ASJ

AUSTRALIAN SECURITISATION JOURNAL

Incorporating Australian and New Zealand Securitisation and Covered Bonds

>> Issue 23 • November 2022

Endurance

Despite a volatile global backdrop, the Australian and New Zealand securitisation markets have once again shown their fortitude and are looking ahead to 2023

Australian Securitisation Forum

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48 MEMBER PROFILES

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During the first half of 2022, the Australian and New Zealand securitisation market continued the momentum built up in 2021.

By the end of October, Australian public issuance had exceeded A$24 billion (US$15.4 billion) with two new issuers – Angle Finance and Taurus Finance Holdings – and one new green issuer – Plenti. It is pleasing to note the continuing trend of new issuers successfully placing inaugural transactions with domestic investors.

Activity in the New Zealand market has also ticked along in 2022: New Zealand dollar issuance includes prime residential mortgage-backed securities and nonmortgage asset-backed securities, and exceeds NZ$1.2 billion (US$705.5 million).

The inflation-driven interest rate environment presented challenging conditions for issuers mid-year. However, the market stabilised in August and September with pricing conditions settling and investors re-engaging with deals that came to market. As year-end approaches, we are optimistic the market will continue to function efficiently regardless of the backdrop in 2023.

REGULATORY AND POLICY MATTERS

The Australian Securitisation Forum (ASF)'s subcommittees and working groups have this year been engaged with Treasury, the Reserve Bank of Australia (RBA) and the Australian Prudential Regulation Authority to discuss positions on regulatory, policy and market matters that affect the efficient operation of the Australian and New Zealand securitisation markets.

These include the development and publication of guidance on environmental, social and governance (ESG) disclosure and BBSW fallback arrangements, submissions on the expansion of consumer data rights to nonbanks, the review of the Australian Business Securitisation Fund, exploring the development of SME lending opportunities, and engagement with European authorities in relation to the impact of the EU securitisation and covered bond directives on third-country issuers (see p42).

Notably, the ASF has worked with industry to develop a guideline framework for ESG disclosure for Australian securitisers. The ASF market guideline on ESG disclosure is to provide originators, issuers, investors and other intermediaries with a reference point for developing ESG practice in securitisation that enhances transparency and comparability in the Australian market. The ESG working group will continue to devote resources in 2023 to developing market consensus on what can be classified and accepted as social securitisations.

After several years of consultation and engagement with industry, the Australian Financial Markets Association, the RBA, the Australian Securities Exchange (ASX) and the Australian Securities and Investments Commission, the ASF has finally settled and published for use its market guidance fallback provisions for BBSW-linked securities. This guidance language will assist issuers to ensure their securities can attain repo eligibility status with the RBA after December 2022. In 2023, the ASF will participate in consultations the ASX, as Australia's benchmark administrator, is conducting on alternative risk-free interest rate benchmarks for the Australian dollar debt market.

ASF EDUCATION AND OUTREACH

The ASF remains committed to its longstanding securitisation education programme. During the first half of 2022, the ASF's professional development programmes continued to be delivered in virtual format, notably the Securitisation Fundamentals and Securitisation Professionals courses. From mid-year, most programmes returned to in-person participation. The ASF plans to deliver 21 courses in 2022.

The ASF relaunched its APS 120 workshops in 2022 and is in the process of developing a new course on securitisation funding operations aimed at newer entrants. Details are available on the ASF's website.

The Women in Securitisation subcommittee's annual Sydney Establishment event was held for the first time since 2019, as were networking events in Melbourne, Brisbane and Auckland. To end the year on a high (and after an absence of two years), the ASF annual conference is back at the Hilton in Sydney on 30 November and 1 December, with record attendance expected.

The ASF also remains committed to promotional activities locally and offshore. In 2022, the ASF was able to hold its annual London investor seminar in June followed by participation at the Global ABS event in Barcelona. This gave Australian issuers who attended an opportunity to showcase to UK and European investors their business and operational strategies together with future funding aspirations.

ASF membership continues to grow, to more than 180 Australian and New Zealand participants. We welcome the following new members that have joined the ASF since our last publication: Wisr Finance, Corrs Chambers Westgarth, Barrenjoey Capital Partners (with Barclays), Conrad Funds Management, Loan Market Group, MCCA, MoneyTech, ORDE Financial, RACV Finance, SC Finance Corporation, Scio Consulting, Specialist Equipment Leasing Finance Company (Selfco), Mutual Limited, Rhizome Advisory Group and Source Funding.

In 2023, the ASF will continue to support the securitisation and covered-bond markets by providing the industry with a forum to discuss and form positions on regulatory, policy and market matters.

Please enjoy this 23rd edition of *ASJ* and I wish all market participants a successful 2023.

WILL FARRANT
CHAIR
AUSTRALIAN SECURITISATION FORUM

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THE END OF LIBOR WILL NOT BE THE END OF IBOR TRANSITION

BY **PIETER BIERKENS** GROUP INTEREST RATE BENCHMARK REFORM LEAD, COMMONWEALTH BANK OF AUSTRALIA

In July 2017, the UK Financial Conduct Authority, regulator of the London interbank offered rate (LIBOR), declared that the world's most widely used interest rate was likely to end. Five years on, the end of LIBOR is now in sight – after 30 June next year, all LIBORs will have ceased to exist as a representative rate.

In response to LIBOR's impending demise, major financial markets set out to identify alternative reference rates to function alongside, and ultimately in lieu of, their respective LIBORs. The adopted alternatives are so-called "risk-free rates" (RFRs).

Although LIBOR will cease within a year, not all interest rate benchmarks that reflect bank funding costs – "IBORs" – have an end date. IBORs that will remain for the foreseeable future include EURIBOR and Australia's bank bill swap rate, or BBSW.

BBSW remains robust and is expected to continue. Therefore, regulators in this market are not advocating a wholesale transition from BBSW to an RFR – which in the case of Australia is AONIA, commonly known as the official cash rate. Australia, not unlike the Eurozone, is taking a multi-rate approach: market participants should choose the reference rate that best suits their particular product and situation.

In contrast to LIBOR, RFRs are not forward-looking rates. They are overnight rates, typically compounded in arrears over the interest rate period. This implies that their operational use is rather different from LIBOR. In contrast, forward-looking, term RFRs – which reflect expectations of overnight rates – are easier to adopt. Term SOFR (secured overnight financing rate), for example, is now widely used in the US loan market.

However, term RFRs are not available in all markets and, where they are, their use is generally restricted to certain asset classes. This is because term RFRs are not as robust as the actual overnight rates upon which they are based. A term AONIA is not presently available and may or may not be published in the future.

This all suggests the emergence of a patchwork of reference rate regimes across the globe: from RFR only, with or without term RFRs, to different kinds of multi-rate environments. This will be challenging enough to manage, but complicating matters is the lack of uniformity in the use of RFRs themselves. Contractual features such as compounding methods, rate floors and interest rate observation periods do not always line up among, or even within, asset classes.

As much of the world adopts RFRs, the Australian market may see a shift toward referencing AONIA across certain products such as cross-currency swaps and multicurrency lending facilities. If such a transition were to occur in the securitisation market, lessons can be learned from the overseas experience in managing the complexities.

LIBOR has shown us that the continued existence of a benchmark should not be taken for granted. We saw another instance of IBOR discontinuance in Canada recently, with the announcement that CDOR will cease after 30 June 2024.

With this in mind, it is prudent to include robust fallbacks, regardless of the reference rate used. Fallbacks are standard clauses that would enable contracts to transition from IBOR to an RFR upon the IBOR's cessation. These clauses typically include an adjustment to limit any unwarranted economic transfer that would result from replacing one reference rate with another.

The Reserve Bank of Australia (RBA) is introducing a new eligibility requirement for "robust, reasonable and fair" fallbacks for securities to be accepted as collateral in the RBA's market operations. This applies to all floating-rate notes and marketed asset-backed securities (ABS) issued on or after 1 December 2022.

All self-securitisations, regardless of date of issue, will also be required to include at least one robust, reasonable and fair fallback to be eligible. The RBA will engage with self-securitisation issuers and give at least 12 months' notice before enforcing this requirement.

The Australian Securitisation Forum collaborated with industry, the Australian Securities Exchange, the Australian Securities and Investments Commission and the RBA to develop market guidance for BBSW fallback provisions, which it published in early November.

As we reflect on the upcoming requirements and survey the global landscape, it becomes clear the changes in, and uses of, interest rate benchmarks will remain on the agenda. The end of LIBOR on 30 June 2023 does not imply the end of IBOR transition. ■


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COPUBLISHED FEATURE

RISING RATES AND THE IMPACT ON THE ABS MARKET

The tide has turned in the securitisation market, although the impact of higher costs for borrowers was, as of September 2022, yet to be fully reflected in pricing of securitisation deals. Next year will see some major changes, according to Westpac Institutional Bank.

Originators and buyers of asset-backed securities (ABS) are facing a very different environment from a year ago. As with all credit markets, spreads for structured finance transactions have widened. In September last year, typical residential mortgage-backed securities (RMBS) spreads were about 55 basis points over BBSW. They have widened as interest rates have risen, with major bank benchmark pricing currently at 125 basis points above BBSW. Nonbank levels are closer to 155 basis points, while nonconforming is around 175 basis points.

Securitisation issuance was about A$33 billion (US$21.2 billion) for the first nine months of 2022, less than last year's record level but strong nonetheless. Nonbank lenders continued to account for the bulk of issuance, accounting for 76 per cent of volume.

The secondary market has also been active throughout 2022, with a steady supply of high-quality paper in the OTC market and a recent spate of bid lists doing the rounds. Investors in the secondary market are paying much closer attention to the composition of pools – in particular between recently originated pools and well-seasoned transactions that have seen underlying properties benefit from pandemic-era property price moves.

A KEEN EYE ON TIMING

Borrowers from before the pandemic typically have more equity in their properties, having benefited from additional levels of principal reduction when interest rates were low while many of these properties have experienced periods of price appreciation. However, loans originated last year may now be backed by properties worth less than the purchase price.

"It makes more of a difference now if a pool is predominantly borrowers who took out loans toward the end of 2021, at the height of the property market, compared with a 2019-originated deal," says Hugh Norton, executive director of credit trading at Westpac in Sydney.

This dynamic is driving interest in the secondary market, as some investors seek well-seasoned asset pools that will have benefited from a build-up in borrower equity as well as increased credit enhancement.

New capital requirements to be introduced by the Australian Prudential Regulation Authority from 1 January could prompt banks to adjust the composition of their issuance, says Martin Jacques, Sydney-based head of securitisation and covered bond strategy at Westpac.

Mortgage pools for capital relief securitisations may evolve to contain a larger proportion of higher-risk-weighted assets such as investor loans or high loan-to-valuation mortgages. Although they provide a greater capital benefit to the lender, these loans also provide a higher level of interest income to the trust.

On their own, falling house prices, rising interest rates and high inflation would be a concern for mortgage performance. But strong employment is a buffer in Australia. Employment and the economic outlook will be key to how RMBS performs in 2023. "The fact the employment market is so strong is viewed as the mitigating factor, but if this were to change this is when sentiment would shift," says Jacques.

PRESSURE ALERT

The prime RMBS market is mostly exposed to PAYG borrowers with stable incomes, but the nonconforming loan market is more exposed to borrowers who are self-employed or owners of small businesses. This could be where stresses emerge if the economy slows.

Even so, investors can have several layers of protection in RMBS. Jacques expects nonbanks to continue to dominate issuance in the coming 12 months because of their heavy reliance on public securitisation funding.

Most fixed-rate mortgages with very low interest rates will roll off by mid-to-late 2023, and "this is when the rubber hits the road", says Norton. If unemployment is rising and house prices have fallen further at that point, spreads could go wider as sentiment wavers.

The credit performance of Australian RMBS and ABS remains sound and Westpac is not experiencing any stresses in its structured finance portfolio as of October 2022, says the bank's Sydney-based head of structured finance, Craig Parker.

"Spread levels are elevated, but this provides attractive opportunities for investors while near full employment has maintained the sound credit performance of Australian securitisation," Parker reveals. "In a market like this, originators want a bank that has end-to-end structured finance capabilities in research, distribution, trading and balance sheet to be able to support them." ■

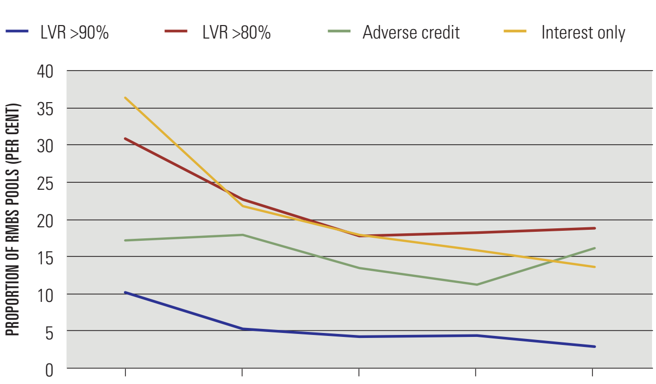
TOMORROW'S DEALS WILL SHOW THE EFFECTS OF TODAY'S RISK PIVOT

Rapid interest rate increases and inflation are weighing on the outlook for asset performance and funding conditions. Moody's Investors Service examines the resilience of the Australian securitisation market and implications for deal structures.

Borrowing during the COVID-19 pandemic pushed global debt to an historic high. While borrowing helped households moderate the economic downturn, by the second quarter of 2022 it had pushed global household debt up to US$57 trillion – US$8 trillion higher than the pre-pandemic level. As interest rates rise, housing markets adjust and geopolitical volatility feeds through to higher energy prices, risks to the sustainability of household balance sheets will increase.

Australia, similarly, went through an episode of high credit growth and a rampant housing market. The outlook for the economy has become uncertain, though it is brighter than in many other developed economies. Moody's expects GDP growth to slow to 1.9 per cent in 2023, with the unemployment rate likely to remain near a multi-decade low of 3.5 per cent. Overall, however, the cumulative effect of multiple interest rate rises and house price declines will catch up with borrowers over time, raising the risk of loan delinquencies and defaults.

HIGHER RISK COMPONENTS OF AUSTRALIAN NONBANK RMBS POOLS



SOURCE: MOODY'S INVESTORS SERVICE NOVEMBER 2022

ASSET QUALITY TESTED

Asset performance during the pandemic has been very strong, with residential mortgage-backed securities (RMBS) arrears near record lows for prime and nonconforming mortgages. Similarly, asset-backed securities (ABS) performance has been very strong: the 2020-21 vintages of auto and consumer loan ABS are showing materially lower losses than experienced historically.

This performance has been underpinned by a low interest rate environment – until recent quarters – as well as low unemployment. As the lagged effects of interest rate hikes start to bite, Moody's expects the performance of Australian structured finance portfolios to deteriorate in 2023.

In pockets, risk will be materially higher: in particular, residential mortgage borrowers with high amounts of debt relative to income will face the biggest challenge to continue meeting loan repayments as cost of living pressures and rate rises take their toll. Similarly, small business borrowers will have to contend with a combination of high business input costs and slowing economic growth.

However, performance will continue to be underpinned by strong labour market fundamentals. It will also benefit from the stronger composition of Australian RMBS portfolios in recent years. From 2017 to 2021, the proportion of loans with a high loan-to-value ratio extended to credit-impaired borrowers or on an interest-only basis declined materially, especially for nonbank lenders (see chart). Improving loan quality will help mitigate heightened risk in the current environment.

NEW DEAL STRUCTURES

Monetary policy tightening and elevated risk spreads will keep excess spread tight for new ABS deals in 2023. During 2022, the benchmark BBSW rose significantly, in line with the cash rate set by the Reserve Bank of Australia. In addition, the spread over BBSW for Australian RMBS and ABS rose sharply, reflecting higher levels of economic and geopolitical volatility.

At the same time, underlying yield generated by securitised portfolios of mortgage and other loans has lagged changes in the wholesale market: this is especially acute in the nonmortgage ABS market, where the yield generated by mostly fixed-rate assets adjusts relatively slowly.

Overall, the spread between the interest generated by the assets and that payable under the liabilities has narrowed. We expect these dynamics to continue into 2023. With excess spread remaining tight, new ABS deals in 2023 will increasingly use note subordination as a substitute form of credit enhancement.

In summary, while the resilience of household balance sheets will be tested amid rising interest rates, and high inflation will put a squeeze on household purchasing power, Moody's expects the deterioration in performance to be moderate overall and deal structure to compensate for the higher risk. ■

COPUBLISHED COLUMN

NIMBLE FOOTING NEEDED FOR YEAR AHEAD

BY **SARAH SAMSON** GLOBAL HEAD OF SECURITISATION ORIGINATION, NATIONAL AUSTRALIA BANK

The resilience of the securitisation market is being tested, but issuers that can effectively manage liquidity will be set to capitalise on exciting growth opportunities. Heading into 2023, it is clear the outstanding market conditions present at the start of 2022 have given way to a period of sustained volatility that requires special attention and agility to navigate.

For more than two years, the enhanced liquidity of the COVID-19 stimulus and decreased competition from other debt products made it feel like securitisation almost had the market to itself. By March this year, however, an almost perfect storm of geopolitical and economic realities set in.

The unwinding of the Reserve Bank of Australia's term funding facility saw banks return to market faster than expected for more conventional and expensive wholesale funding, just as Russia's invasion of Ukraine inflamed serious inflationary pressures. This created the environment of uncertainty we still find ourselves in today, with no clear horizons in the near term.

After the record issuance and low pricing of 2020 and 2021, some market participants could be forgiven for despairing at the complexities of the current funding landscape. Market jitters have left only small windows of stability to get deals done as investors understandably sit on their hands while the spot fires continue to flare around them. In the meantime, spreads have materially widened, placing pressure on issuers and resulting in asset repricing.

It is a market the team at National Australia Bank (NAB) understand and can help with. Experienced lenders that depend on the securitisation market for funding know there is a need to issue through the cycle and plan their activity accordingly.

It is important to note the periods since March where deals have progressed and printed. Banks are supportive and investors attracted to the wider spreads, ready to do a deal when it makes sense.

To thrive in this environment, however, issuers need to be nimble and manage liquidity effectively if they are to take advantage of windows of stability that allow for a deal. Rather than ignoring the market entirely, it is about adjusting to more challenging conditions and getting the balance right between funding cost and origination volume.

For some newer issuers, balancing the asset margin with trying to remain competitive will be a challenge. But being nimble means being prepared to print, for instance, a smaller deal at wider spreads with the right market information and analysis to hand.

While some momentum around controlling inflation globally will help ease the uncertainty on both sides of the deal, it is still not clear when this will happen. The next 12 months are set to be a continuation of the current rollercoaster ride.

It is also worth noting that, while investors are concerned about managing volatility and spread levels, they do not seem to be overly worried about credit risk. Instead, the feeling globally is that Australian secured credit is a safe haven where value can be found.

Asset quality and spending have been good news stories in 2022 and, at NAB, we have seen no evidence of deterioration. While this will be something to watch, Australian borrowers are resilient with a significant savings build-up over the pandemic and a lot of redraw capacity.

ESG RISE CONTINUES

Another firm trend heading into 2023 is the ongoing evolution of environmental, social and governance securitisation. This is something the whole market is focused on, with growth expected as framework and data challenges are addressed and sustainability measures become central across industries.

The quickest asset class to develop looks set to be autos. The scaling of electric vehicles is happening as global supply chain issues unwind, letting businesses incubate and build volume through warehouse securitisations as further infrastructure comes online.

There is slower burn in the mortgage space, but issuers are also getting their systems ready as sustainability becomes embedded in new construction and renovation of existing stock. This is creating exciting opportunities for future securitisations.

It is a future where big ideas like these will matter more than managing any immediate volatility. It is a future NAB is invested in. We are here to bring our market-leading capabilities in residential mortgage-backed securities and asset-backed securities to help plan out funding strategies for our customers that incorporate new approaches, and timely feedback and analysis.

While conditions may change, issuers and investors have a lot to be positive about as more quality securitisations support growth for resilient business models. In 2023, it is time to show how flexible and resilient the securitisation market in Australia can be. ■

Taking stock after a year of change

Securitisation market participants knew the ideal funding conditions of recent years could not last, but the pace of interest rate rises and the extreme nature of market volatility has led to a fundamental market reset in 2022. In a roundtable hosted by ASJ, market leaders describe performance and outlook that they believe remain relatively positive despite the undeniable challenges.

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FUNDING SHIFT

Chunn *The outright cost of funding has clearly increased significantly in 2022. But to what extent – if at all – has the value proposition of securitisation funding changed? Are lenders that primarily use securitisation to fund their books in a materially different competitive position than they were a year ago?*

◆ **STORMON** Funding costs have certainly increased materially compared with 12-plus months ago and, as one would expect, all originators continue to review their business models. It should not surprise anyone that we are seeing less bank issuance, but originators with fewer levers to pull will continue to issue.

The challenge for them, looking from the outside, is how they manage their net interest margin (NIM) across the back book and for origination. We see particular NIM challenges for those nonbank lenders at the super-prime end of the credit spectrum, where major banks are targeting above-system growth.

It is a balancing act, because one would not want to be the leader in asset price resets but it is necessary to adjust for higher issuance costs. This has always been the challenge, however. Those with a differentiated proposition are shining that little bit more.

◆ **SAMSON** Securitisation funding has certainly been much more challenging in 2022 relative to 2021, and the cost has increased in warehousing and capital markets securitisation format.

Asset repricing has helped to combat some of this. However, it has been challenging for lenders that are reliant on securitisation in the mortgage space, which are competing with banks and where asset repricing has been largely limited to RBA [Reserve Bank of Australia] cash rate increases only. In some segments, mortgage rates have actually gone down.

We have seen some lenders seek to increase their overall warehouse capacity to enable them more optionality in when and how often they need to access capital markets – allowing them to comfortably delay if market conditions are volatile.

Away from this, most experienced lenders reliant on securitisation understand they need to issue through the cycle, and take a responsible and sensible approach to managing liquidity and the ups and down of capital markets.

◆ **METCALF** The cost of securitisation has changed but I do not think the value proposition has changed. Issuers within the

"THE IMPACT OF INTEREST RATE RISES – AND OF THE DECLINING HOUSING MARKET – WILL INEVITABLY FEED THROUGH TO HIGHER ARREARS RATES. WE EXPECT TO START SEEING SOME DETERIORATION STARTING IN Q1 2023 AND LIKELY THROUGH 2023. THIS SAID, OUR EXPECTATION IS THAT THE RISE IN ARREARS AND LOSSES WILL BE MODERATE."

ILYA SEROV MOODY'S INVESTORS SERVICE

> **"ONGOING WORK BY THE AUSTRALIAN SECURITISATION FORUM PROVIDES HELPFUL GUIDANCE TO ISSUERS AND ARRANGERS ABOUT RECOMMENDATIONS FOR ISSUER- AND ASSET-LEVEL DISCLOSURE, AND WILL HOPEFULLY ASSIST WITH THE DEVELOPMENT AND EXPANSION OF THE ESG SECURITISATION MARKET IN AUSTRALIA."**
> **LAUREN HOLTSBAUM** COMMONWEALTH BANK OF AUSTRALIA

securitisation envelope that have sufficiently granular receivables want to use it and, in some cases, need to use it. The value proposition of using assets to obtain well-matched funding is still very much there.

Is the market materially different? It is pretty obvious that it is. A year ago, BBSW was less than 1 basis point and credit spreads for nonbank residential mortgage-backed securities (RMBS) were about 75 basis points over BBSW. That combination was issuing nirvana for the nonbanks, particularly the large mortgage lenders that are able to get good volume out. It is now a very different situation.

However, the position for nonbanks has moved from an exceptionally favourable environment back to a more normalised one, where they have to be conscious of the balance between origination and the funding side of their balance sheets. They have to focus on their profitability because the cost side has gone up and the pricing of most assets is moving largely in lockstep with the RBA – which is squeezing their profit margins.

Generally, issuers have done a very good job of locking away a significant portion of their requirement in the term market.

Chunn *What have the market conditions of 2022 meant for loan origination, and how has this varied across sectors and collateral type?*

◆ **CONEYBEARE** RMBS [residential mortgage-backed securities] collateral trends have been shaped by strong issuance from the nonbank sector and sporadic activity in the ADI [authorised deposit-taking institution] space. Although loan origination volume in the first half of 2022 reflected momentum in the housing market, we expect origination to slow in the second half. To some extent, this reflects the impact of rising interest rates on refinancing activity. Nonconforming activity has continued at a reasonable pace this year and it will be interesting to see how this sector performs in a higher interest rate environment through 2022 and 2023.

With pricing starting to widen, we are seeing some more finely tuned structures hit the market. Although we have not seen asset pricing adjust yet, we may see this emerge as a more significant issue next year. These changes may affect how new transactions are structured and how they are placed in the market.

◆ **ELLWOOD** The RBA has already increased interest rates by 2.75 per cent in 2022 and further increases are expected. The immediate impact the sharp rise in interest rates has on loan origination is a reduction in maximum lending amounts. Roughly speaking, a 1 per cent increase in the interest rate results in a 7-8 per cent reduction in the maximum lending amount available to a borrower.

This reduction in borrowing capacity is quickly showing in the housing market, where prices in Sydney and Melbourne have fallen by 6.1 per cent and 3.7 per cent respectively in the last quarter, according to CoreLogic's September report.

Rising interest rates, falling house prices and uncertainty about the economy are resulting in a slowing of new loan origination. ABS [Australian Bureau of Statistics] data show that new loan commitments in August 2022 – excluding refinancing – fell by 12.5 per cent year on year. The fall has been steeper for owner-occupier loans, which are down by 15.1 per cent, while investor loans have had a more modest 6.4 per cent decline.

Although there has been a considerable slowing in new loan originations in 2022, it is important also to highlight that total new loan commitments in August 2022 – excluding refinancing – were A$9.5 billion (US$6.1 billion), or 53 per cent, higher than the pre-COVID-19 level in August 2019.

One sector of the market that continues to gather pace is external refinancing. ABS data show that total refinancing has grown by A$1.7 billion – or 9.8 per cent – compared with August 2021. Comparing current volume of refinancing to pre-COVID-19 levels in August 2019, there has been growth in volume in excess of 50 per cent. Growth in the external refinancing market has been solely driven by owner-occupiers – up by 17.5 per cent compared with a year ago, while investors are down by 3.5 per cent.

The market for loan originations is tougher this year and achieving growth in a highly competitive market will be challenging. This challenge also needs to be taken in the context of coming off the back of the super-low interest rate COVID-19 environment. With this in mind, the loan origination market is still quite strong.

ASSET PERFORMANCE

Chunn *What is the latest intelligence on asset quality, in particular in the context of rising rates? We know there is a lag between rate rises and impact on the household balance sheet – it*

is estimated to be at least 2-3 months in the mortgage sector. With this and the roll-off of mortgages fixed during the pandemic in mind, when is 'crunch time' for loan performance and arrears given ongoing RBA hiking?

◆ **SEROV** We have not yet seen any deterioration in asset quality. This holds across all our rated portfolio – not only in the mortgage books, but also in personal loans and, at the other end of the spectrum, SME portfolios. In fact, arrears are close to the lowest level for many, many years, if not ever.

A couple of drivers of performance are worth calling out. First, the unemployment rate is very low, which will naturally support performance. Second, at least in RMBS, portfolio quality has improved over time. There are far fewer loans with a high LVR [loan-to-value ratio] or that are interest-only, or loans extended to credit-impaired borrowers, than even four or five years ago. We are going into this period with relatively less risky books.

Of course, the impact of interest rate rises – and of the declining housing market – will inevitably feed through to higher arrears rates. We expect to start seeing some deterioration starting in Q1 2023 and likely through 2023. This said, our expectation is that the rise in arrears and losses will be moderate.

◆ **MCCARTHY** As at today, the performance of Australian structured finance and consumer finance products is as good as it has ever been. The Fitch Ratings RMBS Dinkum Index and the Fitch ABS Index are at or near all-time lows in delinquencies. Coming off record low interest rates and the lowest unemployment in 30 years, this should not be a surprise. The question now is what comes next.

Mortgage lenders have largely passed RBA increases on: interest rates on mortgages are now in the high 4 per cent range compared with the low 2 per cent range at the start of the year. Loan serviceability has significantly worsened in a very short time.

On the positive side, the interest rate increases to date are similar to the interest rate buffer of 2.5 per cent that most lenders used to assess the serviceability of borrowers from 2019 to 2021. The buffer was even greater more recently, at 3 percentage points above the prevailing rate. This underwriting buffer, along with historically high savings rates, has largely protected borrowers to date – and we see this in current performance.

However, Fitch expects the central bank to continue increasing interest rates. Couple this with the increased cost of living caused by inflation and we expect the increased costs to start to take a toll. They will likely be visible in increased arrears rates going into 2023.

Fixed-rate borrowers who fixed at interest rates of less than 2 per cent will obviously get a payment shock when their fixed-rate period ends. This could lead to some issues, however Fitch does not expect major problems from this cohort. The loans were underwritten at the higher rates to start with, while most fixed-rate borrowers also have a percentage of their borrowing on variable rate so have already experienced increasing mortgage repayments.

There will of course be some borrowers who will find it harder to adapt to the increase in monthly payments once the fixed interest rate period expires and that portion of the loan is repriced at a much steeper rate. The highest-risk borrowers are those who borrowed at their serviceability limit and who have little savings buffer. This is most likely borrowers who have taken out a loan in the recent past.

Fitch's expectation is that arrears will increase early next year as the higher interest rates bite – this will likely coincide with the annual spike that comes after Christmas and summer. We will see the change coming through by March.

However, any increase in arrears comes from the current record low levels. The Fitch RMBS Dinkum Index 30-plus day arrears measure was 0.8 per cent at the end of June 2022, the lowest since the index was created in 2002. Many borrowers have built up savings buffers and this, along with generally rising wages, should go some way to tempering any rise in arrears.

We do not expect a significant increase in defaults as performance will largely be protected by a low, albeit increasing, unemployment rate. At 3.5 per cent in August 2022, the unemployment rate was the lowest in almost 50 years and, although we expect it to increase, it will remain low – at 4.1 per cent – in 2023 compared with a five-year annual average of 5.5 per cent from 2017 to 2021. In the absence of higher unemployment, we expect mortgage defaults to remain low.

◆ **CASTRO** In our latest quarterly report – for Q3 2022 – we see arrears relatively stable at very low levels, even though rates have been steadily increasing for a few months. This is consistent with other macroeconomic data: for example, unemployment in Australia is currently sitting at a multiyear low. We generally see the same result across the board for major banks and nonbanks, and for all LVR levels.

"SECURITISATION ISSUERS WILL NEED TO BE ABLE TO MOVE QUICKLY WHEN MARKET CONDITIONS ALLOW FOR ISSUANCE WINDOWS AND UNDERSTAND THEY WILL BE COMPETING WITH OTHER DEBT PRODUCT SUPPLY, INCLUDING BANK SENIOR UNSECURED AND OTHERS."

SARAH SAMSON NATIONAL AUSTRALIA BANK

Data and analytics as securitisation facilitators

AS A DATA-DRIVEN ASSET CLASS, SECURITISATION SHOULD BE ABLE TO REAP THE BENEFITS OF THE EMERGENCE OF BIG DATA TOOLS – PERHAPS ESPECIALLY IN THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) SPACE. THE PROSPECTS ARE VERY REAL BUT DELIVERY REMAINS A WORK IN PROGRESS.

Chunn *To what extent can data bridge the gap in ESG securitisation? It is often mentioned, for instance, that housing emissions data are not freely available in Australia. Are breakthroughs on the horizon, and what would be the main difference makers?*

ELLWOOD In a broader context, there are significant changes happening globally that will influence ESG data and standards. At a standards-setting level, there is a move to consolidate and harmonise ESG reporting frameworks.

In particular, sustainability reporting frameworks – the Sustainability Accounting Standards Board, Global Reporting Initiative, Task Force on Climate-related Financial Disclosures (TCFD) and International Integrated Reporting Council – are coming together under the International Sustainability Standards Board standards established by the International Financial Reporting Standards Foundation. This should provide a more globally consistent standard to meet investors' and other stakeholders' needs for financially material sustainability information.

Governments and regulators are also pushing for more standardised and mandatory corporate reporting on ESG topics. For instance, TCFD reporting is mandatory in the UK and New Zealand, with other countries likely to follow. In the US, the Securities and Exchange Commission is consulting on making emission reporting mandatory, although this has been politically contentious. The EU Corporate Sustainability Reporting Directive has recently been introduced to replace the Non-Financial Reporting Directive, which will be more explicitly linked to support the European Green Deal. The Sustainable Finance Disclosure Regulation (SFDR) in the EU is the leading global standard on sustainable finance.

With the change of government in Australia, the chances of something similar have increased in this jurisdiction, too. The SFDR is influencing developments in Australia in the form of the Australian Sustainable Finance Institute.

Over time, this should bring greater standardisation of ESG data and requirements on companies to disclose this information, especially emissions data and those related to climate risk.

We expect to see more issuers seeking to execute green residential mortgage-backed securities transactions to meet investors' appetite. Perpetual has developed, in partnership with International Shareholder Services, a robust ESG framework to support the assessment of Australian ESG merits. This will make data available to investors to assess issuers that are more advanced in their sustainability policies.

MCCARTHY Data will be hugely important if issuers want to sell to the ESG-conscious investor. To give an example, Fitch Ratings is producing reports on the CO_2 emissions of the UK and German auto securitisation markets. Data is available from the European Environment Agency that allow Fitch to derive CO_2 emissions levels for a given portfolio. The reports help investors rank transactions by CO_2 emissions.

Such data are not available in Australia and ABS pools do not provide data on engine type to allow an analysis of CO_2 emissions from one pool to the next. Such data might be very useful for those who are interested in ESG.

CASTRO Globally, we are still far from standards in this topic and to some extent trying to put the burden on securitisation feels like putting the cart before the horse. In order to have clear and objective ESG criteria we need standardised data that lenders are able to collect and report. But this is generally not available for existing assets that are the raw materials of today's securitisations.

Discussion in Europe revolves around allowing ESG securitisations to be defined based on use-of-proceeds criteria, so lenders can commit to gathering these data for new assets and use the funds to facilitate the global transition task.

"In order to have clear and objective ESG criteria we need standardised data that lenders are able to collect and report. But this is generally not available for existing assets that are the raw materials of today's securitisations."

PABLO CASTRO BLOOMBERG

Chunn *What progress is being made on data provision and analytics in the Australian securitisation sector more generally?*

ELLWOOD As a result of the rapid rise in interest rates, falling house prices and growing concerns about the performance of collateral, there has been an increase in demand from investors and funders for real-time access to granular asset performance data as well as industry performance benchmarking.

To meet this demand, data warehouse and analytics services are in place to facilitate access to granular data, deep analytics, and benchmarking across issuers and deals. Through industry roundtable meetings, nonbanks are providing Reserve Bank of Australia (RBA) loan-level data to specific investors to leverage all the work done for RBA data standards to improve standardisation, transparency and comparability, via the Perpetual Australian Data Warehouse.

Access to data has become a standard prerequisite for many investors to even consider investing in a deal. It has also become a regulatory obligation with more strict enforcement in Europe, with the EU securitisation regulation and related European Securities and Markets Authority templates.

MCCARTHY All market participants would always like more data and analysis, and Fitch strives to provide them. All transactions data are available on our surveillance platform, as are the data for our indices.

CASTRO The Australian market took a big leap in data provision with the RBA loan-by-loan disclosure initiative. In the past few years since this development, we have been working with issuers and trustees to ensure data are updated on time, are truly standardised and comparable, and meet minimum criteria.

This development allows investors to make comparisons – within Australia and with other jurisdictions – much more easily.

The other initiative that has been very successful for us at Bloomberg is to model every securitisation deal prior to issuance, including the initial pool cut, deal waterfall and other factors. Investors across the globe are now able to analyse and stress any new deal on a standardised basis and therefore comply with relevant regulation before making their investment decisions.

There is a small blip for nonconforming collateral compared with prime in the past two months or so, but it is very small and too recent to draw any conclusions. Also, when analysing arrears by state we see some increases in Western Australia and the Northern Territory. These are consistent with what we observed in 2020 during the onset of COVID-19. These regions constitute very small portions of Australian pools so they do not change the big picture. The data are very recent so it may be interesting to follow up these trends in the near future.

◆ **CONEYBEARE** There is a bit of a waiting game on mortgage performance at the moment. We know the impact of rising interest rates is not really going to hit households in a material way until around Christmas. As such, it will take some time to show up in delinquency levels. We typically see arrears move 4-5 months after interest rate increases.

We have seen some nonconforming pools starting to show increasing arrears levels, but these pools are not exposed to the fixed-rate roll-off issue. We expect the effect will start to be felt by more stretched borrowers at the end of the year, translating to rising arrears over the course of 2023.

Importantly, this likely rise in arrears is coming off a very low base for both prime and nonconforming pools. RMBS exposure to the ultra-low fixed rates that are starting to roll off is smaller, with upcoming fixed-rate maturities making up less than 5 per cent of total RMBS outstanding. This is less than in the overall mortgage market. In addition, we tend to see smaller exposures to first home owners than the broader market – so the risks associated with this borrower group are also more muted.

There are some early indicators in consumer ABS [asset-backed securities] that households are starting to readjust their spending patterns to adapt to the macroeconomic pressures. This gives us a clue that pressures are starting to be felt and that households are being proactive in managing their budgets.

◆ **ELLWOOD** The significant increase in external refinancing during the pandemic also resulted in a significant shift in borrowers taking up fixed loans. Analysis of Perpetual Australian Data Warehouse RMBS statistics shows the share of new settlements that were on a fixed rate jumped from a pre-pandemic average of around 12 per cent to an average of 30 per cent in 2021. As a result, the lag from rates feeding through to the

“MY TAKE IS THAT, ON AVERAGE, WE ARE FINE. BUT THEN, OF COURSE, THERE IS A COHORT WITH A LOW BUFFER WHO MIGHT HAVE TO MAKE SOME ADJUSTMENTS – THOSE WHO ARE COMING OFF FIXED RATES AROUND LATE 2021 INTO LATE 2023, AND WHO BOUGHT AT THE TOP OF THE HOUSING MARKET AT 2 PER CENT FIXED RATES UNDERWRITTEN WITH PRE-INFLATION EXPENSES.”

GRAHAM METCALF ANZ

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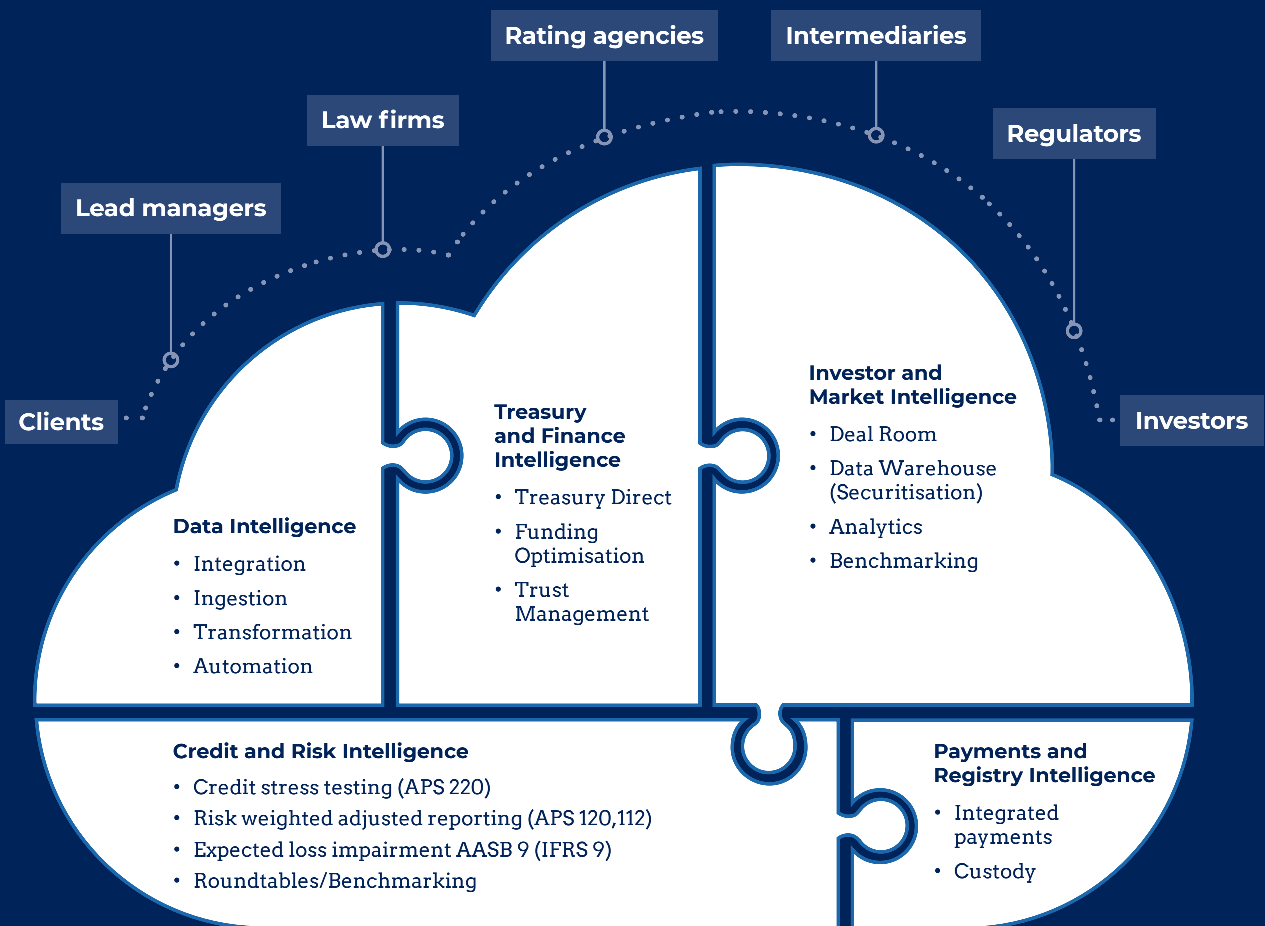

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Bank securitisation issuance outlook

NONBANK ISSUERS HAVE BEEN RESPONSIBLE FOR AN INCREASING SHARE OF AUSTRALIAN SECURITISATION ISSUANCE IN RECENT YEARS. THERE ARE REASONS TO EXPECT A PICKUP IN SUPPLY FROM AUTHORISED DEPOSIT-TAKING INSTITUTIONS (ADIs) BUT THEY ARE UNLIKELY TO BECOME THE DOMINANT ISSUER SECTOR.

Chunn *What are the prospects for a pickup in ADI securitisation issuance?*

METCALF Since 2013, the major banks have issued less than A$10 billion (US$6.4 billion) in aggregate of securitisation every year. Realistically, with the funding options they have, including a robust deposit base, it is a diversification piece for them. We should not be expecting double-A rated major banks to be the biggest supplier to our market.

Since 2017, the non-ADIs have had serious business growth. Supply of large but non-major ADI securitisation also averages A$10 billion a year, but for the nonbanks we are talking about A$30 billion on average. Our market is a lot of nonbank followed by a bit of large ADI followed by a little bit of major bank supply.

STORMON We have seen minimal ADI RMBS [residential mortgage-backed security] issuance in recent times but there has been a re-emergence of covered-bond issuance to supplement banks' deposit funding. We continue to see appetite to support RMBS issuers that bring deals through the cycle, whether it is an ADI or a nonbank, at the right price.

The challenge for ADIs is to balance price against their net interest margin or return on equity targets. There are also challenges with wider pricing that may curtail capital relief trades in the near term, so we may see more ADIs consider funding-only trades.

MCCARTHY We believe ADI issuance will re-emerge and play a more significant role next year than during the past few years. Key drivers of ADI issuance will come from the need to refinance term-funding facility (TFF) drawdowns. Most likely, any activity will be in the prime RMBS space as this is where most of the assets are.

One thing to note is that there is likely to be significant competition for refinancing borrowers and accessing competitors' good customers. We are already seeing this in the form of prepayment rates across RMBS sectors ticking up this year and we think this will likely increase further as fixed-rate loans roll off and customers look for a better deal. ADI securitisation is obviously subject to relative value between senior unsecured, covered bonds and RMBS.

SAMSON I am also fairly positive on ADI supply. The ADIs had access to the TFF during COVID-19, borrowing large amounts that now need to be repaid. This means ADIs will need to access wholesale funding in volume not seen for some time.

While the banks have various options in the format they use, we expect securitisation to play some part in the overall task. More stable market conditions will definitely encourage ADI issuers away from more defensive debt issuance formats such as covered bonds, and we expect ADI issuance to be higher in 2023 than 2022.

O'BRIEN ADI securitisation issuance is likely to return as ADIs face higher funding requirements after the roll-off of the TFF. As demonstrated by Westpac Banking Corporation's [2021 RMBS] transaction, it is likely that issue size will be significantly lower going forward, though, because of the roll-off of the committed liquidity facility.

Nonetheless, we expect securitisation to play a role in issuance as funding needs return to more normal levels. Given the significantly lower-than-historical levels outstanding in domestic and global markets, there is significant scope to use multiple funding channels as has been demonstrated with covered-bond issuance.

household balance sheet is likely to be more prolonged than it has been during previous interest rate cycle increases – and may not be felt until early or mid-2023 for a considerable share of the mortgage market.

The impact on this cohort of borrowers will be significant as they will be experiencing large increases in their monthly mortgage payments. Analysis undertaken by the RBA suggests that, based on a 2 per cent increase in rates, one in five borrowers will experience a greater than 40 per cent increase in monthly repayments.

Although there is an expectation that the rise in interest rates will have an impact on arrears, the mortgage market is coming from a very strong position. Current arrears performance is tracking well below pre-COVID-19 levels. Perpetual Australian Data Warehouse RMBS stats – public and privately authorised data – show 90-plus days past due as a percentage of current balances has fallen by 25 basis points since August 2019.

This current strong mortgage arrears performance is being driven by very low unemployment and underemployment rates. Current indicators point to a continuation of a strong labour market for the foreseeable future, which should help dampen the impact of the potential deterioration in loan performance as RBA rate hikes take effect.

◆ **STORMON** As a warehouse provider, we are paying close attention to performance and talking regularly with our customers – which represent a number of asset classes, including autos and mortgages. As a general comment, we are yet to see stress from the RBA increases while asset performance is proving

to be resilient. We keep looking for a lag effect, even a small one, but as of today have not seen it. It is hard to call when or if there will be a 'crunch time'. A change will come – we cannot stay at historical low arrears across all asset classes forever – but how big that change will be is difficult to call.

It is important to note, though, that Australia has low unemployment and many borrowers are still ahead in their mortgages after COVID-19. Also, originators learned a lot through the pandemic about borrower behaviour in times of stress, and how to adapt when things change. We view these lessons as applicable should the economic cycle turn. The assistance of the Australian Office of Financial Management (AOFM) through the COVID-19 period should also not be forgotten.

◆ **METCALF** Asset quality is high in Australian securitisation and it is well documented that arrears are at record lows. In the rare situation of there being actual mortgage defaults, typically the property value well and truly covers any debt. Credit losses have been miniscule historically.

Still, arrears can be expected to rise in a more difficult consumer environment. With rates going up and inflationary pressures apparent, there is a lot of focus on when and at what level the tightening cycle peaks. At ANZ, we are now saying the peak cash rate will probably not be until May 2023 when previously many thought the rate rises might be over by the end of this year.

The RBA has recently noted that if the cash rate goes to 3.5 per cent, the aggregate amount of money being used to service scheduled principal and interest on mortgages will be back to where actual payments were before the start of the cycle. This is an important point from a system perspective.

If unemployment is acceptable and we have the same amount of cash being used on mortgage servicing now as before, it sounds manageable. I also believe the level of household wealth, which the RBA says is six times household debt, is very high. A lot of buffers have been built up – about A$110 billion of redraw and offset since the start of the pandemic.

My take is that, on average, we are fine. But then, of course, there is a cohort with a low buffer who might have to make some adjustments – those who are coming off fixed rates around late 2021 into late 2023, and who bought at the top of the housing market at 2 per cent fixed rate underwritten with pre-inflation expenses.

OTHER ASSETS

Chunn *What are the expectations for other areas of lending in the year ahead, from personal loans to small business and beyond?*

◆ **SEROV** Over the past two years we have been rating an increasing number of ABS deals in the SME and personal loan space, as well as newer issuers of auto ABS. Many of these lenders are now second- or third-time issuers, but we are still seeing a steady level of supply from first-time entrants into the rated term market. Our expectation is that the SME sector in particular will develop over time, as lenders deepen their product offering and optimise funding structures.

◆ **SAMSON** There has been very strong growth in other areas of lending over the past 3-5 years, largely driven by structural shifts in the market – mostly driven by technology – and the banks being less focused on these lending products. A lot of new entrants into the market have been able to raise cheap equity, and funding costs have been incredibly low.

There is still less intense competition in these asset classes from the banks than there is in mortgages but otherwise conditions are changing. Therefore, while we expect to see continued growth and momentum from existing lenders in these asset classes it will be more challenging as funding – and equity – costs increase. It will also be harder for new entrants in these asset classes, so we expect most of the growth to come from existing players.

◆ **METCALF** Particularly in the small business area, it is very clear this is an issue that needs to be solved in Australia. Some people are critical of the fact the big banks have typically required residential security to lend to small business. But small business failure rates are reasonably significant – certainly much higher than mortgage failure rates – so there is a ready explanation for taking security.

It is well recognised overseas that securitisation has a big role to play as a funding solution for small business loans; they are granular and they offer the levels of diversification needed by industry and other concentrations. It is very important that the industry tries to solve this. We need strong small-business lending sponsors to come through.

As to personal lending, I think it is a bit more problematic. If a loan is taken with a good rationale, great, but should people be borrowing money for basically indulgent purposes? Part of

"WITH PRICING STARTING TO WIDEN, WE ARE SEEING SOME MORE FINELY TUNED STRUCTURES HIT THE MARKET. ALTHOUGH WE HAVE NOT SEEN ASSET PRICING ADJUST YET, WE MAY SEE THIS EMERGE AS A MORE SIGNIFICANT ISSUE NEXT YEAR. THESE CHANGES MAY AFFECT HOW NEW TRANSACTIONS ARE STRUCTURED AND HOW THEY ARE PLACED IN THE MARKET."

NARELLE CONEYBEARE S&P GLOBAL RATINGS

the purpose of a lender is to lend well and make sure it is not harming the customer by giving them access to money they should not spend that puts them into debt.

I also wonder how much the securitisation market can actually facilitate this kind of product, given the loans are small and it takes a long time to build up a big book. It costs the originator a lot to originate the loans and, with loss assumptions of 4-6 per cent of principal, they have to lend at high interest rates. Does this align with the financial wellness and customer fairness piece? I hope it can, but it is harder than most of the securitisation we do in Australia.

DEMAND FACTORS

Chunn *On the funding side, can nonmortgage ABS become as popular an investment class as RMBS?*

◆ **SEROV** Historically, Australian RMBS has been attractive to foreign investors because of stable macroeconomic conditions and collateral that performs well.

ABS collateral adds a level of diversity, at a high level, moving beyond exposure to the housing market but also within the pools: SME deals are well-diversified across different sectors of the economy and across geographies.

◆ **SAMSON** These asset classes have performed well and the lenders do a great job in originating and servicing assets. We expect that, as they reach scale and can meet global securitisation regulations – specifically risk retention – there will be offshore demand.

Chunn *Staying on the topic of Australia as an investment proposition, how is offshore demand for Australian securitisation evolving toward the end of 2022?*

◆ **O'BRIEN** We have experienced solid offshore demand in the primary securitisation market through 2022, especially as spreads readjusted. However, global volatility has led investors to sit on the sideline for periods and specific issues facing investors in their home markets have also influenced participation.

Chunn *How does Australian product stack up on a risk and relative-value basis compared with other options available to global investors, and how has this changed over the course of 2022?*

◆ **CONEYBEARE** Australian RMBS and ABS have demonstrated stable performance over a long period. Comparing RMBS delinquency levels across major securitisation markets, Australia has performed at the low end of the range over an extended timeframe and through various cycles.

Although household indebtedness is high in Australia, RMBS performance suggests a strong credit culture remains. The provision of credit enhancement to senior notes in excess of minimum levels is often a talking point in our conversations with market participants.

It is worth noting that the nonconforming product in Australia has shifted over the years so it now reflects a 'nonqualifying' type of product with less exposure to subprime or credit-impaired borrowers. At the same time, there are generally more mixed pools here than in other markets – which underscores the sector's stable performance in recent years.

◆ **CASTRO** While there has been a slowdown in issuance across all structured finance asset classes in the second part of 2022 as the rates and inflation outlook has changed dramatically worldwide, Australia is holding up equally to or better than most sectors tracked in the Bloomberg LEAG tables.

For example, European ABS and CLOs [collateralised loan obligations] are down around 30 per cent year-on-year and this figure is higher for US agency CMOs [collateralised mortgage obligations]. Australian issuance is down around 16 per cent against the same period in 2021, which was itself a very good year for Australian securitisation.

◆ **O'BRIEN** Market dynamics have changed dramatically compared with 2021, with a number of positive and negative influences driving sentiment. ABS issuers have adjusted their offerings to meet market dynamics either through structural changes or price, given alternative opportunities available to global investors.

Compared with 2021, supply this year is only marginally down – about 75 per cent of 2021 issuance to date – in a market that has significantly more alternatives [for credit investors] than previous years.

The Australian credit sector has generally outperformed other markets during 2022. Investors have highlighted the relative value in other comparable markets, particularly UK RMBS and US CLOs, where spreads have moved significantly wider.

However, as spreads in the domestic market have widened we have seen relative value improve and key investors return.

"THE LAG FROM RATES FEEDING THROUGH TO THE HOUSEHOLD BALANCE SHEET IS LIKELY TO BE MORE PROLONGED THAN IT HAS BEEN DURING PREVIOUS INTEREST RATE CYCLE INCREASES – AND MAY NOT BE FELT UNTIL EARLY OR MID-2023 FOR A CONSIDERABLE SHARE OF THE MORTGAGE MARKET."

ROD ELLWOOD PERPETUAL CORPORATE TRUST

"AUSTRALIA HAS LOW UNEMPLOYMENT AND MANY BORROWERS ARE STILL AHEAD IN THEIR MORTGAGES AFTER COVID-19. ALSO, ORIGINATORS LEARNED A LOT THROUGH THE PANDEMIC ABOUT BORROWER BEHAVIOUR IN TIMES OF STRESS, AND HOW TO ADAPT WHEN THINGS CHANGE. WE VIEW THESE LESSONS AS APPLICABLE SHOULD THE ECONOMIC CYCLE TURN."

JOHN STORMON MUFG SECURITIES

Global volatility and concerns about the impact of rapid interest rate rises have been a bigger driver of spread widening and investor concerns than relative value.

Chunn *The domestic bid has been limited at times in 2022, especially from real-money accounts. What are the prospects for domestic distribution looking ahead to next year, especially as ADI supply – of senior bonds, additional capital and securitisation – continues to ramp up?*

◆ **SAMSON** It will likely continue to be volatile while markets continue to grapple with uncertainty concerning inflation, interest rates, equity market volatility and so forth. Domestic investors have not been overly concerned about credit risk but we have definitely seen nervousness and reduced bid from domestic real money in the periods of heightened volatility and uncertainty throughout the year.

Investors are managing potential redemptions, very volatile equity markets and uncertainty about spread levels. This leads to periods where they need to pull back or adopt a wait-and-see approach.

Securitisation issuers will need to be able to move quickly when market conditions allow for issuance windows and understand they will be competing with other debt product supply, including bank senior unsecured and others.

◆ **O'BRIEN** The domestic bid has in general been more cautious on bond valuations in the face of rising rates. Domestic participation declined to mid-year, with offshore investors stepping in on a relative-value basis.

As spreads have widened, however, we have seen domestic investors step back into the market. Domestic fundamentals remain constructive and investors continue to have cash to put to work where they see value.

The additional ADI supply, particularly driven by the maturity of the RBA's term funding facility (TFF), is expected to be manageable in the context of historical issuance from the sector and is likely to return outstanding issuance to pre-COVID-19 levels. The historically high spread between RMBS and senior-unsecured bonds is likely to tighten as issuance normalises, with RMBS continuing to represent value.

◆ **METCALF** What we are going through is a very difficult time to project the future. It is also important to divide demand analysis into senior and mezzanine. There is a question as to where demand is going to come from for the bottom piece of the stack – unrated mezz.

On the other hand, I am hopeful that the fixed-income piece offers good prospects for securitisation issuers. Bond fund managers were struggling to get yield of 2-3 per cent out of diversified bond portfolios and trying to charge investors a management fee for getting them 2 per cent. It was a really difficult equation. Nowadays, diversified bond funds are returning 6 per cent or more – which makes diversified fixed income a better proposition.

We have long had the issue in Australia that allocations to equities are the wrong way around: super funds have 60-70 per cent allocated to equity, whereas overseas it is flipped. This is partly because our fixed-income market is not developed and deep enough. I am hopeful the change in yield may assist with this, and this has to be helpful for domestic demand for securitisation. I do not expect securitisation demand to crowd out more senior debt.

There are more funds with investment capabilities in the mezzanine part of these structures nowadays. But I wonder whether some smaller issuers in the ABS space, for example – which might need 30 per cent of the structure in mezzanine and want to go unrated – will find a lot of natural buyers.

"THERE WILL OF COURSE BE SOME BORROWERS WHO WILL FIND IT HARDER TO ADAPT TO THE INCREASE IN MONTHLY PAYMENTS ONCE THE FIXED INTEREST RATE PERIOD EXPIRES AND THAT PORTION OF THE LOAN IS REPRICED AT A MUCH STEEPER RATE. THE HIGHEST-RISK BORROWERS ARE THOSE WHO HAVE BORROWED AT THEIR SERVICEABILITY LIMIT AND WHO HAVE LITTLE SAVINGS BUFFER."

BEN MCCARTHY FITCH RATINGS

"THE DOMESTIC BID HAS IN GENERAL BEEN MORE CAUTIOUS ON BOND VALUATIONS IN THE FACE OF RISING RATES. DOMESTIC PARTICIPATION DECLINED TO MID-YEAR, WITH OFFSHORE INVESTORS STEPPING IN ON A RELATIVE-VALUE BASIS. AS SPREADS HAVE WIDENED, HOWEVER, WE HAVE SEEN DOMESTIC INVESTORS STEP BACK INTO THE MARKET."
PAUL O'BRIEN COMMONWEALTH BANK OF AUSTRALIA

Chunn *Have there been any material developments in the secondary market for Australian securitisation in 2022? Lack of liquidity has been an investor concern historically – how does the asset class stack up against other credit securities nowadays?*

◆ **STORMON** It is an interesting question, particularly given the recent volley of BWICs [bids wanted in competition]. Investors we have talked to have on the whole taken this as an encouraging development, as a lot of the supply has been matched to demand. If market commentary about the reason for the sales is true – ie that they were not driven by underlying asset concern – investors that hold the paper or similar paper already should have no reason not to jump in.

As an asset class, Australian ABS and RMBS is certainly not as liquid as others, like corporate bonds. But it is evolving. We are talking to more investors that are looking for value performance and margin pick-ups. As long as structures stay consistent and assets perform, we expect the asset class to attract more investors, domestic and international. This will only serve to further support the growing secondary market.

◆ **O'BRIEN** Secondary activity is certainly lower than the major bank senior-unsecured sector, but it is not devoid of activity. As has been recently evidenced through BWICs in the sector, the secondary market has demonstrated it is not all one-way traffic – it is functioning, with sellers and buyers participating. Overall, the recent activity has seen paper circulated back to investors without the need for any regulator assistance.

ESG PATHWAYS

Chunn *How do market users assess progress in the environmental, social and governance (ESG) securitisation space? How does Australia compare with other regions when it comes to ESG – are other countries forging ahead in the securitisation market or are the challenges universal?*

◆ **HOLTSBAUM** ESG securitisation globally is still a very small percentage of the market and the challenges that prevail are not unique to Australia or the product. The lack of a single, clear, comparable standard across products and regions, as well as confusion on available metrics, makes it difficult for investors to assess ESG securitisation opportunities. There has been some progress but more needs to be done.

Clarity on labelling would assist, including detail on how and why certain products have labels attached to them in contrast to issuers' regular, vanilla portfolios and outlining how they are outside issuers' business-as-usual practices.

In the UK, recent work outlining a framework requiring certain ESG disclosures for asset managers and listed companies is certainly a step in the right direction. Ongoing work by the Australian Securitisation Forum provides helpful guidance to issuers and arrangers about recommendations for issuer- and asset-level disclosure, and will hopefully assist with the development and expansion of the ESG securitisation market in Australia.

◆ **SEROV** I believe ESG has developed tremendously. Green and social deals issued in the securitisation space have perhaps taken most of the limelight, but I would highlight a couple of other underlying trends.

On the collateral side, the range of assets is widening. Most obviously, electric vehicle (EV) take-up is increasing. This is true even in Australia, but it is now a truly material market offshore. We have also seen consumer loans backed by solar panels, green mortgages and other assets.

"A COUPLE OF DRIVERS OF PERFORMANCE ARE WORTH CALLING OUT. FIRST, THE UNEMPLOYMENT RATE IS VERY LOW, WHICH WILL NATURALLY SUPPORT PERFORMANCE. SECOND, AT LEAST IN RMBS, PORTFOLIO QUALITY HAS IMPROVED OVER TIME. THERE ARE FAR FEWER LOANS WITH A HIGH LVR OR THAT ARE INTEREST-ONLY, OR LOANS EXTENDED TO CREDIT-IMPAIRED BORROWERS, THAN EVEN FOUR OR FIVE YEARS AGO."
ILYA SEROV MOODY'S INVESTORS SERVICE

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Liberty is Australia's major ASX-listed non-bank issuer, with:
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"INVESTORS ARE MANAGING POTENTIAL REDEMPTIONS, VERY VOLATILE EQUITY MARKETS AND UNCERTAINTY ABOUT SPREAD LEVELS. THIS LEADS TO PERIODS WHERE THEY NEED TO PULL BACK OR ADOPT A WAIT-AND-SEE APPROACH."
SARAH SAMSON NATIONAL AUSTRALIA BANK

Second, we are seeing important changes in investment mandates. As an example, only about 10 per cent of US CLOs we rated included ESG investment restrictions at the start of 2021, but by mid-2022 almost 90 per cent of US CLOs incorporated ESG investment criteria. In Europe, ESG criteria are present in every CLO deal.

Australia is a bit behind, perhaps. It has challenges, primarily in data consistency and comparability – we don't have consistent energy efficiency certification for housing across all states, for example. But there are important changes underway in this field and we think these challenges can be resolved.

◆ **MCCARTHY** The challenges are universal. Securitisation markets around the world have dabbled in environment-friendly assets. There has been maybe the odd social asset securitisation but nothing that claims governance superiority, although one could argue that securitisation forces good governance on structures.

Obviously, we have seen solar panel loans in our own market. This has also happened at scale in the US. We have also seen transactions in China and the US where 100 per cent of loans are for EVs. Investors seem a little sceptical of green RMBS and more global standards might be needed for investors to get comfortable in this sector.

◆ **SAMSON** ESG issuance and volume has been modest but we anticipate a much faster rate of change as ESG becomes a central and growing tenet across all industries. From a mortgage perspective, the National Construction Code 22 very much has sustainability in mind, from the perspective of design that promotes thermal and energy efficiency.

Increased focus on green home renovation and improvements is also a large opportunity given the scale of existing housing stock. A house rated 1.8 stars costs about 70 per cent more to heat or cool than a house rated 6 stars.

EV car sales have increased by 65 per cent in 2022, although only accounting for 3.4 per cent of all new car sales. We believe this trend will continue to rise rapidly in the coming years should Australia follow the observed trends in the US and Europe.

A large impediment has been the lack of supply of EVs, which hints at pent-up demand. There is also a growing range of EVs at different price points, engaging with a wider group of buyers. We are also seeing EVs being embraced by corporate fleets and car rental companies, which will assist in the transition. Changes in the fringe benefits tax in the case of novated leases strongly encourage buyers toward EVs.

Australia's commitment to meet net zero by 2050 will necessitate an accelerated change toward sustainability. Away from green issuance, we also anticipate the continued development of social securitisations that assist under-served subsets of the community.

Australia's ESG securitisation credentials are strong and we are among the leaders in new ESG issuance by asset classes, though total issuance volume is small by global standards – recognising the relative size of the Australian economy.

The regulators in Europe and the US have promoted the development of a sustainable securitisation framework that promotes issuances. But the common thread of securitisation is being asset-backed and, as such, issuance is limited to the size of the eligible pools and by issuers' access to the necessary data to meet certification standards.

For context, in FY21 Europe issued a total of €749.8 billion (US$744.8 billion) in ESG bonds and loans, of which ESG securitisation comprised €800 million across 12 transactions. Importantly, this marked a 273 per cent increase from the prior year. As such, I believe ESG securitisation will continue to innovate and grow but it will still comprise a modest representation of aggregate ESG issuance. ■

"WE HAVE LONG HAD THE ISSUE IN AUSTRALIA THAT ALLOCATIONS TO EQUITIES ARE THE WRONG WAY AROUND: SUPER FUNDS HAVE 60-70 PER CENT ALLOCATED TO EQUITY, WHEREAS OVERSEAS IT IS FLIPPED. I AM HOPEFUL THE CHANGE IN YIELD MAY ASSIST WITH THIS, AND THIS HAS TO BE HELPFUL FOR DOMESTIC DEMAND FOR SECURITISATION."
GRAHAM METCALF ANZ

COPUBLISHED FEATURE

ADAPTATION — THE KEY TO RESIMAC'S SUCCESS — SET TO SHOW ITS VALUE ONCE MORE

Resimac is not unique in its ability to pivot between a focus on different forms of lending, but having this option is a clear benefit in an environment where banks are squashing prime margins. Andrew Marsden, Resimac's Sydney-based general manager, treasury and securitisation, sat down with ASJ to discuss how the nonbank lender's book has fared this year, thoughts on the sector's funding prospects in 2023 and Resimac's systems renewal project – which it expects will lead to better data outcomes for investors.

ANDREW MARSDEN
GENERAL MANAGER, TREASURY AND SECURITISATION
RESIMAC

It would be interesting to hear about the outlook for different types of residential lending. One would assume nonconforming would have the greater credit issues in a rising rates environment, but prime poses the biggest competitive challenges given higher residential mortgage-backed securities (RMBS) margins. What do the different challenges mean for origination outlook and book growth?

We are fortunate to have developed an adaptable business model that allows us to pursue opportunities in the prime and nonconforming markets, and to bias the one that meets our risk, return or volume objectives.

It is worth pointing out that we view the extent of competition in the prime space as cyclical as opposed to structural. The prime asset class is an essential component of our longer-term strategy and we will continue to develop our product offering with a growing focus on broker and digital distribution.

However, the nonconforming market currently offers greater market-share opportunities and Resimac will continue to be a dominant originator, particularly in the near-prime self-employed category.

As is common with most consumer credit portfolios, we expect the business cycle and employment levels to have greater influence on asset performance than increasing interest rates. We still have a fair degree of resilience in our portfolios, with lower LVRs [loan-to-value ratios] and greater payment buffers than there were prior to COVID-19.

In a market where so many investors are driven by relative-value considerations and where credit does not appear to be a major concern, what – if anything – can issuers do to maximise their breadth of distribution and access to funds? Where will Resimac be targeting its efforts?

Resimac has maintained a broad distribution strategy since the financial crisis. It encompasses issuance formats in yen, and New Zealand and US dollars. We will continue to have presence in these offshore markets to ensure our programme's volume capacity and diversification benefits.

It is probably fair to say Australian issuers have demonstrated consistency in managing securitisation transactions through

"There is still reasonable demand for housing and other consumer credit finance despite the interest rate cycle. We are not quite seeing the extent of volume in the investment space that we did during COVID-19. But the refinance market is particularly active – which presents an opportunity and a challenge from an asset-retention perspective."

"We released an affordability mortgage product that enables first homeowners to enter the home market with lower equity requirements and pricing concessions on lenders' mortgage insurance and interest rate. We have been able to demonstrate that this unique product offers a form of a social benefit."

all the different credit and spread environments, and are able to respond to investor preferences when conditions change.

While relative-value differentials can at times be challenging for Australian issuers, I believe our triple-A rated product offers a convincing investment proposition that is increasingly recognised by global asset managers. The performance of underlying collateral since the financial crisis is a standout story and there is a fairly broad offering for investors among bank and nonbank, and RMBS and asset-backed securities deals.

One would expect housing market turnover to fall in line with falling prices. Is there a natural offset in demand for credit that accompanies higher cost, and what has Resimac observed in patterns of demand for loans?

There is still reasonable demand for housing and other consumer credit finance despite the interest rate cycle. We are not quite seeing the extent of volume in the investment space that we did during COVID-19. But the refinance market is particularly active – which presents an opportunity and a challenge from an asset-retention perspective. Competition in the prime mortgage space is red hot and has created volume issues for the nonbanks. However, we believe this is cyclical and not a prolonged structural impediment for our sector.

We anticipate improved sentiment in the new business market when the reserve bank slows the tightening pace. This should create more demand for nonconforming and asset finance products, particularly in the self-employed segment.

Overall, how would you describe the trajectory of funding markets in 2022? In particular, has it been a case of alternating good and bad phases or of a progressive decline alleviated by periodic open funding windows?

By and large, funding markets this year have been mostly receptive to our sector's funding needs – although at markedly higher valuation levels. While the spread cycle has fundamentally changed, most nonbank issuers are funding businesses with the ability to change asset pricing to manage returns. This has been most evident in the nonconforming residential and asset finance space.

Primary deals are being cleared with reasonable real-money participation, which I think demonstrates the underlying strength of the market given the extent of macro uncertainty and concurrent global risk events. If recession scenarios are realised in key northern hemisphere economies in 2023, it is likely that Australian credit products will be seen as a relatively safe investment. This should provide further depth to issuers' programmes.

Resimac is in the process of updating its system architecture and digitalising the origination side of the business, with the end goal of giving investors and rating agencies access to more information. What progress has been made in this systems renewal so far, why is it important and what do you hope it will achieve? How will it improve Resimac's offering, and the experience for customers and investors alike?

Resimac is in the final stages of a digital transformation project that will fundamentally change our core business platform to allow us to compete in an increasingly technology-reliant industry.

Our new digital platform will generate improved user experiences for brokers and borrowers but also, importantly, improve the data environment allowing us to provide enhanced investor and portfolio reporting. We are also working with Perpetual Digital in digitalising our treasury operations, including automation of our securitisation waterfalls. This is a critical development as our funding programme takes on more scale and complexity.

Resimac issued an RMBS transaction in June 2022 that included a social tranche. It was also the first Australian issuer to include the label in an RMBS deal. What led to this inclusion and how has this tranche fared so far? Do you expect to be back in market with a similar transaction any time soon?

Resimac is developing business-wide ESG practices and product development is a significant contribution to these initiatives. We released an affordability mortgage product that enables first homeowners to enter the home market with lower equity requirements and pricing concessions on lenders' mortgage insurance and interest rate.

We have been able to demonstrate that this unique product offers a form of social benefit through the specificity of the lending policy and pricing structure, and were able to include it as collateral for our inaugural social-bond issuance.

We will seek to release other products, through our asset finance business, that generate social or sustainability outcomes and grow our ESG financing credentials. Our ESG financing and issuance strategy will be responsive to our debt and equity investor needs, and we hope to be at the forefront of initiatives in our sector. ■

COLUMN

IT IS INCUMBENT ON THE NEXT GENERATION TO ENSURE ESG IS HERE TO STAY

BY **JOSEPH-JAMES ALDAHR** SENIOR ASSOCIATE, ALLENS AND MEMBER, ASF FLYP SUBCOMMITTEE

Environmental, social and governance considerations are becoming ever-more central to decision-making in financial markets – and this evolution can be expected to accelerate even further in the years ahead. The Australian Securitisation Forum's Future Leaders and Young Professionals subcommittee believes the task at hand is of sufficient scale and significance to require a multigenerational commitment, especially as its complexity grows.

We are together witnessing, in real time, an historic transition in the impact environmental, social and governance (ESG)-related policy is having on the Australian securitisation industry. What was once a 'nice to have', has increasingly become an investment mandate, with commercial and legal protocols to adhere to.

The work of the Australian Securitisation Forum (ASF) and other industry participants is to be commended for promoting a genuine commitment to ESG standards and for encouraging others to do the same.

This journey is, however, still in its infancy. In this context, it is incumbent on the next generation of industry professionals to ensure a commitment to ESG is here to stay through the continued development of best practices on disclosure standards and related ESG terms.

INITIAL POSITIVE DEVELOPMENTS

Across the board, the Australian securitisation industry has already taken positive steps toward improving ESG disclosure, commitment and compliance for issuers and investors alike. Most notably, in May 2022 the ASF – through its ESG working group – released nonbinding market guidelines designed to assist the market in coalescing around ESG disclosure standards.

The market guidelines are structured in three levels: high-level principles, issuer-level disclosure recommendations and asset-level disclosure recommendations. The ASF's longer-term aspiration is for the market guidelines to evolve from a reference point to drive meaningful reporting and disclosure standards throughout the market, and encourage full participation.

The need for conformity in disclosure standards is in part driven by the uptick in market activity in this space, which is another encouraging development. For example, over the course of the 2022 calendar year the market saw two major nonbank lenders bring their inaugural social-bond residential mortgage-backed securities (RMBS) transactions, signifying growing investor demand for ESG-aligned securities.

Issuance volume in the Australian green bond market – which had reached A$4.6 billion (US$3 billion) in calendar 2022 as of August – is slated to surpass the total issuance volume from the 2021 calendar year of A$6 billion by year end, according to Bloomberg data.

These markers are indicative of, and influenced by, the momentum ESG continues to build beyond the securitisation industry. The transition to net zero global greenhouse gas emissions by 2050 under the Paris Agreement will require global economic participants to develop and adhere to sustainability standards.

In Australia, this is unfolding through the passing of the *Climate Change Act* in September 2022 as well as corporates making and implementing their own ESG commitments, including decarbonisation. In this context, the securitisation industry and debt capital markets in general have a role to play in facilitating a flow of capital within the economy to help Australia meet its sustainability targets.

CHALLENGES AHEAD

These positive developments and the push for fluidity in ESG-aligned securitisation, are not, however, without challenges over the short, medium and long term.

"Positive developments and the push for fluidity in ESG-aligned securitisation are not without challenges over the short, medium and long term. This is what the next generation of market participants will need to tackle in order to solidify ESG as a core focus of securitisation."

"Future leaders can play their part in ensuring a commitment to ESG is here to stay. The next generation has the opportunity to be vigilant and ask questions so ideas associated with ESG filter through the integrated web of clients, equity and bond investors, retail consumers and wholesale funders."

This is what the next generation of market participants will need to tackle in order to solidify ESG as a core focus of securitisation.

First, there is the difficult question of what truly makes a securitisation ESG-aligned. Due to the complexity of some structures, the variety of assets and the number of stakeholders involved in a transaction, an ESG assessment can take different practical forms.

In its 2021 report, *Developing a Framework for Sustainable Securitisation*, the European Banking Authority (EBA) noted that at least three types of frameworks are currently being used to assess the ESG characteristics of securitisation transactions.

Specifically, the EBA referred to the assets backing the transaction, whether the proceeds of sale are used for an ESG purpose and whether transaction counterparties are aligned with sustainability. In its 2021 report, *Sustainability in Securitisation*, the ASF and Perpetual Corporate Trust made a similar observation in their assessment of the Australian market.

DATA LIMITATIONS

This combines with the limitations on availability of data to accurately assess ESG compliance. The anecdotal evidence of industry participants suggests the collection of data and responding on ESG-related due diligence questions are resource intensive, in part because this information has not previously been offered or because it is simply not available.

For example, it can be difficult for an investor to assess a green RMBS pool when the energy efficiency of a home is not determined by a lender at the time of loan origination. There are of course the practical implications of privacy laws to consider in this context as well, which affect what information can and cannot be realistically obtained.

A challenge for the industry generally that is only growing in prominence is the risk of greenwashing, which in this context speaks to misrepresenting how environmentally friendly, sustainable or ethical a financial product or investment really is. In its extreme, greenwashing can be considered a form of misleading and deceptive conduct with serious legal consequences, including litigation or attention from regulators.

Regulators are increasingly focused on this issue, with the Australian Securities and Investments Commission (ASIC) most recently releasing its INFO 271 on "how to avoid greenwashing when offering or promoting sustainability-related products".

ASIC offers guidance – though not specific to debt products – as to how to avoid greenwashing by, for example, being true to label or questioning whether headline claims could be misleading.

THE ROLE OF THE NEXT GENERATION

Writing on behalf of the ASF's Future Leaders and Young Professionals subcommittee, it is important to recognise the important and groundbreaking work still being done by current market participants. We also understand it is imperative that the next generation of industry participants takes note of the challenges of ESG and continues to build on the industry's strong foundation in order to address them.

The journey of ESG in the Australian securitisation landscape is developing, but there is a lot to gain by future leaders championing its development. The trend toward ESG investment in other forms of financing domestically and globally is quite clear. For securitisation as a funding structure to remain relevant and useful to investors – which are increasingly becoming more ethically conscious with their investments – and issuers – which continue to seek funding for ESG-aligned assets – it will need to adapt and work to an ESG framework.

Meanwhile, ESG brings with it new asset and financing opportunities. The securitisation industry is well versed in introducing and perfecting best practices for new asset classes over time. ESG assets present no different a challenge in this regard.

Finally, there is a longer-term risk in not facilitating ESG financing, in particular in the form of the physical impact of climate change that will begin to strain the Australian economy as a whole if not addressed.

Over time, as the industry's knowledge bank continues to grow, investors, issuers and service providers will form a clearer understanding of best market practices, with the support of industry bodies and regulators. In particular, a consensus understanding will emerge covering the information – along with the reliability of that information – that should be obtained during the transaction diligence phase.

While this should occur organically, future leaders can play their part in ensuring a commitment to ESG is here to stay. The next generation has the opportunity to be vigilant and ask questions so ideas associated with ESG filter through the integrated web of clients, equity and bond investors, retail consumers and wholesale funders. The next generation also has the opportunity and privilege to be imaginative and consider ideas that incentivise ESG investment in securitisation. ■

COPUBLISHED FEATURE

EU SECURITISATION REGULATION AND THE AUSTRALIAN MARKET

On 10 October 2022, the European Commission published its long-awaited report on the functioning of the EU securitisation regulation[1]. While some Australian market participants issuing securities into Europe have complied to varying degrees, the report gives clarity on the commission's intent that offshore issuers comply in full with the EU securitisation regulation. There are a number of key points in the report, discussed in more detail by a group of lawyers from Mayer Brown: Amanda Baker, Neil Hamilton, Paul Jorissen, Stuart Litwin and Jon Van Gorp.

Due diligence and transparency. The European Commission (EC) has invited the European Securities and Markets Authority (ESMA) to prepare a dedicated template for private securitisations in order to "simplify considerably the transparency requirements for private securitisations" and to review all the disclosure templates to address possible technical difficulties in completing certain data fields, remove possibly unnecessary fields and align them more closely with investors' needs.

The commission invites ESMA to "consider whether information on a loan-by-loan basis is useful and proportionate to investors' needs for all type of securitisations".

Jurisdictional scope. The EC has provided legal interpretation of article 5(1)(e) of the EU securitisation regulation, the effect of which is that EU-based institutional investors are required to verify that sell-side parties will make available the same disclosure and template reporting, including loan-level data, for Australia and other third-country securitisations as is required for EU securitisations.

Risk retention and private securitisations. The commission's latest update does not recommend any change to the existing risk-retention requirements or to the current definition of a "private" securitisation.

Prudential treatment of securitisations. The commission will not make any decision on changes to the prudential treatment of EU securitisations for banks and insurance companies until it has received a response to its call for advice from European supervisory authorities.

BACKGROUND

The report fulfils the EC's legal mandate under article 46 of the EU securitisation regulation to report to the European Parliament and European Council on the functioning of the EU securitisation regulation. The report also contains the commission's formal response to issues raised by the European supervisory authorities (ESAs)' opinion to the EC on jurisdictional scope, by providing legal interpretation of article 5(1)(e) and certain other provisions of the EU securitisation regulation.

The report draws on a number of sources, including the report[2] and opinion[3] of the Joint Committee of the ESAs and feedback from a public consultation.

The report covers risk-retention requirements, due diligence and transparency requirements, the rules for and definition of private securitisations, the case for a simple, transparent and standardised (STS) equivalence regime, a regime for sustainable securitisation, the function of third-party verification of STS, and the case for establishing a system of limited-licence banks to replace the current structure of true-sale securitisation built around securitisation special purpose entities (SSPEs). It also assesses the current state of supervision and the prudential treatment of EU securitisations.

GENERAL CONCLUSION

The commission's opinion is that the EU securitisation regulation seems overall to be fit for purpose. It does not see the need for major legislative change at this juncture, although the report acknowledges that there is "room for fine tuning on certain aspects". The report is clear that European institutional investors must verify that any entity issuing into Europe – regardless of whether it is European or offshore domiciled – will fully comply with the transparency requirements of the EU securitisation regulation.

THE REPORT IN DETAIL

Risk-retention requirements. The commission did not find any evidence of deficiencies in how the risk-retention framework is being applied or that any of the risk-retention methods allowed by the EU securitisation regulation was inadequate. Accordingly, the commission saw no need to revise the existing risk-retention requirements.

To the relief of market participants, the commission rejected the view of the joint committee that only EU-based entities should be able to retain risk.

The report notes that the final draft regulatory technical standards on risk retention[4] have not yet been adopted by the commission and that this may have resulted in some legal uncertainty for market participants.

Due diligence and transparency. The commission has taken account of industry feedback that the existing due diligence and transparency requirements are too prescriptive and strict, especially when compared with the requirements for similar instruments such as covered bonds. The report also acknowledges that market participants see a "lack of proportionality" in the application of transparency rules to third-country securitisations.

The commission's conclusion is that the usefulness of the disclosure templates "might indeed be limited". Accordingly, the commission has invited ESMA to review the disclosure templates for underlying exposures in securitisations, in order to address "possible technical difficulties in completing the information required in certain fields, remove possibly unnecessary fields and align them more closely with investors' needs".

Importantly, the report also states that "ESMA should consider whether information on a loan-by-loan basis is useful and proportionate to investors' needs for all types of securitisations".

Private securitisations. Private securitisations are securitisations where a prospectus has not been drawn up in accordance with the European Prospectus Directive[5] – and so include securitisations listed on exchanges such as the global exchange market of Euronext Dublin or the Luxembourg MTF. Private securitisations are subject to the same regulatory requirements as public securitisations, except they are not currently[6] required to use a securitisation repository to disclose the information prescribed by article 7 of the EU securitisation regulation.

The commission noted industry feedback that transparency requirements for private deals are overly prescriptive and "rather meaningless" for investors in practice, because "investors in private deals are in a position to request and continuously receive the tailor-made information they need from the sell side of the transaction".

Many responses to the consultation favoured amending the definition of private securitisation, so as for example to exempt intragroup transactions with third-party investors. However, the commission's view was that it was not appropriate to change the definition and that moving to a simplified disclosure template for private transactions was the best way to address the issue.

To this end, the commission invited ESMA to draw up a dedicated template for private securitisation transactions that is tailored particularly to supervisors' need to gain an overview of the market and of the main features of private transactions. The commission envisages that this new template could replace the existing templates for all private securitisations, ie there could be a single template for all asset classes.

ESMA has now initiated a consultation in relation to this review process. A number of industry commentators have suggested that a revised template for private securitisations should be principles-based rather than requiring completion of pre-set data fields.

"The committee's decision to invite ESMA to revise and simplify the disclosure templates is a welcome development. In particular, the development of a dedicated template for private securitisations should materially ease the administrative burden for participants in private deals."

Jurisdictional scope. The jurisdictional scope of the EU securitisation regulation is further-reaching than expected and is not consistent with the approach offshore issuers have taken. Accordingly, we expect to see some shift in the market in terms of full compliance.

Sell-side obligations. The commission rejected the view of the joint committee that articles 6 (covering risk retention), 7 (transparency requirements) and 9 (credit-granting criteria) of the EU securitisation regulation should be interpreted in such a way that they could only be fulfilled by EU-based entities, which would enable these obligations to be enforced directly by EU regulators.

The commission concluded that these obligations could be effectively enforced through institutional investors' due diligence obligations under article 5. Under these, before investing in a securitisation, an investor must verify that the sell-side parties, irrespective of their location, comply with their respective obligations.

Buy-side obligations – availability of disclosures. The provisions of the report with the most significant immediate impact relate to the issue of the disclosure and reporting required to be made available to EU institutional investors in order for them to be able to invest in Australian or other third-country securitisations.

Article 5(1)(e) of the EU securitisation regulation requires institutional investors to verify that "the originator, sponsor or SSPE has, where applicable, made available the information required by article 7 in accordance with the frequency and modalities provided for in that article".

For many years, there has been uncertainty as to the application of article 7 disclosure requirements to third-country securitisations, in particular whether EU investors have to verify that information will be provided in the form of prescribed ESMA templates, including loan-by-loan data on the underlying exposures.

The commission noted that article 5(1)(e) gives rise to questions of legal interpretation and that its requirements were interpreted and applied differently by market participants. However, the commission concluded that differentiating the scope of information to be provided, depending on whether the securitisation is issued by EU entities or by entities based in third

"The commission's legal interpretation of the jurisdictional scope of the EU securitisation regulation creates significant practical compliance issues for Australia and other third-country sell-side parties in the interim period before any new templates are adopted. It is therefore to be hoped that industry calls for some form of 'no action' or transitional relief meet with a positive response."

countries, is not in line with the legislative intent. This is because it "does not matter for the proper performance of the EU-based institutional investors' due diligence whether a securitisation originated inside or outside the EU".

The commission stated that "it is not appropriate to interpret article 5(1)(e) in a way that would leave it to the discretion of institutional investors to decide whether or not they have received materially comparable information".

The commission noted that it was aware that this interpretation "de facto excludes EU institutional investors from investing in certain third-country securitisations", because third-country sell-side parties "might not be interested in providing the necessary information according to the procedures set out in article 7".

The commission noted that its request to ESMA to revise the disclosure templates and produce a dedicated template for private securitisations "might help reduce the competitive disadvantage for EU institutional investors", because it would make it easier for third-country sell-side parties to provide the required information.

The commission's legal interpretation, while providing the certainty the market has requested for some time, is problematic for sell-side parties in Australia and other third-country securitisations and also for EU institutional investors in those securitisations.

Although the commission sought to mitigate the effect of its legal interpretation of article 5(1)(e) by holding out the prospect of a new simplified template for private transactions, it is likely that the process required for the adoption of new templates would take a minimum of a year, and probably significantly longer.

During the transition period between the report's publication and the adoption of new templates, Australia and other third-country originators may baulk at investing the time, expense and resources necessary to complete the existing templates, especially when simplified templates are likely in the near term.

For some transactions and asset classes, it may be practicable for originators to complete the existing templates without significant cost or administrative burden, for instance by using the services of specialist third-party reporting agents or with support from buy-side parties. But this will not always be the case.

Since the report is not a change of law but rather sets out the commission's interpretation of existing law, it does not contain any express grandfathering or other transitional provisions. In relation to existing holdings of securitisations that do not fully comply with article 7 requirements and which were acquired before the report was published, it is generally considered that immediate sale should not be required.

In particular, alternative investment fund managers (AIFMs) are required to act in the best interests of the alternative investment funds (AIFs) or of the investors in the AIFs they manage[7], and accordingly a fire sale of existing noncompliant securitisation positions held by AIFs should not be required.

In relation to future investments by EU institutional investors in third-country securitisations, the commission's legal interpretation of article 5(1)(e) will almost certainly be treated as binding by national competent authorities. Accordingly, in making investment decisions, investors will need to be fully aware of the commission's interpretation and assess from a risk perspective the likelihood and nature of regulatory sanctions in relation to any potential exposure to securitisations that do not fully comply with article 7 reporting requirements.

It should be noted that article 7 also requires certain disclosures to be made available to investors before pricing – including transaction documents, which will typically be made available before pricing in draft form on a dedicated website, subject to finalisation on or around closing.

Buy-side obligations – AIFM investors. The commission also responded to the joint committee's request for legal clarification in relation to AIFMs acting as institutional investors in securitisations.

The commission concluded that AIFMs that manage or market funds in the EU have to comply with the due diligence obligations of the EU securitisation regulation. However, these obligations "should apply only to the funds that the third-country AIFM markets and manages in the EU, but should not be construed as also covering the management and marketing activities of this same AIFM that has no link to the EU".

The commission stated that it would consider amending the wording of article 2(12)(d) specifically to remove any kind of legal uncertainty in a future proposal to amend the EU securitisation regulation.

In addition, the commission concluded that the definition of "institutional investor" in article 2(12) of the EU securitisation regulation includes "sub-threshold" AIFMs[8].

STS equivalence. The EC stated that, to date, no securitisation regime in a third-country jurisdiction would come close to being considered equivalent to the EU's STS framework, despite the UK's substantially wholesale adoption of the EU's own STS regime after the UK left the EU. The commission therefore considered that it was "premature to introduce an STS equivalence regime at this time".

The commission noted that the EU STS regime is still evolving, and the EU has recently established a regime for STS on-balance-sheet securitisations that does not exist in the UK.

This contrasts with the UK Treasury report on the functioning of the UK securitisation market[9], which concluded that an STS equivalence regime "is desirable and should be introduced at the appropriate time". The UK has also proposed to extend its temporary recognition of EU STS securitisations to the end of 2024[10].

Sustainable securitisation. The EU securitisation regulation currently imposes only a limited obligation to make sustainability disclosures. For STS securitisations, the sell-side party has to publish "available information" on the environmental performance of the assets financed by residential loans or auto loans or leases[11].

The 2021 amendments to the EU securitisation regulation added the option, from 1 June 2021, for originators to publish available information on the principal adverse impact (PAI) on sustainability factors of the assets financed by the underlying residential loans or auto loans or leases. To date, a couple of Australian residential loan securitisations issued into Europe have provided information on sustainability.

Article 45a(e) of the EU securitisation regulation requires the commission to report on the creation of a specific sustainable securitisation framework, on the basis of a report by the European Banking Authority (EBA) published on 2 March 2022[12]. The commission agreed with the EBA report that there was no need for a separate green securitisation label in the short or medium term, and invited legislators instead to address the issue in the ongoing negotiations on the creation of a European Green Bond Standard.

The joint committee is developing regulatory technical standards (RTS) that will specify the information to be provided on the PAIs of certain asset classes included in STS transactions. The EBA report recommended that the scope of PAI disclosure should be extended: in the short term, to non-STS securitisations backed by the same asset types as in the existing STS disclosure requirement and, in the medium term, to all securitisations.

The commission also recognised the need to develop PAI disclosures and considered that the scope of the RTS from the joint committee should be as wide as possible.

Third-party verification of STS criteria. The EU securitisation regulation established a system of third-party verification entities to assist issuers and investors in assessing the compliance of a securitisation with the STS criteria.

In order for a third party to verify compliance with the STS criteria, it must be authorised by ESMA. It is then supervised by the national competent authority of the EU member state in which it is incorporated. The engagement of a third-party verification agent does not, however, remove legal liability from originators, sponsors and institutional investors in respect of the notification of a securitisation transaction as STS.

The commission concluded that the third-party verification regime appears to function as intended and saw no need to revise provisions regarding this regime. However, it recommended that dialogue should take place at an appropriate frequency between national competent authorities and the third-party verification firms to avoid inconsistent interpretations of the STS criteria.

SSPEs. The commission was mandated to enquire whether a system of limited licensed banks, which would perform the functions of SSPEs and have the exclusive right to purchase exposures from originators and sell claims backed by those exposures to investors, would add value to the securitisation framework.

Reflecting industry feedback, the commission concluded that there was no need to introduce a system of licensed banks to perform the functions of SSPEs. "The current framework is working in an adequate manner and no shortcomings or issues to address with regard to SSPEs have been identified."

Supervision of securitisation. The commission noted that to date no major shortcomings in supervision had been reported – in particular, no issues requiring changes in legislation. The commission saw this as an indication of the overall appropriateness of the supervisory framework.

The commission noted that the securitisation market was not equally developed across the EU and that this has had an impact on the degree of experience of the different supervisors.

The commission agreed that a common EU guide covering best practices for national supervisors should be developed and also saw merit in exploring the feasibility of having a lead supervisor.

Prudential treatment of securitisations. The report does not make any recommendations in relation to the prudential treatment of securitisations for banks and insurance companies. This is because the commission has addressed a call for advice to the Joint Committee of the ESAs, asking it to assess whether the securitisation prudential framework has met its intended objectives and to assess the appropriateness of the current regulatory capital requirements for investments in securitisations[13]. The commission will wait for the joint committee's advice and recommendations before making any possible decisions on the current prudential regime.

Significant risk transfer. Achieving regulatory significant risk transfer (SRT), and the associated regulatory capital relief, is one of the primary considerations for originator banks when structuring securitisation. Articles 244 and 245 of the capital requirements regulation (CRR)[14] permit banks to make their own determinations as to whether SRT requirements are satisfied, based on specified quantitative and qualitative tests.

However, originators must seek their competent authority's assessment of compliance with those tests. Banks have long contended that the SRT framework is an obstacle to growth of the securitisation market because of uncertainty and inconsistency of the supervisory assessment outcomes. The report notes that the commission is currently considering

"The EC stated that, to date, no securitisation regime in a third-country jurisdiction would come close to being considered equivalent to the EU's STS framework, despite the UK's substantially wholesale adoption of the EU's own STS regime after the UK left the EU."

whether to use its powers under the CRR to adopt a delegated act to enhance the harmonisation of the SRT framework, based on the EBA's report of 23 November 2020[15] and on industry feedback.

UK SECURITISATION FRAMEWORK

The report has no direct application to UK securitisation or UK investors. UK institutional investors may currently still exercise their own discretion as to whether reporting made available in respect of Australia or other third-country securitisations is "substantially the same"[16] as that provided in respect of a UK securitisation.

However, sell-side parties will need to take care that offering documents for securitisations being sold into both the EU and the UK clearly distinguish between the differing due diligence obligations of EU institutional investors and those of UK institutional investors.

In its report on the functioning of the UK securitisation regulation[17], HM Treasury said that UK regulators would, as a priority, seek to clarify what kind of disclosures are required for securitisations where the manufacturers are established outside the UK. This would "aim to balance pragmatism with high disclosure standards". It remains to be seen whether UK regulators will follow the approach of the commission.

CONCLUSION

The committee's decision to invite ESMA to revise and simplify the disclosure templates is a welcome development. In particular, the development of a dedicated template for private securitisations should materially ease the administrative burden for participants in private deals.

The commission's legal interpretation of the jurisdictional scope of the EU securitisation regulation, while providing certainty for the market, creates significant practical compliance issues for Australia and other third-country sell-side parties in the interim period before any new templates are adopted. It is therefore to be hoped that industry calls for some form of "no action" or transitional relief meet with a positive response from EU regulators.

While the regulators are not calling for a fire sale of deals that are not fully compliant with the EC's legal interpretation of the EU securitisation regulation, we expect that some Australian and other third-country issuers will begin fully to comply with the new regulations including the ESMA templates. ■

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1 Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending directives 2009/65/EC, 2009/138/EC and 2011/61/EU and regulations (EC) No 1060/2009 and (EU) No 648/2012, as amended.

2 https://www.eiopa.europa.eu/document-library/report/joint-committee-report-implementation-and-functioning-of-securitisation_en

3 https://www.esma.europa.eu/sites/default/files/library/jc_2021_16_esas_opinion_on_jurisdictional_scope_of_application_of_the_securitisation_regulation_003.pdf

4 *Consultation Paper – Draft Regulatory Technical Standards* (EBA/CP/2021/27), 30 June 2021, available at https://www.eba.europa.eu/eba-consults-technical-standards-risk-retention-requirements-under-securitisation-regulation and discussed in our earlier briefing: *EBA Consultation Paper on the Draft Regulatory Technical Standards relating to Risk Retention* | Perspectives and Events | Mayer Brown.

5 Directive 2003/71/EC.

6 Submission of templates for private deals to repositories is currently on a voluntary basis, but the commission stated that a requirement to register information on private deals via securitisation repositories "could be a way forward in the longer term, once the commission decides to make a proposal to amend the securitisation regulation".

7 Directive on Alternative Investment Fund Managers (2011/61/EU), Article 12(1)(b).

8 Ie small AIFMs that have a *de minimis* exemption and are only required to comply with the registration and reporting obligations of the AIFM directive (2011/61/EU).

9 HM Treasury, *Review of the Securitisation Regulation: Report and Call for Evidence Response* (December 2021), Chapter 3 (Risk retention), p23.

10 In the *Financial Services (Miscellaneous Amendments) (EU Exit)* regulations 2022.

11 Article 22(4) of the European securitisation regulation.

12 https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/reports/2022/1027593/EBA%20report%20on%20sustainable%20securitisation.pdf

13 The joint committee was due to report by 1 September 2022.

14 Regulation (EU) No 575/2013.

15 https://www.eba.europa.eu/eba-calls-european-commission-harmonise-significant-risk-transfer-assessment-securitisation

16 Article 5(1)(f) of the UK securitisation regulation.

17 See footnote 4 at p47.

MEMBER PROFILES

AUSTRALIAN AND NEW ZEALAND AUSTRALIAN SECURITISATION FORUM MEMBER 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.

Despite central banks shifting the goalposts and consumer price pressures bringing on difficult pitch conditions, the securitisation market is playing on. Most importantly, investors are still in attendance.

For this edition of the *ASJ*, 16 investor firms that are members of the Australian Securitisation Forum (ASF) have shared profile information on their specific funds and overall operations (see p62).

The profiles include data on funds under management, the number of funds that invest in residential mortgage-backed securities and other asset-backed securities, individual fund benchmarks and key portfolio managers, as well as contact details within the sector.

Nearly 50 ASF members have also provided profiles for this edition of *ASJ*, a list that includes familiar names along with new entrants attracted to a dynamic market that marries consumer demand for credit with investor appetite for risk and performance.

The sector has grown at a rapid pace, helped along by a stretch of competitively priced borrowing that will go down in history. While that phase has passed, the ASF member base is showing resilience and diversity to face the future.

AMAL

Established in 1994, AMAL is the region's only integrated provider of loan servicing, corporate trust and agency services. It has more than A$25 billion of funds under administration and supervision in Australia and New Zealand.

The AMAL group allows originators and lenders to plug into a ready-made servicing and trustee services platform including industry-leading technology and support, a highly experienced operational team and a rigorous governance, risk and compliance programme.

AMAL has a "strong" servicer evaluation rating from S&P and is accredited under ISO9001:2015 for quality management, under ISO27001 for information security and under GS007 for internal controls.

Clients range from the smallest startup to some of the region's and the world's largest financial institutions.

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AMP BANK

AMP is a leading wealth management and retail banking business in Australia and New Zealand. The AMP group's business is divided into three areas: AMP Bank, Australian Wealth Management – including platforms, master trust and advice – and New Zealand Wealth Management.

AMP Bank offers residential mortgages, deposits and transactional banking. The bank continues to focus on growth through investing in technology to streamline the origination process and improve the experience for customers and intermediaries. AMP Bank supports close to 178,000 Australians with their banking needs.

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ANZ

ANZ's market-leading capital markets team connects borrowers to global pools of liquidity via a fully integrated debt capital markets offering that encompasses bonds, securitisation and hybrid transactions. Working with ANZ's dedicated syndicate and sales teams, ANZ is committed to supporting clients' transactions.

Backed by ANZ's double-A category credit rating and strong balance sheet, the team's strength is in tailoring funding solutions to provide certainty of execution and achieve key price, structure and distribution metrics. The business is repeatedly recognised with industry and transactional awards.

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Ashurst is a market leader in the securitisation and structured finance market. Ashurst acts for a range of participants in the domestic and offshore markets including nonbanks, international banks and funds, domestic banks and other originators in respect of a range of asset classes. These include ABS (autos and trade, lease, and agri receivables), SME, personal loans, CMBS, RMBS, covered bonds, master trusts and bespoke securitisation transactions.

The Ashurst securitisation team in Australia works closely with Ashurst securitisation teams globally, including in France, Germany, London and Asia.

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Australian Securities Exchange (ASX) operates at the heart of the globally attractive, deep and liquid Australian financial markets. It has a proud history as an early and successful adopter of new technology. Today, ASX continues to embrace innovative solutions to make life easier for customers, help companies grow, create value for shareholders and advance the Australian economy. ASX is an integrated exchange offering listings, trading, clearing, settlement, technical and information services, and other post-trade services. It operates markets for asset classes including equities, fixed income, commodities and energy.

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BLOOMBERG

Risk never sleeps. And risk management has never been more crucial than it is in today's complex, interconnected markets. Market risk, counterparty risk, liquidity or operational risk, and portfolio risk management – whether on the buy or sell side, firms need a comprehensive solution with broad asset class coverage.

Bloomberg enables market users to gauge end-of-day and intraday risk levels with precision. Its unrivalled data and analytics confer an edge, and best-in-class Bloomberg service ensures seamless integration into a firm's workflows.

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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 2022, BOQ had total assets of A$99.9 billion.

In FY22, the ME integration saw the accelerated completion of key integration initiatives. In addition to cost synergies, revenue benefits, funding savings and investment capex synergies have also been delivered.

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

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BLUESTONE GROUP

Founded in 2000, Bluestone Group is a well-diversified originator of prime (including SMSF), near-prime and specialist residential home loans in Australia and New Zealand. It has a team of more than 300 professionals across Australia, New Zealand and the Philippines and manages more than A$14 billion in home loans for Australian and New Zealand customers, including about A$5.7 billion equivalent of loans in its own mortgage book.

In March 2018, Cerberus Capital Management completed a transaction to purchase Bluestone, bringing significant capital, operational and credit expertise. The strategic focus has been to incorporate a greater proportion of lower credit-risk assets, expand its product set and broaden investor relationships.

Bluestone is a frequent issuer in the Australian RMBS market, with 37 public securitisation trusts since 2002 including 19 transactions from 2013 to 2022.

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BNY MELLON

Since establishing its Australian office in 1975, BNY Mellon has made a number of investments in the market to build out its global corporate trust franchise. Today, 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. The services delivered in Australia are boosted by a solid capital base and credit ratings. BNY Mellon's securitisation services are delivered through a robust analytics platform using leading global technology to enable bespoke modelling.

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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, 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.

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CITI

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.

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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.

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COLCAP

ColumbusCapital

Since incorporating in 2006, 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.

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$12 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 self-managed superannuation fund loans.

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COMMONWEALTH BANK OF AUSTRALIA

CommonwealthBankofAustralia

As one of Australia's most recognised brands, 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 11.5% as at 30 June 2022, well in excess of regulatory minimum capital requirements.

With the world economy transitioning to a new economic cycle, it has been a challenging period for global markets. CBA's institutional banking and markets (IB&M) business has been well positioned to provide ongoing support for institutional, corporate and government debt issuance. IB&M has also facilitated the issuance of A$13.6 billion of sustainable bonds, in line with the bank's strategy of helping to build Australia's future economy.

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CREDIT SUISSE

Credit Suisse is one of the world's leading financial services providers and was one of the first international banks to open in Australia, where it has maintained a continuous presence since 1969.

Within the Australian and New Zealand securitisation business, Credit Suisse provides financing and capital markets solutions to a variety of clients. Credit Suisse has a skew to new and emerging sectors, assets classes and issuers, being prepared to spend the extra time to understand an opportunity and provide the flexibility emerging areas require to thrive.

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DELOITTE

Deloitte's market-leading securitisation practice, unique among the big four in Australia, has global reach and capabilities that allow it to leverage the skills of the world's largest professional services organisation 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.

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DEUTSCHE BANK

Deutsche Bank is the leading bank in Germany, with strong European roots and a powerful global network. In Australia, Deutsche Bank has been helping clients achieve their goals since 1973 by providing 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, providing innovative client solutions and service for more than a decade.

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EQT HOLDINGS

EQT Holdings is Australia's leading specialist trustee company, with more than 130 years' experience and in excess of A$148 billion in funds under management, administration and supervision as at 30 June 2022. Through its Equity Trustees brand, the company provides a diverse range of services to individuals, families and corporate clients including asset management, philanthropic services, responsible entity services, and debt capital markets and securitisation services for sponsors and issuers.

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ETICORE

Eticore provides corporate trustee, trust management, backup servicing, RBA 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 will be 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.

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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 approximately A$16 billion in prime mortgages, A$600 million in auto loans and A$300 million in cash investments.

Firstmac is fully funded by RMBS and ABS, having issued more than A$40 billion in RMBS since 2003.

In 2022, Firstmac was proud to receive the KangaNews Australian Nonbank Financial Institution Issuer of the Year Award for the second year in a row. Voted by market participants, it is bestowed on the issuer that most impressed the market.

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FITCH RATINGS

Fitch Ratings is a leading provider of credit ratings, commentary and research. Dedicated to providing value beyond the rating through independent and prospective credit opinions, Fitch offers global perspectives shaped by strong local market experience and credit market expertise. Globally, Fitch has more than 300 dedicated structured finance professionals. There are 17 structured finance analysts in the Sydney-based team.

Fitch has built a reputation of clarity and consistency in the global structured finance markets. It won the KangaNews Award for Australian Structured Finance Rating Agency of the Year in 2019 and *The Asset*'s Structured Finance Rating Agency of the Year in 2021.

Fitch has continued to provide transparency to the market by launching ResiGlobal, which helps investors monitor their RMBS investments at any time and understand how changes to assumptions could affect ratings.

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GOLDMAN SACHS

Goldman Sachs is a leading global financial institution that delivers a broad range of financial services across investment banking, securities, investment management and consumer banking 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.

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HERBERT SMITH FREEHILLS

Herbert Smith Freehills is one of the world's leading professional services businesses, with the staff in 27 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

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HUMMGROUP

Hummgroup (formerly flexigroup) is an Australian company listed on the ASX since 2006 with operations spanning more than 30 years. Hummgroup provides a range of finance products and payment solutions to consumers and businesses including revolving credit, buy-now, pay-later and SME lending, serving a broad footprint of millennial spenders through to young families and SMEs. With operations in Australia, New Zealand and Ireland, and recent expansion to Canada and the UK, hummgroup plays an important role facilitating payments in a range of industries in addition to traditional retail.

In Australia, hummgroup has been a regular ABS issuer under its Flexi ABS, humm ABS and flexicommercial ABS programmes. In 2016, it was the first Australian corporate to issue green ABS and has since issued more than A$616 million in green ABS across six transactions. In New Zealand, hummgroup is a frequent issuer under its Q Card Trust programme.

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ING

ING Wholesale Banking meets international needs with a local presence in more than 40 countries. It services a wide range of companies and organisations including multinational corporations, financial institutions, governments and supranational bodies. 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$69 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. For three years, ING has been among the top three banks that finance renewables projects in Australia.

◆ CONTACT DETAILS

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INTEX

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

Hundreds of arrangers, investors, issuers and others rely on Intex's solutions to underpin complete, accurate and timely cashflow 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 that is focused entirely on cashflow modelling and data. It is headquartered in Boston, with offices in London and Shanghai.

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MEMBER PROFILES

J.P. MORGAN

J.P.Morgan

J.P. Morgan's corporate and investment bank is a global leader across banking, markets and securities services. The world's most important corporations, governments and institutions 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 giving access to J.P. Morgan's network of investors globally.

◆ CONTACT DETAILS

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KING & WOOD MALLESONS

KING&WOOD MALLESONS 金杜律师事务所

King & Wood Malleseons (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

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KPMG

KPMG

KPMG is a global network of professional firms providing a full range of services to organisations across a wide range of industries as well as the government and not-for-profit sectors. KPMG Australia has a dedicated team of debt specialists, including experts in securitisation. The firm offers a wide range of services to clients that access funding via the securitisation market for a cross-section of asset classes.

KPMG's end-to-end service includes independent advice during each phase of a securitisation transaction and, if required, running a competitive process to identify the right partners in establishing cost-effective and flexible warehouse funding.

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LA TROBE FINANCIAL

La Trobe financial

La Trobe Financial is one of Australia's leading asset managers. Founded in 1952 with A$16 billion in AUM, La Trobe Financial has been a proven and trusted investment partner for institutional and retail investors alike.

La Trobe Financial has the most diversified funding programme of all credit asset managers operating in Australia, comprising bank mandates, Australia's largest retail credit fund and public RMBS funding. As a programmatic RMBS issuer, the business has issued A$10.7 billion across 15 transactions to Australian and international investors. Critical to success are La Trobe's high-quality granular assets, coupled with disciplined underwriting and management expertise. A portfolio weighted average loan-to-value ratio of 64.5% results in natural self-selection of super-prime and prime assets, and downside loss protection.

La Trobe Financial is a Brookfield-owned portfolio company.

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LATITUDE FINANCIAL SERVICES

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, 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$3.7 billion of volume for the six months to 31 December 2021, with 2.8 million 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.

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LIBERTY FINANCIAL

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 from S&P. Liberty's term securitisation programme offers prime and nonconforming RMBS, auto ABS and SME formats. It has raised more than A$38 billion across 82 transactions. 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

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MA FINANCIAL GROUP

MA Financial Group is an ASX-listed financial services firm specialising in asset management, lending, corporate advisory and equities. Its asset management division originates and manages investment opportunities for wholesale, retail and institutional investors across credit, real estate, equities, hospitality, private equity and venture capital. It has A$7.2 billion in assets under management.

The business has significant expertise in credit, nonbank lending and speciality finance. With a strong historical performance track record across its credit strategies, MA's clients entrust it to manage approximately A$2 billion on their behalf.

In credit, MA targets investments with robust fundamentals and clear downside protection where it believes returns are outstanding for the controlled or limited level of associated risk.

MA also owns Finsure, one of the fastest-growing aggregators in Australia with more than A$85 billion of managed loans on platform, reaching a network of more than 2,400 brokers and with more than 75 lenders on panel.

◆ CONTACT DETAILS

www.mafinancial.com

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 52-year record of unbroken profitability.

As part of Macquarie's commodities and global markets group, the fixed-income and currencies division provides currencies and fixed-income trading and hedging services to a range of corporate and institutional clients globally. The division also provides warehousing, structuring and distribution of securitised debt for clients in Australia and Europe.

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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.

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MOODY'S

Moody's

Moody's mission is to provide trusted insights and standards that help decision-makers act with confidence.

Moody's is a global integrated risk-assessment firm that empowers organisations to make better decisions. Moody's data, analytical solutions and insights help decision-makers identify opportunities and manage the risks of doing business with others.

Moody's believes that greater transparency, more informed decisions and fair access to information open the door to shared progress. With more than 13,000 employees in more than 40 countries, Moody's combines global presence, local expertise and more than a century of experience in financial markets.

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MUFG

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 with approximately 2,500 locations in more than 50 markets. The group has about 170,000 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 flexibly respond to the financial needs of its customers, to 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

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NATIONAL AUSTRALIA BANK

nab

National Australia Bank (NAB)'s operations in Asia, Australia, New Zealand, the US and UK serve approximately eight 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 cemented its position as a key arranger and lead manager of capital markets and balance sheet deals, through continued innovation and 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 2022) and as winner of the KangaNews Australian Securitisation House of the Year award from 2012 to 2021.

◆ CONTACT DETAILS

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NATIXIS CIB

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

Natixis's teams of experts in 30 countries advise clients on their strategic development, helping them grow and transform their businesses and maximise their positive impact. Natixis is committed to supporting the environmental transition by aligning its financing balance sheet with a +1.5°C trajectory by 2050.

As part of the global financial services division of Groupe BPCE, one of the largest financial institution groups in France, Natixis CIB benefits from the group's financial strength and solid financial ratings (S&P, A; Moody's, A1; Fitch, A+; R&I, A+).

◆ CONTACT DETAILS

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

PEPPER MONEY

Pepper Money is one of the largest nonbank lenders in the Australian mortgage and asset finance markets. It commenced business in Australia in 2001 as a provider of home loans to consumers who fall just outside the lending criteria of traditional bank and nonbank 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, third-party loan servicing 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 RMBS green bonds and since 2003 has issued more than A$33 billion in bonds across 54 transactions via its four programmes – Pepper-Prime, PRS, Pepper-Social and SPARKZ – in domestic and international capital markets.

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PERPETUAL CORPORATE TRUST

Perpetual Corporate Trust (PCT)'s vision is to be the leading fiduciary and digital solutions provider to the banking and financial services industry. Renowned domestic and global financial institutions leverage its unique suite of products across debt markets, managed funds and digital solutions to support their business strategy, while acting in the best interests of all parties.

PCT's mission is to drive its own success and that of its clients by delivering next generation software and data solutions. Perpetual Digital, PCT's innovation company, is a professional services business delivering SaaS products and data services.

PCT's strategy is simple: enable client success by focusing on helping clients, and the broader ecosystem, be more effective, efficient, scalable and economical while managing ever-increasing cyber security risks and maintaining compliance.

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PwC AUSTRALIA

PwC Australia is a member of PwC, a network of firms in 152 countries committed to delivering quality in assurance, advisory, legal and tax services. PwC has a specialist structured finance team globally, including dedicated teams in the Asia-Pacific region. The team provides advice, in-depth market insight and pre-eminent transaction support to clients.

PwC's industry specialisation allows it to help co-create solutions with clients for their sector of interest.

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RBC CAPITAL MARKETS

RBC Capital Markets

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.

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RESIMAC

resimac

Resimac Group 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$15 billion.

Resimac has issued more than A$45 billion in bonds 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.

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S&P GLOBAL RATINGS

S&P Global
Ratings

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, S&P 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 helps many of the world's leading organisations navigate the economic landscape so they can plan for tomorrow, today.

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SOCIETE GENERALE

SOCIETE GENERALE

Societe Generale is one of the leading European financial services groups, offering a wide range of advisory services and tailored financial solutions. It has been present and active in Australia since 1981. Operating from its Sydney branch, it provides financing and advisory, especially in the natural resources and infrastructure sectors, 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 Societe Generale to leverage its credit capabilities and to be a single entry point for ABS-type products and illiquid loans in support of its clients.

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SUNCORP GROUP

Suncorp Group is a financial services provider in Australia and New Zealand that offers insurance and banking products and services, with a heritage dating back to 1902 and more than 13,000 staff. Suncorp has three core businesses: insurance (Australia), banking (Australia) and Suncorp New Zealand.

Suncorp Bank provides home and business loans, everyday deposit and savings accounts, credit cards and merchant facilities. It supports families, individuals, businesses and farmers to plan for their future by providing solutions to their banking needs.

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TAO SOLUTIONS

TAO Solutions is a world-leading securitisation SaaS provider. For more than a decade, TAO Solutions has worked with the financial services industry to provide workflow automation, introduce industry best practice, enable material operational efficiencies and reduce operational risks by leveraging innovative technology, deep-rooted industry expertise and exceptional customer service. Catering for the various securitisation user groups, TAO Solutions provides a cloud-hosted end-to-end administration platform to support structured finance, securitisation, covered bonds, asset-backed commercial paper conduit and ESG-related transactions.

TAO Solutions is a SOC 2 Type 2 and ISO 27001 accredited organisation and Gold Microsoft Certified Partner. Industry memberships include the Australian Securitisation Forum, Asia-Pacific Structured Finance Association, Structured Finance Association and the European Covered Bond Council.

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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 FX and fixed-interest solutions.

Westpac partners with corporates, institutions and governments to back nation-building development, and supports clients with their transition to net zero emissions. It is leading the way in financing Australian infrastructure and renewable energy development, and innovative sustainable finance solutions. Westpac is your partner in building a sustainable future.

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ALEXANDER FUNDS MANAGEMENT

Alexander Funds

FUNDS UNDER MANAGEMENT (30 SEP 22)	A$516 MILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	2

About Alexander Funds Management

Alexander Funds Management 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 assets, ABS assets, 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 assets, ABS assets, 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

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AQUASIA

AquAsia

FUNDS UNDER MANAGEMENT (30 SEP 22)	A$920 MILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	2

About Aquasia

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

Owned by current 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(S)	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.

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AURA GROUP

AURAGROUP

FUNDS UNDER MANAGEMENT (30 JUN 22)	A$1.3 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	4

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 with 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.

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 return (net of management fees) with a low level of expected capital loss. The fund invests in warehouse facilities to Australian lenders.

AURA TACTICAL OPPORTUNITIES FUND

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

Aura Tactical Opportunities Fund (ATOF) is an open-ended, unlisted fund with a focus on market-dislocated investment opportunities with potential for improved risk-adjusted returns. ATOF invests in private and public debt, and public equity across Australia and Asia Pacific, with capacity to invest globally. ATOF's investments feature potential for positive catalysts, with core investment consisting of solid cashflows. ATOF has a 12-month term and quarterly distributions, targeting a return of 15-20% p.a. (net of fees and expenses). The fund donates one-third of its management and performance fee to Opportunity International Australia.

◆ CONTACT DETAILS

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CHALLENGER IM

challenger

FUNDS UNDER MANAGEMENT (30 SEP 22)	A$16.8 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	5

About Challenger Investment Management

Challenger Investment Management (Challenger IM) is an alternative investment manager covering a global opportunity set in fixed-income and real-estate investments. 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 its 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.

CREDIT INCOME FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX +3% (AFTER FEES)
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.

MULTI-SECTOR PRIVATE LENDING FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	WHOLESALE
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX +5% (AFTER FEES)
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.

PRIVATE LENDING OPPORTUNITIES FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	WHOLESALE
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX +8% (AFTER FEES)
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.

◆ CONTACT DETAILS

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FIRST SENTIER INVESTORS

First Sentier Investors

FUNDS UNDER MANAGEMENT (30 SEP 22)	A$209 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 multi-asset 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 residential mortgage-backed securities. 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, 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 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

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GRYPHON CAPITAL INVESTMENTS

FUNDS UNDER MANAGEMENT (30 SEP 22)	A$3.1 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 Europe and Australia. Gryphon has a highly seasoned and experienced team, with the partners averaging more than 25 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.

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% pa. 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% (NET OF FEES)
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 residential-mortgage backed securities and asset-backed securities with a strong focus on capital preservation.

INVESTMENT GRADE STRATEGY

CURRENCY	AUD
LISTING	SEGREGATED ACCOUNT
ELIGIBLE INVESTORS	INSTITUTIONAL
FUND BENCHMARK	BANK BILLS +2.75% (NET OF FEES)
KEY PORTFOLIO MANAGERS	STEVEN FLEMING, ASHLEY BURTENSHAW

The Investment Grade Securitised Strategy generates strong risk-adjusted returns by investing in a high-conviction portfolio of investment grade-rated Australian residential-mortgage backed securities and asset-backed securities with a strong focus on capital preservation.

CONTACT DETAILS

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HARBOUR ASSET MANAGEMENT

FUNDS UNDER MANAGEMENT (31 MAR 22)	A$4.9 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 towards 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

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KAPSTREAM CAPITAL

FUNDS UNDER MANAGEMENT (30 SEP 22)	A$13.4 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

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MACQUARIE ASSET MANAGEMENT

MACQUARIE

FUNDS UNDER MANAGEMENT (30 JUN 22)	A$773 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 multi-asset 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 covering the spectrum of global fixed-income markets (as at 30 June 2022).

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 1-10 YEARS 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

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MANNING ASSET MANAGEMENT

MANNING
ASSET MANAGEMENT

NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	3

About Manning Asset Management

Manning Asset Management is a specialist credit investment manager established in 2015 and based in Sydney, Australia. Its clients include a range of high-net-worth, family office and institutional investors. Manning is not a lender itself. Rather, it operates a fund that provides wholesale funding to lenders, secured against their loan books. Manning works with a range of consumer, business and mortgage lenders and has expertise across most loan types.

MANNING MONTHLY INCOME FUND

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

RBA cash rate plus 5% per annum over rolling five years (net of fees, excluding tax) and limiting the risk of a negative return over this time period.

CONTACT DETAILS

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MUTUAL LIMITED

M

Mutual Limited

FUNDS UNDER MANAGEMENT (30 SEP 22)	A$2.5 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 who 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 RUNDELL

Mutual's objective for the Mutual Credit Fund is to source and actively manage a portfolio of fixed-interest credit assets across ADIs, corporates and structured assets. Targeted portfolio construction is to hold assets with a shorter credit duration to ameliorate periods when risk assets sell off. Mutual manages interest rate risk by predominately investing in assets that reset their reference rate 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 RUNDELL

Mutual's objective for the Mutual High Yield Fund is to source and actively manage a portfolio of fixed-interest credit assets, with a core focus on structured credit assets. Targeted portfolio construction is to hold assets with a shorter credit duration to remove the volatility associated with fixed rates. Mutual manages interest rate risk by predominately investing in assets that reset their reference rate every 30 days.

CONTACT DETAILS

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NARROW ROAD CAPITAL

FUNDS UNDER MANAGEMENT (30 SEP 22)	A$376 MILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	3

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 nonconforming, nonresident and asset-backed sectors. Investments can include public and private transactions, rated and unrated, with bespoke and esoteric opportunities welcome.

Note that as Narrow Road only has private mandates, there are no fund profiles.

◆ CONTACT DETAILS

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PERPETUAL LIMITED

FUNDS UNDER MANAGEMENT (30 SEP 22)	A$89.3 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	15

About Perpetual Limited

Perpetual Limited is an ASX-listed, diversified financial services firm that has four business divisions: Perpetual Asset Management Australia, Perpetual Asset Management International, Perpetual Private and Perpetual Corporate Trust.

Perpetual Asset Management Australia is a dynamic, active manager offering an extensive range of specialist investment capabilities including Australian and global equities, credit, fixed income, multi-asset as well as environmental, social and governance (ESG), designed to help meet the needs of clients across Australia and New Zealand.

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 80 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	RBA CASH RATE
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

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REALM INVESTMENT HOUSE

FUNDS UNDER MANAGEMENT (30 SEP 22)	A$2.6 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 PAPAGEORGIOU

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 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 non-institutional 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

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REVOLUTION ASSET MANAGEMENT

FUNDS UNDER MANAGEMENT (30 SEP 22)	A$1.8 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	4

About Revolution Asset Management

Revolution Asset Management provides institutional, wholesale and professional investors with 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, asset-backed securities, 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 asset-backed securities 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 asset-backed securities 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 asset-backed securities designed to deliver superior risk-adjusted returns with downside protection.

QIC 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

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◆ CONTACT DETAILS

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SANDHURST TRUSTEES

FUNDS UNDER MANAGEMENT (30 SEP 22)	A$6.3 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 multi-manager 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 Mortgage 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

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