co-founder and Senior Portfolio Manager
chris.black@alexanderfunds.com.au
www.alexanderfunds.com.au

AQUASIA



FUNDS UNDER MANAGEMENT (31 AUG 23)	A\$942 MILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS/ PRIVATE DEBT	3

About Aquasia

Aquasia is an independent investment management and corporate advisory firm specialising in alternative investment strategies. Founded in 2009, the firm manages in excess of A\$900 million across a range of credit, private debt and private equity solutions.

Owned by employees, Aquasia combines more than a decade of market-leading investment performance with a committed alignment to the interests of clients.

AQUASIA ENHANCED CREDIT FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	WHOLESALE
TARGET RETURN	BLOOMBERG AUSBOND BANK BILL INDEX +3%
KEY PORTFOLIO MANAGER	JAMES MCNABB

The Aquasia Enhanced Credit Fund aims to preserve capital and achieve returns over the medium term in excess of the Bloomberg AusBond Bank Bill Index +3% per annum. To achieve this, the fund invests in a range of fixed-income, credit, cash and cash equivalent assets.

AQUASIA PRIVATE INVESTMENT FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	WHOLESALE
TARGET RETURN	10%
KEY PORTFOLIO MANAGER	NICK THOMSON

The Aquasia Private Investment Fund aims to preserve capital and achieve returns over the medium term in excess of 10% per annum. To achieve this, the fund invests in a range of credit assets including private market debt lending, real estate lending, opportunistic credit and convertible notes.

AQUASIA SHORT TERM INCOME FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	WHOLESALE
TARGET RETURN	RBA CASH RATE TARGET +1.5%
KEY PORTFOLIO MANAGER	PATRICK HSIAO

The Aquasia Short Term Income Fund aims to preserve capital and achieve returns over the short-to-medium term in excess of the target return. To achieve this, the fund invests in investment-grade credit and fixed-income assets including RMBS and other ABS, corporate and government securities, and cash.

◆ CONTACT DETAILS

Stuart Richardson
Distribution
stuart.richardson@aquasia.com.au
www.aquasia.com.au



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Chris Dalton
cdalton@securitisation.com.au
+61 403 584 600

AURA GROUP

AURAGROUP

FUNDS UNDER MANAGEMENT (30 SEP 23)	A\$1.6 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	3

About Aura Group

Aura Group is a financial services business providing tailored wealth, funds management and corporate advisory solutions to clients. Founded in Australia in 2009, its head office is in Singapore and it has a significant footprint across the Asia-Pacific region.

Aura takes a client-centric approach and is proud to be awarded the best wealth and fund management company, and client service excellence award for two consecutive years at the 2019 and 2020 International Finance Awards.

AURA HIGH YIELD SME FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	WHOLESALE
FUND BENCHMARK	RBA CASH RATE +5%
KEY PORTFOLIO MANAGER	BRETT CRAIG

The Aura High Yield SME Fund is an open-ended unlisted fund that invests in warehouses to Australian SME lenders. The fund can participate throughout the capital stack within a warehouse structure. The Aura High Yield SME Fund was the 2022 winner of the best fixed income, high yield and distressed fund at the With Intelligence HFM Asian Performance Awards.

AURA CORE INCOME FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	RBA CASH RATE +3%
KEY PORTFOLIO MANAGER	BRETT CRAIG

The Aura Core Income Fund is an open-ended unlisted fund that invests in online nonbank lenders across consumer and business lending. The fund offers monthly income, targeting assets yielding a margin of more than 350bp per annum (net of management fees) with a low level of expected capital loss. The fund invests in warehouse facilities to Australian lenders.

◆ CONTACT DETAILS

Brett Craig
Portfolio Manager
brett.craig@aura.co
www.aura.co

Calvin Ng
Managing Director
calvin.ng@aura.co

CHALLENGER INVESTMENT MANAGEMENT



FUNDS UNDER MANAGEMENT (30 JUN 23)	A\$16.4 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	6

About Challenger Investment Management

Challenger Investment Management (Challenger IM) is an alternative investment manager covering a global opportunity set in fixed-income. The 29-person Challenger IM fixed income team manages more than A\$16 billion across public and private credit strategies in Australia and offshore, with a particular focus on less liquid market segments.

Since inception in 2005, Challenger IM has been an active investor, across the capital structure, in private and public securitisation markets in Australia, New Zealand, Europe and the US.

CHALLENGER IM CREDIT INCOME FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX +3%
KEY PORTFOLIO MANAGERS	DAVID BOTHOF, PETE ROBINSON

The Challenger IM Credit Income Fund aims to provide capital stability and regular income accompanied by lower volatility than traditional fixed-income strategies. The fund invests across public and private lending markets, consisting of global and domestic ABS, RMBS, corporate and real-estate lending. The fund maintains an investment-grade credit-risk profile.

CHALLENGER IM MULTI-SECTOR PRIVATE LENDING FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	WHOLESALE
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX +5%
KEY PORTFOLIO MANAGER	PETE ROBINSON

The Challenger IM Multi-Sector Private Lending Fund aims to generate a consistent, high level of income by harvesting the illiquidity premium that exists between the public and private lending markets. By keeping spread duration low and focusing on floating-rate loans, the fund aims to have a low correlation to interest rates and broader equity markets. The fund invests across Australian and New Zealand securitised, corporate and real-estate lending.

CHALLENGER IM PRIVATE LENDING OPPORTUNITIES FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	WHOLESALE
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX +8%
KEY PORTFOLIO MANAGER	PETE ROBINSON

The Challenger IM Private Lending Opportunities Fund is a floating-rate multisector credit strategy focused on private lending opportunities primarily in Australia and New Zealand. It is suitable for those happy to invest for at least five years and who do not need daily liquidity.

CHALLENGER IM GLOBAL ASSET BACKED SECURITIES FUND

CURRENCY	EUR
LISTING	UNLISTED
ELIGIBLE INVESTORS	WHOLESALE
FUND BENCHMARK	EURO SHORT-TERM RATE
KEY PORTFOLIO MANAGERS	CHRIS WHITCOMBE, JUSTIN VOLLER

The Challenger IM Global Asset Backed Securities Fund is a floating-rate ABS strategy focused on investments in predominantly floating-rate ABS across developed markets. The fund seeks to produce a return for shareholders, generated from income and capital appreciation.

◆ CONTACT DETAILS

Travis Hughes
Executive Assistant
thughes@challenger.com.au
www.challenger.com.au/investments

FIRST SENTIER INVESTORS



FUNDS UNDER MANAGEMENT (30 JUN 23)	A\$222.8 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	4 PUBLIC

About First Sentier Investors

First Sentier Investors (formerly Colonial First State Global Asset Management) is a global asset management group focused on providing high-quality long-term investment capabilities to clients. The firm brings together independent teams of active, specialist investors who share a common commitment to responsible investment principles.

Together, First Sentier Investors offers a comprehensive suite of active investment capabilities across global and regional equities, cash and fixed income, infrastructure and multiasset solutions, all with a shared purpose to deliver sustainable investment success. The firm has been managing money with this long-term outlook for more than 30 years.

FIRST SENTIER MORTGAGE BACKED SECURITIES FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	WHOLESALE, INSTITUTIONAL
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX (EXCESS RETURN TARGET OF +50-100 BPS)
KEY PORTFOLIO MANAGERS	TONY TOGHER, NICK DEPPELER, MARTIN ROSS, NATASHA FEDER, LIAM O'CONNOR

Aim is to provide a regular income stream from investments in high-quality RMBS. The fund aims to outperform the returns of the Bloomberg AusBond Bank Bill Index before fees and taxes over rolling three-year periods.

FIRST SENTIER PREMIUM CASH ENHANCED FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	WHOLESALE
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX (EXCESS RETURN TARGET OF +30-50 BPS)
KEY PORTFOLIO MANAGERS	TONY TOGHER, NICK DEPPELER, MARTIN ROSS, NATASHA FEDER, LIAM O'CONNOR

Aim is to outperform (before fees and taxes and assuming income is reinvested) the returns of Australian money markets over rolling three-year periods as measured by the Bloomberg AusBond Bank Bill Index.

FIRST SENTIER CASH FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL, WHOLESALE, INSTITUTIONAL
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX (EXCESS RETURN TARGET OF +30-50 BPS)
KEY PORTFOLIO MANAGERS	TONY TOGHER, NICK DEPPELER, MARTIN ROSS, NATASHA FEDER, LIAM O'CONNOR

Aim is to provide a regular income stream from investments in money-market securities with a low risk of capital loss. The fund aims to outperform the returns of Australian money markets over rolling three-year periods as measured by the Bloomberg AusBond Bank Bill Index before fees and taxes.

FIRST SENTIER WHOLESALE STRATEGIC CASH FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL, WHOLESALE, INSTITUTIONAL
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX (EXCESS RETURN TARGET OF +30-50 BPS)
KEY PORTFOLIO MANAGERS	TONY TOGHER, NICK DEPPELER, MARTIN ROSS, NATASHA FEDER, LIAM O'CONNOR

Aim is to provide a regular income stream from investments in money-market securities with a low risk of capital loss. The fund aims to outperform the returns of Australian money markets over rolling three-year periods as measured by the Bloomberg AusBond Bank Bill Index before fees and taxes.

◆ CONTACT DETAILS

Tony Togher

Head of Fixed Income, Short-Term Investments and Global Credit
tony.togher@firstsentier.com

Natasha Feder

Portfolio Manager and Structured Credit Analyst
natasha.feder@firstsentier.com

Liam O'Connor

Portfolio Manager
liam.oconnor@firstsentier.com

www.firstsentierinvestors.com

GRYPHON CAPITAL INVESTMENTS



FUNDS UNDER MANAGEMENT (30 SEP 23)	A\$2.8 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	5

About Gryphon Capital Investments

Gryphon Capital Investments is a specialist fixed-income manager focused on investments in the structured finance and less-liquid credit markets in Australia. Gryphon has a highly seasoned and experienced team, with the portfolio managers averaging more than 30 years of relevant experience trading, originating and investing in global structured finance credit markets.

Gryphon manages individual segregated accounts on behalf of institutional investors, principally insurance accounts and via an ASX-listed trust, the Gryphon Capital Income Trust (ASX: GCI), on behalf of wholesale and retail investors seeking opportunities in fixed-income credit markets, including RMBS and ABS.

Barings, one of the world's leading investment managers, acquired 100% of Gryphon's parent entity, Gryphon Capital Partners, on 31 March 2023, enabling Gryphon to scale its investment strategy through Barings' global platform. Barings is a subsidiary of Massachusetts Mutual Life Insurance Company, a global investment manager that was managing more than US\$351 billion at 30 June 2023.

GRYPHON CAPITAL INCOME TRUST (ASX: GCI)

CURRENCY	AUD
LISTING	ASX LISTED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	RBA CASH RATE +3.5%
KEY PORTFOLIO MANAGERS	STEVEN FLEMING, ASHLEY BURTENSHAW

Gryphon Capital Income Trust's investment objective is to produce regular and sustainable monthly income while keeping capital preservation as a primary concern. Accessing an asset class previously unavailable to retail investors, GCI targets the highest risk-adjusted returns sufficient to deliver on its target income distributions of the RBA cash rate +3.5%. GCI invests in structured credit markets, primarily RMBS – a defensive and loss-remote asset class.

HIGH GRADE SECURITISED

CURRENCY	AUD
LISTING	SEGREGATED ACCOUNT
ELIGIBLE INVESTORS	INSTITUTIONAL
FUND BENCHMARK	BANK BILLS +2%
KEY PORTFOLIO MANAGERS	STEVEN FLEMING, ASHLEY BURTENSHAW

The High Grade Securitised strategy generates strong risk-adjusted returns by investing in a high-conviction portfolio of highly rated Australian RMBS and ABS with a strong focus on capital preservation.

INVESTMENT GRADE STRATEGY

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	RBA CASH RATE +1.5-2.25%
KEY PORTFOLIO MANAGERS	STEVEN FLEMING, ASHLEY BURTENSHAW

The fund's investment objective is to provide investors with strong absolute returns with a low risk of capital loss by investing in a high-conviction portfolio of highly rated Australian residential mortgage-backed securities and asset-backed securities. The fund will target the highest risk-adjusted returns sufficient to deliver on its target income distributions of the RBA cash rate +1.5-2.25%.

◆ CONTACT DETAILS

Steven Fleming
 Managing Director
 steven.fleming@gcapinvest.com
www.gcapinvest.com

HARBOUR ASSET MANAGEMENT



FUNDS UNDER MANAGEMENT (30 SEP 23)	A\$7.8 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	4

About Harbour Asset Management

Founded in Wellington in 2009, Harbour Asset Management is one of New Zealand's largest independent asset managers. Its clients include KiwiSaver funds, charitable trusts, iwi, government institutions, corporate superannuation funds, financial advisers and direct retail investors. There are five members in the fixed-interest team.

CORE FIXED INTEREST FUND

CURRENCY	NZD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL, WHOLESALE AND SEGREGATED MANDATES
FUND BENCHMARK	BLOOMBERG COMPOSITE BOND INDEX +1%
KEY PORTFOLIO MANAGER	MARK BROWN

Harbour manages a number of benchmark-aware strategies that provide investors with diversified exposure to fixed interest. The flagship Core Fixed Interest Fund aims to beat the Bloomberg Composite Bond Index by 1%. The fund is mindful of liquidity and invests around 5% in securitisation, with a bias toward higher-rated tranches.

HARBOUR INCOME FUND

CURRENCY	NZD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	CASH +3.5%
KEY PORTFOLIO MANAGER	MARK BROWN

The Harbour Income Fund invests predominantly in New Zealand investment-grade fixed-interest securities, and Australasian equities that pay a sustainable dividend yield, in order to pay investors a favourable level of income while targeting a moderate level of overall portfolio risk. The fund holds significant highly liquid assets to offset the scope it has to participate in less liquid securitisation deals, including at lower tranches. It also has the remit to invest in a modest amount of private credit.

◆ CONTACT DETAILS

Simon Pannett
Director and Senior Credit Analyst
simon@harbourasset.co.nz
www.harbourasset.co.nz

KAPSTREAM CAPITAL



FUNDS UNDER MANAGEMENT (30 JUN 23)	A\$11 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	2

About Kapstream Capital

Kapstream Capital is the leading choice for institutional and individual investors seeking an alternative approach to fixed income, combining capital preservation techniques with unconstrained portfolio management skills in pursuit of stable, absolute returns.

Kapstream was founded on a simple belief: that by removing the constraints inherent in conventional benchmark-relative fixed-income portfolio strategies, and by setting absolute return targets and absolute risk limits, portfolios could be constructed using predominantly investment-grade assets that more closely meet the true requirements of investors in preserving capital and delivering consistent and positive absolute returns.

KAPSTREAM ABSOLUTE RETURN INCOME FUND

CURRENCY	AUD
LISTING	UNLISTED BUT HAS AN ETF ATTACHED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	RBA CASH RATE +2-3%
KEY PORTFOLIO MANAGERS	DANIEL SILUK, DYLAN BOURKE

With a target of 2-3% above cash, the fund is designed to preserve capital and to provide a steady income stream with minimal volatility.

KAPSTREAM ABSOLUTE RETURN INCOME PLUS FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	RBA CASH RATE +3-4%
KEY PORTFOLIO MANAGERS	DYLAN BOURKE, DANIEL SILUK

Targeting returns of 3-4% above cash, the fund is designed to provide superior income with low volatility and capital stability across economic cycles.

SEGREGATED PORTFOLIOS

CURRENCY	AUD/USD/SGD
LISTING	UNLISTED
ELIGIBLE INVESTORS	WHOLESALE
FUND BENCHMARK	RBA CASH RATE +1.5-4%
KEY PORTFOLIO MANAGERS	DANIEL SILUK, DYLAN BOURKE

Kapstream manages segregated portfolios for institutional and wholesale investors under its flagship absolute return strategy, as well as portfolios tailored to meet individual risk-return requirements or to provide bespoke exposure to specific fixed-income sectors.

◆ CONTACT DETAILS

Dylan Bourke
Managing Director and Portfolio Manager
dylan.bourke@kapstream.com
www.kapstream.com

MACQUARIE ASSET MANAGEMENT



FUNDS UNDER MANAGEMENT (31 MAR 23)	A\$870 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	4

About Macquarie Asset Management

Macquarie Asset Management is the funds management arm of Macquarie Group. It provides specialist investment solutions to clients across a range of capabilities including infrastructure and renewables, real estate, agriculture, transportation finance, private credit, equities, fixed income and multiasset solutions.

Macquarie Fixed Income operates within Macquarie Asset Management and offers fixed-income and currency solutions to institutional and wholesale clients globally. The Macquarie fixed income team is located across four investment hubs in Philadelphia, New York, Sydney and London, with more than 130 investment professionals (as at 30 June 2023) covering the spectrum of global fixed-income markets.

MACQUARIE INCOME OPPORTUNITIES FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX
KEY PORTFOLIO MANAGERS	BRETT LEWTHWAITE, DAVID HANNA, ANDREW VONTHETHOFF

The fund aims to outperform the Bloomberg AusBond Bank Bill Index over the medium term (before fees). It aims to provide higher income returns than traditional cash investments at all stages of interest rate and economic cycles.

MACQUARIE DYNAMIC BOND FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	BLOOMBERG BARCLAYS GLOBAL AGGREGATE INDEX (HEDGED TO AUD)
KEY PORTFOLIO MANAGERS	MATTHEW MULCAHY, ANDREW VONTHETHOFF, SHAUGHN WILKIE

The fund aims to generate attractive returns by dynamically investing in global fixed-income instruments. It aims to provide diversification against equity risk as well as capital growth and some income.

MACQUARIE REAL RETURN OPPORTUNITIES FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	AUSTRALIAN INFLATION +3-5%
KEY PORTFOLIO MANAGERS	GARY DING, DEAN STEWART, DAVID HANNA

The fund aims to provide positive returns of 3-5% per annum above Australian inflation over the medium term (before fees). It also seeks to provide regular income.

MACQUARIE AUSTRALIAN FIXED INTEREST FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	BLOOMBERG AUSBOND COMPOSITE 0+ YEAR INDEX
KEY PORTFOLIO MANAGERS	DAVID ASHTON, MATTHEW MULCAHY

The fund aims to outperform the Bloomberg AusBond Composite 0+ Year Index over the medium term (before fees) by using an active investment strategy. It aims to provide regular income and a moderate level of growth.

◆ CONTACT DETAILS

Adam Daman
Credit Analyst
adam.daman@macquarie.com
www.macquarieim.com

MANNING ASSET MANAGEMENT

MANNING ASSET MANAGEMENT

FUNDS UNDER MANAGEMENT (30 SEP 23)	ND
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	3

About Manning Asset Management

Manning Asset Management is a specialist fixed-income manager established in 2015 and based in Sydney. Its clients include a range of high net worth, family office and institutional investors.

Manning Asset Management is not a lender itself. Rather, it operates three funds that provide wholesale funding to nonbank lenders, secured against their loan books. Manning Asset Management works with a range of consumer, business and mortgage lenders as counterparties and has expertise across private Australian credit markets.

MANNING MONTHLY INCOME FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	WHOLESALE
FUND BENCHMARK	RBA CASH RATE +5%
KEY PORTFOLIO MANAGERS	JOSH MANNING, ADRIAN BENTLEY

The fund seeks to generate absolute returns of RBA cash rate plus 5% over rolling five-year periods (net of fees, excluding tax), with returns primarily delivered as income. The strategy is implemented by constructing a high-quality diversified portfolio of Australian fixed-income assets originated by proven counterparties. The fund is actively managed to enhance risk-return characteristics through time.

◆ CONTACT DETAILS

Juliet Shirbin

Head of Investment Solutions and Investor Relations
juliet.shirbin@manningam.com

Zach Johnson

Investment Specialist
zach.johnson@manningam.com

www.manningam.com

MUTUAL LIMITED



Mutual Limited

FUNDS UNDER MANAGEMENT (30 SEP 23)	A\$2.7 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	2

About Mutual Limited

Mutual Limited is a specialised fixed-interest fund manager established in 2010. The business specialises in managing funds for investors that are either conservative, prudentially supervised or which operate subject to regulated investment regimes.

Mutual Limited acts as responsible entity and investment manager for registered managed investment schemes the firm has established, specialising in cash, enhanced cash, credit and enhanced credit.

MUTUAL CREDIT FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX +2.2%
KEY PORTFOLIO MANAGERS	SIMON CLARK, SCOTT RUNDRELL

Mutual's objective for the Mutual Credit Fund is to source and actively manage a portfolio of fixed-income credit assets across APRA-regulated issuers, corporates and structured assets. Targeted portfolio construction is to hold assets with a relatively shorter credit duration to ameliorate periods when risk assets sell off. The fund has only minimal interest-rate risk, with investments all in floating-rate notes – where coupon is reset to the relevant reference rate (BBSW) every 30 or 90 days.

MUTUAL HIGH YIELD FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX +4.5%
KEY PORTFOLIO MANAGERS	SIMON CLARK, SCOTT RUNDRELL

Mutual's objective for the Mutual High Yield Fund is to source and actively manage a portfolio of fixed-income credit assets, with a core focus on structured credit assets such as RMBS and ABS. Targeted portfolio construction is to hold assets with shorter credit duration to remove the volatility associated with fixed rates. The fund has only minimal interest-rate risk, with investments all in floating-rate notes where coupons are reset to the relevant reference rate (BBSW) every 30 days.

◆ CONTACT DETAILS

Scott Rundell

Chief Investment Officer
scott.rundell@mutualld.com.au

www.mutualld.com.au

NARROW ROAD CAPITAL



FUNDS UNDER MANAGEMENT (30 JUN 23)	AS\$413 MILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	4

About Narrow Road Capital

Narrow Road Capital is a boutique Australian fund manager specialising in high-yield Australian credit, with a particular focus on securitisation and property-backed lending. Clients include institutional investors, not-for-profits and family offices, with all clients having discrete mandates.

Narrow Road invests in securities from a wide range of originators, from emerging to well-established, predominantly in the nonconforming, nonresident and asset-backed sectors. Investments can include public and private transactions, rated and unrated, with bespoke and esoteric opportunities welcome.

As Narrow Road only has private mandates, there are no fund profiles.



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Jeremy Masters

◆ jmasters@kanganews.com
◆ +61 2 8256 5577

◆ CONTACT DETAILS

Jonathan Rochford
Portfolio Manager
jonathan.rochford@narrowroadcapital.com
www.narrowroadcapital.com





FUNDS UNDER MANAGEMENT (30 JUNE 2023)	A\$212.2 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	15

About Perpetual Limited

Perpetual is an ASX listed (ASX:PPT) global financial services firm operating a multi-boutique asset management business, as well as wealth management and trustee services businesses. Perpetual Group owns leading asset management brands including Perpetual, Pental, Barrow Hanley, J O Hambro, Regnan, Trillium and TSW.

Perpetual Asset Management is a global multi-boutique asset management business offering an extensive range of specialist investment capabilities through seven brands in key regions globally. Within Australia, Perpetual and Pental have a broad range of capabilities across Australian and global equities, credit, fixed income, multiasset and ESG. The firm has a growing presence in the US, UK and Europe through Barrow Hanley, Trillium, JO Hambro, Regnan and TSW.

Perpetual's credit and fixed-income strategies aim to be well diversified, income-focused and liquid. Perpetual takes an active approach to investing across industries, maturities and the capital structure. The senior members of the credit and fixed-income team at Perpetual have more than 100 years' combined experience in investment management and have worked together as a team for more than a decade.

PERPETUAL HIGH GRADE FLOATING RATE FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL, WHOLESALE AND INSTITUTIONAL
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX
KEY PORTFOLIO MANAGER	THOMAS CHOI

The fund aims to provide investors with regular income by investing in deposits, money market and fixed-income securities and to outperform the stated benchmark on an ongoing basis (before fees and taxes).

PERPETUAL DIVERSIFIED INCOME FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL, WHOLESALE AND INSTITUTIONAL
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX
KEY PORTFOLIO MANAGER	VIVEK PRABHU

The fund aims to provide investors with regular income and consistent returns above the stated benchmark (before fees and taxes) over rolling three-year periods by investing in a diverse range of income-generating assets.

PERPETUAL EXACT MARKET RETURN FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL, WHOLESALE AND INSTITUTIONAL
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX
KEY PORTFOLIO MANAGER	GREG STOCK

The fund aims to provide investors with a return that matches the pre-tax benchmark performance of the Bloomberg AusBond Bank Bill Index (referred to as exact benchmarking) on an ongoing basis.

PERPETUAL ESG CREDIT INCOME FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL, WHOLESALE AND INSTITUTIONAL
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX
KEY PORTFOLIO MANAGER	VIVEK PRABHU

The fund aims to provide regular income and consistent returns above the Bloomberg AusBond Bank Bill Index (before fees and taxes) over rolling three-year periods by investing in a diverse range of income assets that meet Perpetual's ESG and values-based criteria.

PERPETUAL PURE CREDIT ALPHA FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL, WHOLESALE AND INSTITUTIONAL
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX
KEY PORTFOLIO MANAGER	MICHAEL KORBER

The fund aims to provide investors with a positive return above the cash rate over rolling three-year periods (before fees and taxes) by primarily investing in and actively trading fixed-income securities and related derivatives.

PERPETUAL CREDIT INCOME TRUST

CURRENCY	AUD
LISTING	LISTED
ELIGIBLE INVESTORS	RETAIL, WHOLESALE AND INSTITUTIONAL
FUND BENCHMARK	ND
KEY PORTFOLIO MANAGER	MICHAEL KORBER

The Perpetual Credit Income Trust (ASX: PCI) aims to provide investors with monthly income by investing in a diversified pool of credit and fixed-income assets.

◆ CONTACT DETAILS

Thomas Choi
Senior Portfolio Manager, Credit and Fixed Income
thomas.choi@perpetual.com.au
www.perpetual.com.au

REALM INVESTMENT HOUSE



FUNDS UNDER MANAGEMENT (30 SEP 23)	A\$4.1 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	5

About Realm Investment House

Realm is an absolute return-focused investment group, with deep experience in investing in Australian credit and fixed-income markets. Its highly experienced team combines a risk-first approach to investing in seeking to deliver strong risk-adjusted returns. Strategy design and management is always focused on delivering client outcomes.

REALM HIGH INCOME FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	RBA CASH RATE +3% OVER A 3-5-YEAR HORIZON
KEY PORTFOLIO MANAGERS	ROBERT CAMILLERI, ANDREW PAPAGEORGIU

The Realm High Income Fund targets an after-fees total return of RBA cash rate +3% through the market cycle. The fund earns its return through its asset allocation and relative-value focus, aiming to maximise the Sharpe Ratio of the portfolio while seeking to preserve capital. It can invest up to 60% in RMBS and ABS with a cap on private RMBS and ABS of 20%.

SHORT-TERM INCOME FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	RBA CASH RATE +1.5% OVER A 1-3-YEAR HORIZON
KEY PORTFOLIO MANAGERS	MYRON ITHAYARAJ, THEO CALLIGERIS

The Short-Term Income Fund targets an after-fees total return of RBA cash rate +1.5% over a rolling three-year period. It targets investment-grade and highly liquid securities that exhibit a low level of volatility, while seeking to preserve capital and maximise the Sharpe Ratio. The fund provides access to a diversified, actively managed fixed-income portfolio that invests in cash and domestic-issued fixed-interest securities. It has a 0-30% allocation limit to RMBS and ABS.

STRATEGIC INCOME FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	RBA CASH RATE +4.75%
KEY PORTFOLIO MANAGERS	ROBERT CAMILLERI, THEO CALLIGERIS

The fund provides high-conviction investment opportunities in the Australasian credit markets for noninstitutional investors. These investment opportunities exist due to certain market conditions that are driven by either regulatory change or market dislocation. Its focus is on the private debt market with a 0-100% allocation to RMBS and ABS.

◆ CONTACT DETAILS

Robert Camilleri
 Founder, Head of Structured Credit
 rob.c@realminvestments.com.au
www.realminvestments.com.au

REVOLUTION ASSET MANAGEMENT



FUNDS UNDER MANAGEMENT (30 SEP 23)	A\$2.6 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	4

About Revolution Asset Management

Revolution Asset Management provides institutional, wholesale and professional investors access to the Australian and New Zealand private debt market. Investment activities are focused on the most compelling relative value opportunities across real-estate debt, ABS, private company debt and leveraged buyout debt.

REVOLUTION PRIVATE DEBT FUND I

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	INSTITUTIONAL AND WHOLESALE
FUND BENCHMARK	RBA CASH RATE +4-5%
KEY PORTFOLIO MANAGERS	BOB SAHOTA, SIMON PETRIS, DAVID SAIJA

Actively managed exposure to the Australian and NZ corporate loan market and ABS designed to deliver superior risk-adjusted returns with downside protection.

REVOLUTION PRIVATE DEBT FUND II

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	INSTITUTIONAL AND WHOLESALE
FUND BENCHMARK	RBA CASH RATE +4-5% (NET OF FEES)
KEY PORTFOLIO MANAGERS	BOB SAHOTA, SIMON PETRIS, DAVID SAIJA

Actively managed exposure to the Australian and NZ corporate loan market and ABS designed to deliver superior risk-adjusted returns with downside protection.

AMP SEPARATELY MANAGED ACCOUNT

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	INSTITUTIONAL
FUND BENCHMARK	RBA CASH RATE +4-5%
KEY PORTFOLIO MANAGERS	BOB SAHOTA, SIMON PETRIS, DAVID SAIJA

Actively managed exposure to the Australian and NZ corporate loan market and ABS designed to deliver superior risk-adjusted returns with downside protection.

UNISUPER SEPARATELY MANAGED ACCOUNT

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	INSTITUTIONAL
FUND BENCHMARK	RBA CASH RATE +4-5%
KEY PORTFOLIO MANAGERS	BOB SAHOTA, SIMON PETRIS, DAVID SAIJA

Actively managed exposure to the Australian and NZ corporate loan market and ABS designed to deliver superior risk-adjusted returns with downside protection.

◆ CONTACT DETAILS

Simon Petris
 Co-founder and Executive Director
 simon.petris@revolutionam.com.au
www.revolutionam.com.au

SANDHURST TRUSTEES



FUNDS UNDER MANAGEMENT (30 SEP 23)	A\$6 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	4

About Sandhurst Trustees

Sandhurst Trustees is a wholly owned subsidiary of Bendigo and Adelaide Bank. Over the past 130 years, it has evolved from a traditional trustee provider to a modern full-service wealth manager.

Its goal is to better the financial future of its customers through quality financial products and services. These include 23 funds incorporating multimanager funds and income funds for wholesale and retail investors, superannuation, commercial loans, and corporate trustee and custodial services.

SANDHURST SELECT 90 FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX
KEY PORTFOLIO MANAGER	ROGER COATS

The Sandhurst Select 90 Fund aims to provide investors with regular income and capital stability. The fund invests in a diversified portfolio of income-generating assets with a focus on capital stability and liquidity, achieving this through exposure to high-quality mortgages, mortgage-backed securities and liquid, income-producing assets. The fund's return objective is to exceed the Bloomberg AusBond Bank Bill Index after fees and expenses on a rolling 12-month basis.

SANDHURST INVESTMENT TERM FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX
KEY PORTFOLIO MANAGER	ROGER COATS

The Sandhurst Investment Term Fund was launched in 1988 and aims to provide investors with regular income, capital stability and a choice of fixed investment terms with anticipated returns. The fund invests in a diversified portfolio of income-generating assets focused on capital stability and liquidity. It achieves this through exposure to high-quality mortgages, mortgage-backed securities and liquid income-producing assets. The fund provides a range of fixed investment terms.

SANDHURST STRATEGIC INCOME FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX
KEY PORTFOLIO MANAGER	ROGER COATS

The Sandhurst Strategic Income Fund's investment objective is to outperform the Bloomberg Ausbond Bank Bill Index over any two-year period. The fund aims to achieve this by investing in a portfolio of mainly domestic interest-bearing securities across a range of maturities.

BENDIGO INCOME GENERATION FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX +2%
KEY PORTFOLIO MANAGER	ROGER COATS

The Bendigo Income Generation Fund's investment return objective is to generate returns of 2% above the Bloomberg Ausbond Bank Bill Index. The fund seeks to achieve this by investing in a portfolio of credit securities that at times can include subordinated debt exposures.

◆ CONTACT DETAILS

Roger Coats
Portfolio Manager
roger.coats@bendigoadelaide.com.au
www.sandhursttrustees.com.au

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