ASJ

AUSTRALIAN SECURITISATION JOURNAL

Incorporating Australian and New Zealand Securitisation and Covered Bonds

>> Issue 20 • 2021

A DECADE OF THE *ASJ*…

10TH ANNIVERSARY EDITION

Australian Securitisation Forum

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Australian Securitisation Forum

ASF MANAGEMENT COMMITTEE

Chair
Sarah Hofman

Deputy Chairs
Matthew O'Hare
Belinda Smith

Treasurer
Heather Baister

Chief Executive Officer
Chris Dalton

asf@securitisation.com.au
+61 2 8277 4141
www.securitisation.com.au

***ASJ* PUBLISHED BY**

KangaNews

Chief Executive
Samantha Swiss
sswiss@kanganews.com

Head of Content and Editor
Laurence Davison
ldavison@kanganews.com

Deputy Editor
Matthew Zaunmayr
mzaunmayr@kanganews.com

Staff Writers
Kathryn Lee
klee@kanganews.com
Chris Rich
crich@kanganews.com

Head of Commercial
Jeremy Masters
jmasters@kanganews.com

Head of Operations
Helen Craig
hcraig@kanganews.com

Design Consultants
Hobra Design
www.hobradesign.com

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FROM THE CEO

This edition of the *ASJ* marks the 10th anniversary of the semiannual publication. Since the first edition was published in 2011, The *ASJ* has shone a spotlight on developments and issues in the Australian and New Zealand securitisation markets. It is pleasing to note that it remains relevant and highly valued by market participants locally and overseas.

For the first time, in this edition we are pleased to profile a number of our investor members – which now number more than 20 (see p46).

The Australian securitisation market is enjoying an active start to 2021. The character of the market has changed from prior years, in particular in the sense that there has been limited issuance from Australian Prudential Regulation Authority-regulated banks. But there has also been a steady supply of deal flow from nonbanks, including a number of first-time issuers.

"Since the first edition was published in 2011, the ASJ has shone a spotlight on developments and issues in the Australian and New Zealand securitisation markets. It is pleasing to note that it remains relevant and highly valued by market participants locally and overseas."

Demand for Australian and New Zealand residential mortgage-backed securities (RMBS) and other asset-backed securities has been strong with margins on new primary issues better than any time in recent years.

To take just one example, Firstmac – a major nonbank issuer – completed a successful new RMBS transaction of A$2 billion (US$1.5 billion) in the second quarter that was the largest-ever transaction by an Australian nonbank. Notably, it enjoyed strong local and international investor support.

To date in 2021 the Australian government's Structured Finance Support Fund (SFSF) has not been drawn upon. The SFSF was set up with a A$15 billion allocation to provide funding to small lenders affected by the onset of the pandemic in early 2020. The fact that the SFSF has not participated in any new primary-market transactions and has started to withdraw from some warehouse facilities is a positive sign for the market.

Nonetheless, the SFSF represents a timely, targeted and successful intervention to stabilise the funding market for small lenders in a time of great uncertainty.

EU RULE CHANGES

The Australian securitisation market was surprised by the EU announcement, in December 2020, that it would classify Australia as a harmful tax jurisdiction in amendments to Article 4 of the EU Securitisation Regulation. This caused concern for the local securitisation industry on the basis that the proposed amendments would prohibit investment from EU-based entities due to a lack of reform of Australia's offshore banking unit (OBU) tax regime.

In response, the Australian Securitisation Forum (ASF) along with Australian Treasury and the Association for Financial Markets in Europe engaged with various arms of the EU to outline concerns with and potential consequences of the amendment.

The ASF understands legislation to reform the taxation regime of OBUs is likely to be passed in Australia's winter parliamentary sitting in or around June 2021. If and when the OECD approves Australia's approach to the reforms, it is now generally expected that the EU will no longer classify Australia as a harmful tax jurisdiction. We are currently awaiting the OECD's response. The ASF will continue to monitor these events

"The fact that the SFSF has not participated in any new primary-market transactions and has started to withdraw from some warehouse facilities is a positive sign for the market. Nonetheless, the SFSF represents a timely, targeted and successful market intervention."

and – when timing becomes clearer, expected to be in the third quarter – we propose to host a member briefing.

In the meantime, the ASF has published guidance for its members on the new EU Securitisation Regulation Article 4 notification obligations to assist relevant EU member-state tax authorities better understand the nature of an Australian securitisation investment.

BENCHMARK REFORM

The ASF continues to make progress with its work on interest-rate benchmark reform. In response to a request for feedback from the Reserve Bank of Australia (RBA), the ASF – with industry input – made a submission on bank-bill swap rate fallbacks in RBA-eligible securities. This has been followed up with meetings with the RBA during which the issues raised have been discussed in detail.

Discussions have also been held with Australia's benchmark administrator, the Australian Securities Exchange, and with the Australian Securities and Investments Commission, particularly in relation to cessation or temporary and permanent nonpublication of benchmarks.

MEMBER OUTREACH

Over the first half of 2021, the ASF has run a number of virtual member briefings that, pleasingly, have been very well attended. We intend to continue this programme over the rest of the year as well as to conduct overseas investor briefings.

The ASF continues to run its education programme. In May, it held its first in-person sessions since February 2020. We are also running programmes in virtual format, for which participation remains strong. The ASF has delivered a number of these courses in-house, tailored to meet specific needs. Details of upcoming courses can be found on the ASF's website.

"Over the first half of 2021, the ASF has run a number of virtual member briefings that, pleasingly, have been very well attended. We intend to continue this programme over the rest of the year as well as to conduct overseas investor briefings."

ASF membership continues to grow: we now have 166 Australian and New Zealand market participants constituting our membership. We are delighted to welcome the following new members that have joined the ASF since our last publication: Aura Group, Basecorp Finance, Coolabah Capital, Loanworks, MKM Capital, Moelis Australia, OnDeck Australia and Sandhurst Trustees.

The ASF has commenced planning for its 2021 annual conference to be held at the Sydney Hilton on Tuesday 9 and Wednesday 10 November. We are delighted to be planning for this event to be held in person, possibly accompanied by a streaming option for those unable to travel – especially the many offshore delegates. We look forward to connecting the industry once again.

CHRIS DALTON
CHIEF EXECUTIVE OFFICER

FEATURE

SME TEMPLATE LAYS THE FOUNDATIONS

SME lenders and securitisation investors hope a standardised reporting template developed by an Australian Securitisation Forum working group helps spark growth in capital-market issuance backed by small-business loans. The template is an early step toward the end-goal outcome but is among the most important.

BY MATT ZAUNMAYR

Securitisation of Australian SME lending represents a largely untapped market. Some SME-backed programmes exist but they are typically for loans to self-managed superannuation fund borrowers or secured by commercial property rather than funding direct, unsecured lending to small and medium businesses.

One reason for this is that the sheer diversity of the SME lending sector makes it difficult to create a homogenous product – like residential mortgage-backed securities (RMBS) – suitable to become a staple of capital markets.

As a consequence, SME lenders have not been able to access cost-efficient funding through securitisation. In turn, the asset class's cost efficiency cannot be passed on to borrowers from the SME sector.

The federal government is eager to address this. The Australian Business Securitisation Fund (ABSF), administered by the Australian Office of Financial Management (AOFM), was taken off ice early in 2021 following the alleviation of pandemic-related market stress in 2020. A second round of ABSF investment is expected to be announced late in the first half of 2021.

The ABSF may have been on hold during the pandemic but its administrator was still building a knowledge base. Indeed, the AOFM said when announcing its request for investment proposals in late January that its more widespread market support during 2020 had required it to "cross the Rubicon" into unsecured SME securities, opening the door for lenders of such loans potentially to access ABSF investment sooner than was initially planned.

However, the lack of consistent, standardised data to provide a track record of asset-class performance remains an issue. An Australian Securitisation Forum (ASF) working group has sought to address this by developing a reporting template to deliver utility across a diverse range of SME lenders. Working-group members envision the template being useful for the ABSF but also hope it will lay the foundations for a public asset-backed securities (ABS) market down the track.

DIVERSE CONSIDERATIONS

The working group's draft template is designed to tackle the biggest challenge in catalysing a large and broad SME securitisation market: variability and inconsistency of data in the sector that makes comparison between lenders difficult.

Brett Craig, portfolio manager at Aura Funds Management in Sydney, says: "Aura's high-yield SME fund provides capital to SME lenders and has a track record of strong performance and no losses. However, our investments in the sector are essentially illiquid because of the work required to invest in the asset class. We would welcome a broader securitisation market for the product, which would increase liquidity for investors and lower the cost of capital for lenders."

Sanam Vikash, treasury manager at Prospa in Sydney, reveals that questions about the availability of industry-wide data on SME business performance are frequent. "We talk with market participants in detail about the performance of our own loan book but do not have access to industry-wide data. The idea is for this template to collate data from across the SME lending industry and create a benchmark."

Introducing a consistent data-reporting template to a sector that is inherently diverse has obvious complexities. However, Michael Heath, Melbourne-based treasurer at Judo Bank, says it is possible to identify various metrics that are consistent across lenders. He explains: "The template should be broad enough to cover individual lenders' various assets while focusing on the commonalities between them. Some fundamental attributes relating to business underwriting and financial metrics are similar across asset classes, so we have tried to start by identifying these."

"We talk with market participants in detail about the performance of our own loan book but do not have access to industry-wide data. The idea is for this template to collate data from across the SME lending industry and create a benchmark."

SANAM VIKASH PROSPA

While the SME lending industry is diverse, CIP Asset Management's Sydney-based head of investment strategy, fixed income, Pete Robinson, says: "There are many common data fields and this is reflected in the template


RBC
Capital
Markets

> *"Judo's typical customer is a multiproduct, multisecurity, crosscollateralised group requiring additional data attributes meaningfully to convey the originator's estimates of probability of default and loss given default."*

MICHAEL HEATH JUDO BANK

to promote consistent reporting. These include borrower characteristics such as time employed and number of defaults, loan characteristics including loan-to-value ratio, loan amount and interest rate, and arrears and hardship."

The template will also introduce a standardised definition of days in arrears and a calculation for how days past due is calculated. This is intended to increase the consistency of arrears reporting in the industry.

The data consistency issue is covered in the template regime through borrower and borrowing product angles. Borrower information will include details such as the size and turnover of various businesses while product information will include performance data on various types of SME lending – for instance unsecured, secured, working capital and equipment finance.

By collecting and collating this information, Vikash adds, rating agencies and investors eventually should be able to gain a clearer picture of how SME lenders compare and fit into the wider industry.

BROAD USE

The lenders on the ASF working group all have some history in capital markets but bring perspectives from different parts of the SME lending sector.

Humm Group has long used public securitisation markets for funding and even brought a transaction from its flexicommercial programme – backed by commercial auto- and equipment-finance loans – to market in March 2021. Dennis Koh, senior securitisation manager at humm in Sydney, says the issuer could use the template in future flexicommercial transactions. He adds, though, that the template is designed to be used much more widely than just public securitisation.

Judo, meanwhile, was the only recipient of the first round of ABSF funding, announced in April 2020 just before the programme was paused for the COVID-19 crisis. Judo's inaugural SME-based self-securitisation also recently achieved a triple-A rating from Moody's Investors Service. Heath says this is a significant milestone on the road to public term securitisation. Triple-A rated structures are also a goal of the ABSF and the ASF working group.

In the absence of a reporting platform for SME-backed securities, Judo used the Reserve Bank of Australia's commercial mortgage-backed securities (CMBS) template. This was closest to what Judo needed but not a perfect fit, according to Heath. He explains that existing RMBS, CMBS and ABS templates do not cater for the information required by investors in SME-backed securitisation. "The data requirements are relatively homogenous, whereas SME lending is very broad," Heath says. "For example, Judo's typical customer is a multiproduct, multisecurity, crosscollateralised group requiring additional data attributes meaningfully to convey the originator's estimates of probability of default and loss given default."

Prospa also has warehouses for its unsecured SME lending product. Raj Bhat, the lender's Sydney-based head of group capital management, says: "We have engaged a lot of counterparties in our funding journey so far and they are accustomed to the way we report our data. But there was no precedent for the product so we had to be innovative and drive these standards. The working-group template is not significantly different from what we do now."

The working group is confident the template will not be burdensome for lenders with less mature systems in place. Heath says the working group does not want to create an additional reporting regime that lenders struggle to meet. Rather, its aim is to work within lenders' existing data constructs while providing optional flexibility for additional information if desired.

However, the template is more comprehensive than most of the reporting for SME loan data in the market. Craig says it is necessary for the template to improve on what is available as well as just collating it. "We want as much information as possible," he explains. "Some lenders will have to work to get their systems up to a certain standard. But they will benefit from access to a wider investment universe and insights into their loan books, and so will be able to make better business decisions."

PATH FORWARD

The template is not a finished project. The ASF working group plans to circulate a first draft for wider feedback toward the end of June. Koh says the group is keen to hear from as diverse a range of lenders as possible. "We want more lenders in the space to register their interest and give their perspective on the template so it can be as widely applicable as possible."

The working group acknowledges that no template will be able to cater to every single lender or product. Bhat says the possibility remains of multiple templates at the end of the process, with each tailored to individual asset classes but still maintaining a degree of comparability.

The template is only among the first steps to creating a broadly used SME securitisation product. But the working group hopes use of the template, perhaps initially for applications for ABSF funding and reporting for established warehouses, will eventually lead to it becoming an accepted standard among lenders, rating agencies and investors. ■

A DECADE OF RESILIENCE AND EVOLUTION

The Australian securitisation market emerged from the crucible of the global financial crisis unsure of what the future held and in need of regeneration. In the 10 years since, it has undergone significant change to the extent that it was able to come through the latest crisis – COVID-19 – stronger than ever.

BY CHRIS RICH

The global financial crisis reshaped financial markets, and in particular the securitisation industry. The first *ASJ* was published in 2011, at a time when markets were still bracing against the aftershocks.

Locally, the proximity of the crisis is illustrated by the fact that the Australian Office of Financial Management (AOFM) was by 2011 still winding down the residential-mortgage backed securities (RMBS) purchase programme it had been directed to conduct to support market functionality. From late 2008, the AOFM invested A$15.5 billion (US$11.8 billion) in prime RMBS across 67 securitisation deals, helping 20 smaller lenders raise a total of A$45 billion.

The early issues of the *ASJ* reported on a sector that had emerged from the worst of the financial crisis but was still finding its place in the new market ecosystem. "Given the continued improvement in the market, it is the government's view that now is the time to wind down our support… Strong demand has meant that the AOFM has scaled back and out of many transactions, and has not directly invested in a deal since August last year," Wayne Swan, then Australian federal treasurer, wrote in a 2013 edition of the *ASJ*.

As well as directly supporting many issuers that depend on securitisation for their funding during the worst of the financial crisis, the AOFM's investment programme had the second-order value of laying the foundations for the government agency to hit the target immediately in its response to COVID-19.

REGULATION REVOLUTION

While the AOFM's investment programme was winding down in the early days of the *ASJ*, another market-shaping development was just gathering pace. The process of rewriting the Australian Prudential Regulation Authority (APRA)'s Australian Prudential Standard 120 (APS 120) was the talking point of the early part of the 2010s.

APRA published the final version of APS 120, the prudential standard governing the securitisation market, in November 2016. Significant change, however, had been in the making ever since the financial crisis brought securitisation under the global microscope.

The crisis did not uncover the same systemic failings in Australia as those that brought global markets to their knees – there was not a single security default in Australia, for instance – but the impact of the resulting liquidity squeeze made it inevitable.

As part of its 2008 roll-out of Basel II, APRA had updated APS 120 to move from pre-vetting to retrospective review of all securitisation transactions as part of its ongoing supervision. The idea was that executives and boards from authorised deposit-taking institutions (ADIs) should self-assess compliance against the relevant standards, and apply the relevant capital and other requirements.

After undertaking a systemic review of industry compliance with APS 120 in 2009-10, APRA noted that some issuers had been falling short of standards. A number of banks had been inappropriately claiming capital relief in the self-assessment of securitisations in which there had been insufficient genuine risk transfer away from balance sheets.

Charles Littrell, APRA's then executive general manager, policy, research and statistics, said at the Australian Securitisation Forum (ASF) annual conference in November 2011: "APRA remains of the view that securitisation is more useful than it is dangerous. But we have become considerably less tolerant of the overcomplication that crept into this financial product. We also observe that some ADIs have developed the habit of following the letter, but not the spirit, of the prudential requirements applicable to securitisation."

He continued: "It would be fair to say that the current strategy, which is to chase a complicated product with complicated rules, has not worked as well as we might have liked. Accordingly, any reformed APS 120 is likely to feature a simpler approach, but with more supervisory flexibility."

Thus commenced a years-long reform of APS 120. APRA's goal was to enforce in the securitisation asset class genuine transfer of risk for capital-relief transactions as well as the

New structures

AT TIMES OVER THE PAST DECADE, THE AUSTRALIAN SECURITISATION MARKET HAS FOCUSED ON THE POTENTIAL BENEFITS TO ISSUERS OFFERED BY NOVEL PRODUCTS SUCH AS COVERED BONDS AND MASTER-TRUST STRUCTURES. TAKEUP HAS TENDED TO BE LIMITED WHEN A PRODUCT HAS BEEN ADOPTED AT ALL, HOWEVER.

Covered-bond legislation was introduced to the Australian parliament 10 years ago in an attempt to enable banks reliably to diversify funding sources at lower cost and for longer maturities at a time of credit-rating downgrades, austerity packages and perilous financial markets.

By the time the second edition of the *ASJ* was published, in April 2012, Australian banks had issued more than A$28 billion (US$21.5 billion) equivalent of covered bonds in six denominations in the first seven months of the legislation being introduced.

While Australian banks have continued to issue covered bonds in multiple currencies, the product has not been the game-changer it was advertised to be. The fact that banks tend to save their covered-bond issuance limits for stressed conditions is unsurprising. The lack of issuer diversity is perhaps more of a shock.

In addition to the big-four banks, only Bank of Queensland, ING Bank Australia and Suncorp-Metway among domestic mortgage lenders have issued in the format.

The challenge is that, to reach a triple-A rating, banks with lower entity-level ratings need to overcollateralise their covered-bond pools by so much that the product has not been cost effective. The regulatory cap on covered-bond issuance – of 8 per cent of risk-weighted assets – also likely stifles smaller bank balance sheets from issuing covered-bond product.

The conditional pass-through (CPT) covered bond was mooted as a possible door-opener to the asset class for some institutions. By moving the product structure closer to a standalone securitisation format, the reliance on the issuer's credit rating is eased and thus the path to triple-A smoothed.

"For an issuer that sits on the ratings cusp for a traditional triple-A covered bond, the adoption of the CPT structure would provide more certainty to investors than the traditional covered-bond structure," Tim Ledingham, treasurer at BOQ, told the *ASJ* in 2014.

CPT worked for BOQ and has become part of the bank's wholesale funding suite. But its adoption has so far gone no further in Australia.

Master trusts fizzle

The master trust, meanwhile, was the subject of much attention in the process of updating Australia's securitisation regulation after the financial crisis. Hopes centred on the potential master trusts had to create investor-friendly deals that incorporated features like bullet maturities across multiple currencies.

The path to a master-trust regulatory regime in Australia – let alone actual issuance – was never straightforward, however. Hopes that the structure would be accommodated in new regulation appeared to be dashed by April 2014, when the latest draft of the Australian Prudential Regulation Authority standard for the sector included master-trust proposals that Fitch Ratings declared "unworkable".

The industry worked with its regulator to achieve a compromise on the matter, and by 2016 issuers were relatively confident about master trusts' prospects. Peter Casey, deputy treasurer at ING Bank Australia, told the *ASJ*: "Master trusts provide quite a different cash-flow profile from the pass-through structure. We believe this could make a huge difference when it comes to attracting offshore and non-Australian dollar investors, as well as those looking for fixed-rate notes."

From there, though, the trail went cold. To date, Latitude Financial Services and Zip Co have been Australia's only master-trust securitisation issuers. No banks – the expected main beneficiaries of the structure – have seen enough value in master trusts to issue.

countervailing global expectation that issuers must have 'skin in the game' – some of their own capital at risk to promote alignment of interest between loan originator and funder.

The regulation process was not without false starts. APRA unveiled an early proposal for its reforms in October 2012 that included a two-tranche limit on the structure of securitisations issued for funding-only purposes and, although not specifically stated by the regulator, likely for capital-relief issuance as well. The message was that greatly simplifying the prudential regime was top of the priority list.

The industry was quick to point out that the multitranche structure of ABS served to meet investor demand. Many were concerned that limiting transactions to two tranches might be too simplistic and, crucially, could significantly dampen investor interest in securitisation deals.

Bruce Potts, investment director, debt investments at IFM Investors, said at the 2011 ASF annual conference: "If I want to invest in a de-risked asset I can compete with the central banks around the world and buy government bonds. But I won't get one cent to manage and therefore will have nothing to

invest in securitisation if there is not some risk attached to the investments. To simplify things, to dumb it all down, does not seem to me to be a goal that is useful, acceptable or of benefit to anybody in this market."

After several permutations over a number of years – including the updated framework for securitisation under Basel III – APRA went ahead with the full implementation of the new APS 120 at the start of 2018. Key changes to the final version of APS 120 focused mainly on adding flexibility at the margin on capital deductions, funding-only securitisation and warehouse capital relief.

After originally insisting that funding-only securitisation structures be limited to two tranches, the regulator softened its approach after receiving submissions that argued multitranche funding deals would not add undue complexity and could provide additional funding options.

It also ditched its skin-in-the-game approach to risk retention and accepted the industry proposal of a threshold for capital relief where at least 80 per cent of the junior securities have been sold.

The treatment of warehouses under APS 120 had long been problematic, with APRA forming the view that risk-weighting was not being truly captured and thus capital was effectively leaking from the banking system. In effect, a loan in a warehouse facility provided by a bank was circumventing the capital treatment of similar loans on the same bank's own balance sheet.

APRA determined that warehouses would not obtain capital relief under the new APS 120 if they are not match funded. However, it added that warehouses with availability periods may qualify for capital relief "provided the renegotiation of terms and conditions of the warehouse funding line relates to funding rates only and that these rates reflect prevailing market rates".

The new regime requires a higher regulatory capital charge for any bank exposure to nonsenior tranches of securitisation, including via warehouse facilities. The ripple effect for the wider market is that banks have increasingly focused their warehouse liquidity provision on senior tranches only, with mezzanine funding coming from specialist credit managers or the loan originators themselves.

Overall, the market adjusted quite well to this change, albeit after considerable time and cost for warehouse lenders and their clients in the latter part of 2017.

One major talking point of the APS 120 process at the time that has been all but lost to history is the attempt to develop a master-trust regime in Australian securitisation. Structural change has been relatively limited in Australian securitisation over the past decade (see box on p12), though diversity of collateral has seen a major boost mainly through natural evolution rather than external fiat.

Beyond APS 120, regulations implemented over the past 10 years that have had an impact on the market have largely revolved around Australia's implementation of the Basel III liquidity reforms.

The Basel III liquidity standard requires banks have access to enough high-quality liquid assets to withstand a 30-day stress scenario and specifies the characteristics required to be considered an eligible liquid asset. Chief among the reforms in Australia was the introduction of the Reserve Bank of Australia's committed liquidity facility (CLF), which increased demand for the securitisation asset class from ADIs.

RESURGENT MARKET

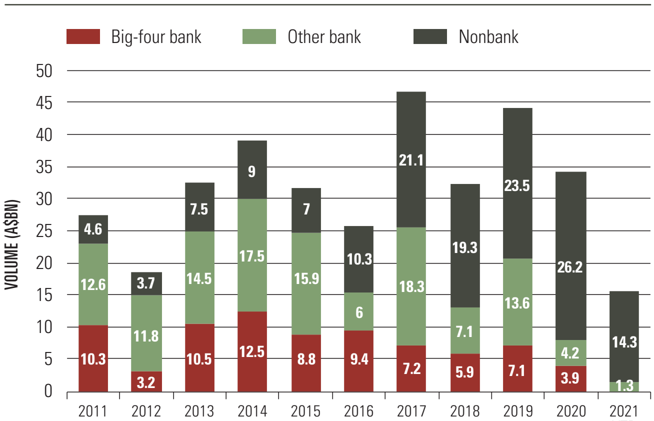
By 2021, growth in Australian sovereign bond issuance has seen the need for the CLF wither to around half its original size. The fact that this has not been a headwind for securitisation speaks to the evolution of the market. What was once a bank-driven sector on the supply and demand side is now focused on nonbank issuers and relies much less on balance-sheet investors.

Although the big-four banks continue to dominate residential mortgage lending in Australia, nonbanks have built their market share. These lenders tend to rely much more on securitisation funding, and their supply of new paper has more than made up for a gradual tapering of new bank issuance (see chart 1). By May, 2021 nonbank issuance had surpassed the volume of any single year from 2011 to 2016.

The nonbank renaissance has seen many new issuers come to market, including from the fintech space and in nonmortgage ABS. Sarah Samson, head of securitisation originations at National Australia Bank (NAB) in Melbourne, told the *ASJ* in 2019: "The market for emerging lenders has been four years in the making but it is coming to fruition now. How quickly these issuers can get to market depends on their origination volume, performance history and arrears rates, among other things. But investors are more open than ever to a diverse range of assets."

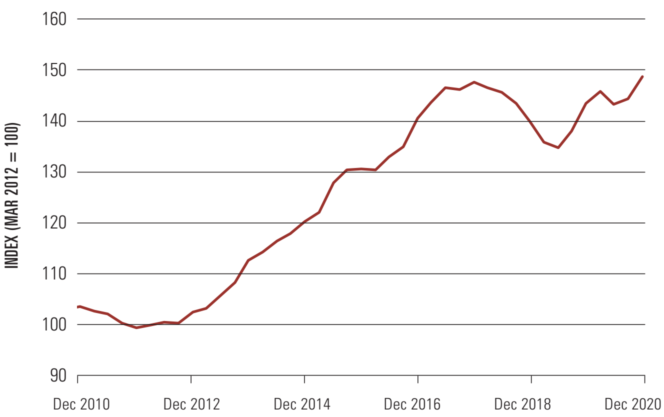
Though limited performance history has made obtaining a rating difficult for many and limited deal flow for some collateral types – making price discovery more challenging – there has been no shortage of investor demand. While still in its infancy, buy-now pay-later products are the latest type of collateral to grab a foothold in the market.

CHART 1. COMPOSITION OF AUSTRALIAN DOLLAR SECURITISATION ISSUANCE



SOURCE: KANGANEWS 26 MAY 2021

CHART 2. AUSTRALIAN RESIDENTIAL PROPERTY PRICE INDEX (WEIGHTED AVERAGE OF EIGHT CAPITAL CITIES)



SOURCE: AUSTRALIAN BUREAU OF STATISTICS 26 MAY 2021

Green and social labelled securitisation has been slower to develop. NAB printed an RMBS with a green-bond tranche in 2018 but has not returned to the market, while Brighte and humm – both largely based on household solar loans – have been the market's only other issuers.

A major holdup has been loan data, especially in the mortgage space. Speaking at an *ASJ*-NAB roundtable in 2018, Andrew Marsden, general manager, treasury and securitisation at Resimac, said: "We ran an exercise on our portfolio in which we tried to overlay the Climate Bonds Initiative methodology using year of construction as the main proxy data point. The real sticking point was availability of data. There was no means by which we could tag even the construction year of the underlying security."

Still, there are hopes that green and social issuance will be the next frontier for Australian securitisation, including a number of nonbank issuers actively considering debuts in the coming months.

ASSET RESILIENCE

Perhaps the key support for securitisation market evolution over the past decade has been the resilience of Australian collateral – including the housing market. On several occasions, analysts have predicted house prices will stabilise or fall, and yet so far a protracted correction has never come to fruition (see chart 2).

The only significant dip in house prices came in 2018, when APRA sought to take some wind out of the market's sails via macroprudential measures including temporarily restricting interest-only loans to 30 per cent of banks' new mortgages and a 10 per cent annual growth cap on lending to property investors. As soon as these hurdles were cleared, though, house prices continued their upward trajectory.

Even the pandemic was not enough to derail Australian credit quality. When the Australian economy was locked down in March 2020 to mitigate the spread of COVID-19, consumers' ability to maintain loan payments was quickly drawn into the spotlight. Lenders across the spectrum began offering forbearance measures such as part or full payment deferrals to ease the burden on their customers and reduce default.

In turn, Australia's federal government moved to ease the funding pressure on smaller lenders that could eventuate from a massive rise in arrears by the provision of the A$15 billion Structured Finance Support Fund (SFSF), to be administered by the AOFM.

It was not the scale of this support that really made a difference – indeed, the fund was not close to fully deployed. Instead, market participants credit the AOFM – in consultation with the industry including via the ASF – for refining its financial-crisis approach to deliver an even more targeted and successful outcome in 2020.

Speaking at the 2020 ASF annual conference, Martin Barry, senior vice president and chief financial officer at La Trobe Financial, commented: "I would like to go on record with my thanks to the AOFM team for helping to stabilise the market through this period. The virus crisis appeared very quickly through March and April [2020], and while we do not know how it will play out in 2021 the initial impact was a short, sharp shock. This is unlike the financial crisis, which played out over a number of years. We are optimistic for the future."

As the economic recovery has been quicker and stronger than initially expected, in the end the SFSF has only reached A$3.8 billion of total investments as of 31 March 2021. At the depths of the crisis in March-May last year, though, it was a vital tool. It was also subsequently supplemented by the forbearance special-purpose vehicle – allowing the AOFM to invest in the securitised assets of eligible lenders, where interest payments are being missed due to hardship related to the COVID-19 crisis and its economic fallout.

The SFSF was announced at the same time as the RBA introduced its term funding facility (TFF) – of an initial A$90 billion – to support ADIs to continue lending during the crisis. In combination with high deposit inflows, the TFF has effectively eliminated ADIs' call on the securitisation market.

Many nonbanks have brought forward public securitisation deals in anticipation of the TFF ending 30 June, while ADIs are expected increasingly to venture back into funding markets, including securitisation. But with the system flush with liquidity, funding conditions are likely to remain conducive for the industry.

The testing and retesting of asset and securitisation structure quality has helped maintain and improve investor support for the sector. Speaking at the 2020 ASF annual conference, Steven Fleming, chief executive at Gryphon Capital Investments, noted the strength of the nonbank sector. "A number of nonbanks have excellent performance, superior risk management and good governance," he commented. "We have been investing in these programmes for several years. The key reasons we continue to invest in them is the granular data, the long track record of performance and good governance." ■

COPUBLISHED FEATURE

CONSUMER FINANCE STAYS STRONG DURING COVID-19

***Latitude Financial Services** says customer behaviour through the COVID-19 pandemic has proved the strength of consumer-finance asset classes during times of economic stress.*

As Australia locked down at the start of the COVID-19 crisis, lenders faced a wave of immediate requests for hardship relief from customers amid concern that the pandemic would generate a prolonged economic downturn and a spike in unemployment.

The impact this would have on loan books loomed large, and lenders worked overtime to determine the likely parameters of an unprecedented stress event. "The first thing we did was stress-test the portfolio. We looked at different scenarios to understand the impact on our portfolio and assess the severity of the deterioration that we could withstand so we could prepare for the worst," Eva Zileli, Melbourne-based group treasurer at Latitude, explains.

The actual experience was very different, however. The federal government's substantial stimulus – primarily the JobKeeper scheme – supported businesses and individuals through the worst of the economic impact.

Even as the number of companies eligible to claim JobKeeper fell as 2020 progressed, the six-month extension of the support package to 31 March 2021 meant hardship numbers for most, if not all, lenders dropped dramatically. This was certainly the case for Latitude.

The economic rebound from the depths of the COVID-19 pandemic in March-June last year started far sooner – and was much stronger – than was anticipated. Indeed, year-on-year GDP growth for the March quarter of 2021 was above the pre-pandemic level at 1.1 per cent.

This improvement is reflected in Latitude's loan book. "We did not see deterioration, we just saw continuous improvement in our net charge-offs and arrears profile. They are probably the best they have ever been at the moment, so it is a very different situation from the stress scenarios we considered," Zileli reveals.

A feature of many Australian loan books throughout 2020 was pre-emptive hardship. Customers sought hardship arrangements out of concern that their circumstances would worsen rather than because they had actually experienced any major change, for example unemployment. Government support and the economic rebound meant many never actually needed the relief. Zileli confirms the experience from Latitude's perspective.

She tells *ASJ*: "We saw a spike in applications at the onset of COVID-19 but a number of customers paid out early and came off hardship because they realised they did not need the support. Even for those that did not proactively end their hardship and saw it all the way to the end, we have found the loans have progressed to performing at a much higher percentage than those who came off hardship lines prior to the pandemic."

Nor was there a major funding crisis for Latitude. Zileli continues: "Our financiers also recognised the strong performance of Latitude's receivables with the successful refinancing of four warehouses and the creation of one new warehouse, to fund growth in our instalments products, completed during 2020 and early 2021."

CONSUMER FINANCE

A characteristic of the lending market as the economic recovery continues has been the arrears outperformance of nonbank lenders compared with the major banks, which are typically considered to be more conservative.

Prior to COVID-19, many market participants assumed that unsecured asset classes like sales finance, credit cards, personal loans and buy-now pay-later (BNPL) – which comprise the majority of Latitude's book – would not perform as well as home loans in a time of stress. But Zileli reveals that unsecured personal loans, sales finance and credit cards performed far better than expected during the 2008 financial crisis (see

"We found for those that did not proactively end their hardship and saw it all the way to the end, the loans have progressed to performing at a much higher percentage than those who have come off hardship lines prior to the pandemic."

EVA ZILELI LATITUDE FINANCIAL SERVICES

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"What we saw is that if consumers get a holiday on their mortgage, they are very quick to get their other obligations paid down or under control. In the past, the Australian market has considered strong desire to repay debt to be a unique feature of residential mortgages."

ANDREW ROBINSON LATITUDE FINANCIAL SERVICES

charts 1 and 2). "The performance of Latitude's portfolio during the financial crisis was really strong and we have seen a similar result in the pandemic," she comments.

Andrew Robinson, Melbourne-based head of funding at Latitude, says the COVID-19 experience provides more evidence of how consumers seek to manage their finances in a state of potential stress.

"What we saw is that if consumers get a holiday on their mortgage, they are very quick to get their other obligations paid down or under control. In the past, the Australian market has considered strong desire to repay debt to be a unique feature of residential mortgages," he says.

Latitude believes the utility its unsecured loans and credit cards provide to its customers is far more valuable than previously realised. "Drawing down a mortgage generally provides a one-time advance. On a credit card, we think the propensity for customers to keep paying back, even if it is the minimum payment required, comes from the continued utility cards provide in their day-to-day lives," Zileli explains.

One of the main differences between the experiences of the global financial crisis and COVID-19 has been the amount Latitude's customers have repaid. As well as customers making minimum payments, Latitude experienced more customers paying off full balances. This had a positive impact on its portfolio.

"The real difference between the COVID-19 situation and the global financial crisis is the amount of cash the government has put into the economy. It meant borrowers actually paid down debt rather than just trying to keep afloat," Zileli says.

The outperformance of consumer asset classes has helped build confidence in Latitude's portfolio. Australian Bureau of Statistics data also show that Australians have been increasing their savings over the past year.

While Latitude has experienced customers paying down debt at a higher rate than before the pandemic, it does not expect the rate to continue at the same degree now that government stimulus has slowed.

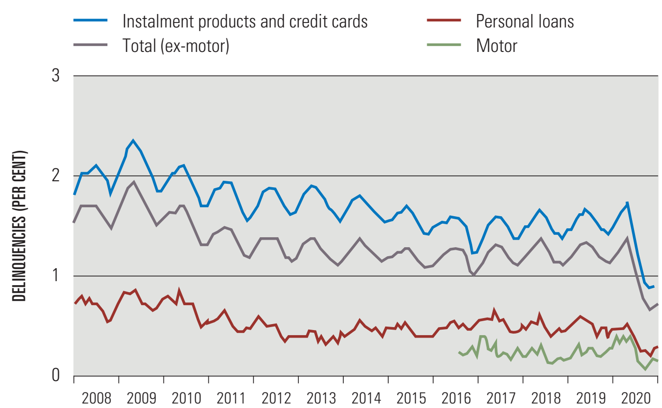
ORIGINATION OUTCOME

After receivables dropped off significantly in April last year, Latitude experienced increases in origination volume across Australian and New Zealand for the December quarter as government restrictions eased, prompting an uplift from seasonal customer activity. This helped offset higher prepayment rates. The competitive landscape in credit provision has also rebounded from the worst of the crisis.

Latitude believes its products and services separate it from its competitors. It is continuing to invest in its origination platform to streamline processes and to provide the products and services that its customers, both merchants and end-borrowers, want.

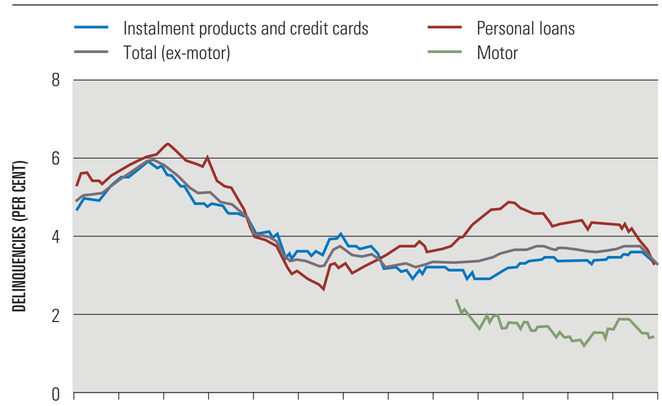
"For example, we have recently introduced a 'soft quote' to the very start of our personal-loan origination so potential lenders can get an indication of pricing and the limit they can borrow before they go through the full process. This is done so they do not get to the end and find that the product does not suit them," Zileli says. ■

CHART 1. LATITUDE'S AUSTRALIAN 90-DAY-PLUS DELINQUENCIES BY PRODUCT



SOURCE: LATITUDE FINANCIAL SERVICES 2 JUNE 2021

CHART 2. LATUTUDE'S AUSTRALIAN NET CHARGE-OFFS (ROLLING 12-MONTH AVERAGE, ANNUALISED)



SOURCE: LATITUDE FINANCIAL SERVICES 2 JUNE 2021

COPUBLISHED Q+A

Perpetual

PERPETUAL EYES A TRANSFORMATIVE DIGITAL FUTURE

***Perpetual Corporate Trust** has been a leading provider of trustee, managed funds and data and analytics services to the Australian debt market for many years, including a notable strength in securitisation. **Richard McCarthy**, Sydney-based group executive at Perpetual, looks back at the developments that have led Perpetual to stand the test of time and shares the company's view on the future of the market.*

Perpetual has been a go-to service provider for many institutions over the past 10 years and beyond. What has allowed the company to stay ahead of a competitive field in an evolving market over this time?

◆ Perpetual is a trusted Australian company that is more than 130 years old. Reputation is the real product of trust and this goes with our brand promise that trust is earned in every action, every day – we live and breathe this as a fiduciary.

I also think how innovative Perpetual has been in supporting the securitisation market over 30 years is at the heart of staying ahead, supported by service excellence.

Our product offering also meets the needs of our clients in debt-market services, across core trustee and document-custody business, which involves support to the nonbank industry. Amont the good examples are: the warm standby-servicer product – which we introduced in the wake of the financial crisis to give investors confidence – our covered-bond products to help banks obtain funding, and data-warehouse solutions that have been developed over 20 years.

We also provide financial-custody services in our managed-funds business to support global regulations directing holding 5 per cent of bonds. This ensures our clients are able to be compliant with their local and global obligations.

Having such a broad product offering across our three businesses – debt markets, managed funds, and data and analytics solutions – is our core value proposition and differentiator.

Regulation and reporting standards have changed significantly since the financial crisis. How has Perpetual sought to improve efficiency and make clients' reporting easier through its digital offering?

◆ I might go back two decades to start with. Perpetual began as an Australian data warehouse, supporting credit rating agencies as the agent to collect, standardise and distribute data for the market through ABSPerpetual.com.

We further developed this capability to provide standardised data and analytics to the investor community, introducing products like CPR.

Our data-warehouse capabilities and continued development put us in a unique position during the financial crisis, when the Reserve Bank of Australia (RBA) created new repo-eligibility data standards for its committed liquidity facility.

There was a lot of uncertainty in the market at the time and a lot of complexity coming through. Perpetual stepped forward and invested heavily in developing its data warehouse – to provide it between the issuer and lending community and the investors, intermediaries and RBA.

Looking back, this was the first step in providing technology solutions to support regulatory requirements for the industry, now called 'regtech'. We worked closely with the Australian Securitisation Forum (ASF), and the nonbank and bank communities to support the development of data standards for the RBA.

We increased our technical capability to enable us to collect, validate, securely store and distribute data to the RBA on

"Perpetual is developing cloud solutions that will allow clients to have their workflow automated across the entire ecosystem. With cloud-computing technology, it becomes easier to develop digital solutions for the different needs of our clients and the industry."

RICHARD MCCARTHY PERPETUAL

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Perpetual

behalf of our clients, as well as complying with RBA standards for privacy when posting data to our investor data-warehouse product. In addition, we provide intermediary reporting to the likes of Bloomberg to create efficiency within the market.

We were promoting simple, transparent and comparable standards for the Australian community. I think we were pretty advanced relative to the European data-warehouse providers, as we developed and delivered quite early.

How does Perpetual bring this sort of data offering to clients?

◆ We have really been focused on cloud computing. Thinking about how the business has changed over the years – from developing an investor reporting capability to a regulatory reporting capability, and then acquiring a roundtables business to give benchmarking and insights to our client base – we are continuing a natural extension of our service offering.

Perpetual is developing cloud solutions that will allow clients to have their workflow automated across the entire ecosystem. With cloud-computing technology, it becomes easier to develop digital solutions for the various needs of our clients and the industry.

For example, with the European Securities and Markets Authority standards, late last year we developed the ability to enable clients to meet investor and compliance requirements. It is a significant development that builds on where we started with capabilities for investors and the RBA, and now we are looking to support European and US regulatory requirements.

How are big data and automation reshaping the role of the trustee and how will digitalisation change the securitisation market in the next decade?

◆ We look at this as three separate businesses. We have a debt-market service business, which is our trustee business. Then we have our managed-funds business, which is our financial custody business. The third aspect is our data and analytics solutions business, Perpetual Digital.

They are very separate parts of the market – and this is why I think we are quite unique in terms of where we have invested and diversified. The next frontier is our cloud-solutions offering. We are redeveloping payments and registry platforms into the cloud and making a huge investment to ensure payments are made seamlessly with reduced cyber risk.

This will enable us to create an automated workflow as we process more than A$250 billion (US$192 billion) of payments a year. This is huge scale and we process it with few errors. Linking this to the data-services business, we are processing A$500 billion of mortgages every month. It is about making sure we use technology to automate and create market efficiency through the workflow as this is the only way to operate at scale.

We are also moving our trust-management business to the cloud, which means developing cash waterfalls and managing the trust with a solution called "treasury and finance intelligence". This is taking a holistic view of the securitisation market, to see how our clients use technology to optimise their portfolio when they come to do a deal.

It will enable clients to use their multiple warehouses, loans and specific characteristics to comply with investor requirements. It will bring issuers and lead managers closer to investors and really improve the investor experience. We are focused on developing the types of digital solutions we think we can help the entire securitisation ecosystem.

Finally, we are working on our roundtable business. The investor community has told us RBA reporting requirements was a great project but that the buy side did not receive a lot of benefit from it because there were lots of redactions, settings and different data provided pre-deal versus post-deal.

This is something we can improve. Perpetual as a data warehouse is happy to invest in improving the investor experience. This, in turn, can only be a good thing for issuers. We are working on standardising pre- and post-deal data and analytics, and the plan is to move this into the ecosystem in the next 6-12 months.

Investor and regulator demand for reporting and disclosure on environmental, social and governance (ESG) products has also significantly increased in recent years. How is Perpetual helping clients identify relevant data?

◆ Perpetual is very ESG focused. We acquired Trillium Asset Management in America last year, which is one of the world's leading ESG fund managers.

We conduct an annual research project with the ASF. This year's project will be focused on sustainability to dig into the ESG theme and understand customer needs, and where the market is moving, so we can innovate our products to meet needs and requirements.

What does Perpetual believe is the biggest area of concern on the digital frontier that should be front of mind for its clients?

◆ It is easy to talk about digital, but it is actually very complicated and expensive. We have a bold new vision: to be the most trusted fiduciary and the leading digital-solutions provider to the financial services industry.

Moving into the cloud is positive and secure, but market users also need the technical skills and expertise to enable them to be the best partner they can be in the market. To achieve this bold vision, we have created a separate business, Perpetual Digital, which has more than 50 people combined with internal and specialist business partners, including 15 developers.

I certainly think the digital opportunity is enormous and we are focused on it. But it takes a lot of time, via developing experience and expertise, to be successful in digital.

We believe we can help enable clients through their digital transformation journey. We can then provide them with digital acceleration to achieve their strategy and goals faster and more efficiently than would have been the case without our support. ■

Thinktank..

THINKING ABOUT AN EVOLUTION

__Thinktank__ has five years' edge on ASJ as the nonbank lender is celebrating its 15th anniversary in 2021. __Jonathan Street__, Thinktank's Sydney-based chief executive, reflects on the company's evolution in the commercial-mortgage space and its future, which includes a forthcoming debut in residential mortgage-backed securitisation.

How did Thinktank start and what have been the key landmarks in its journey?

◆ Thinktank had its genesis in 2006, when four experienced finance professionals with extensive backgrounds in commercial-property finance, small business, consumer and corporate banking, and finance broking came together. At that time, banks dominated lending to self-employed borrowers, particularly for commercial property. It was also a slow, complex, onerous and frequently expensive experience for borrowers.

We sought profoundly to change this by applying established securitisation principles to the funding of commercial mortgages. At the same time, we greatly simplified and enhanced the underlying products and adapted them for broad-based distribution via the third-party channel. We maintained embedded discipline around credit-risk appetite.

We settled our first loan a year before the 2008 financial crisis, and despite market turmoil our experiences in the ensuing years only served to make the business and its proposition stronger.

We have grown organically through the years to the point where Thinktank now has 125 people employed across offices in Sydney, Melbourne and Brisbane, as well as a sizeable loan book that has performed extremely well.

How has the core book – commercial mortgages – grown over time?

◆ We have recorded consistent growth of around 30 per cent in loan originations, year-on-year. This is reflected in the size of our term deals, which have progressively stepped up to A$600 million (US$459.7 million) in November 2020 from our A$280 million public debut in 2016. The size of the last transaction was influenced by COVID-19, but we expect to be back in the market again in 2021 with a similarly sized CMBS [commercial mortgage-backed securities] deal.

The backdrop for this is continual growth – in size and effectiveness – of our origination and distribution partnerships. In recent years, these have broadened to encompass the provision of white-label loan-product solutions with the country's largest and highest-calibre finance-broker aggregation groups.

While this distribution approach has implications for marketing, each of the critical functions attached to credit-policy setting, underwriting and collections activities remain entirely in-house.

How has the depth of the investor base and volume available in CMBS transactions evolved?

◆ Our evolution in wholesale funding and term markets has been a function of strong and enduring institutional partnerships. These began in 2006 through our initial warehouse with a domestic major bank, which remains in place to this day.

Our strategy was predicated on progressively expanding our core funding relationships over time as the business demonstrated consistent growth. These partners, on- and offshore, have worked with us to support and extend CMBS in Australia. They continue to grow with us.

We have been a repeat issuer since 2016 and have had success in attracting several new accounts with each successive deal, leading to strong coverage across tranches.

An element of our success has been investors seeking diversification from residential mortgage-backed securities (RMBS), and auto and equipment asset-backed securities.

Small-ticket CMBS offers investors a different asset class with yield similar to nonconforming RMBS but accompanied by slightly higher credit support. It is also packaged in a manner that offers investors the familiarity of the same underlying borrowers, as well as similar loan products, security and enforcement profiles, transaction structures and ratings methodologies.

"Our strategy was predicated on progressively expanding our core funding relationships over time as the business demonstrated consistent growth. These partners, on- and offshore, have worked with us to support and extend CMBS in Australia. They continue to grow with us."

JONATHAN STREET THINKTANK

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How well have Thinktank's CMBS transactions performed through market cycles since the first deal in 2014?

◆ From our first rated private placement in 2014, for A$114 million, through to last year's A$600 million deal, Thinktank's CMBS assets have performed in a manner that is arguably more consistent with prime and near-prime RMBS. Arrears of more than 30 days have tracked in low single digits while we have not recorded a single loss or charge-off in any term transaction.

While we maintain a conservative approach to loan loss provisioning in accordance with international accounting standards and industry practice, we do not have a single exposure within the entire loan book where a principal shortfall is expected. Accordingly, while the asset class was less recognised in earlier years – with spreads beginning a little wider – our performance and deal visibility means spreads have consistently tightened to sit around or just inside nonconforming RMBS.

Thinktank has expertise in lending to self-employed and self-managed super fund (SMSF) borrowers. How do these customers perform compared with, for example, salaried borrowers?

◆ Approximately 90 per cent of Thinktank loans are advanced to self-employed and SME borrowers, which affords us excellent visibility of this group's performance over an extended period. While it is worth noting that these borrowers feature in a wide range of transactions from numerous issuers in the market, it is a useful exercise to reflect on what we have observed relative to the larger PAYG [pay-as-you-go] cohort.

To some it is a surprise, but clean-credit self-employed and SME borrowers have demonstrated a close correlation in arrears and CPR [customer prepayment rate] performance compared with prime PAYG borrowers. In Thinktank's case, the underlying assets have produced equally good outcomes in losses, which have been negligible to date.

The data suggest that, if anything, SMSF borrower performance has been superior to PAYG with immaterial arrears and no losses since commencement in 2013. In large part we credit this to prudent lending practices borne of more than 40 years' experience in the sector and sensible credit-policy settings that adjust with conditions, delivered by a professional, experienced team.

The business and its leadership have generally exhibited a growth mindset since inception, but this has never been at the expense of credit quality or stakeholder interests.

How is Thinktank evolving its business to continue building on what has been achieved in the last 15 years?

◆ To see consistent growth and scale materialise, the business has been compelled to evolve at different junctures. The pillars of this evolution have been built on ensuring we have the right people in key executive positions, who can build high-quality teams and lead successful transformation in small and large projects.

This has been implicit across each of the principal areas of the business, including sales, credit, treasury, finance, people and culture, and IT. We are currently focused on digital transformation, which extends throughout the business and will lead to significantly enhanced outcomes for internal and external stakeholders.

Overall, we are well placed to maintain a sound growth profile while equipping the business to contend effectively with the full range of present and future challenges.

Thinktank has flagged its intention to bring a new RMBS programme to the securitisation market. What is the driver for this?

◆ Although our initial proposition in 2006 was to focus almost exclusively on commercial-property borrowers, the self-employed and SME sector is broad and naturally gives rise to a mix of finance requirements. The largest of these lies in residential mortgages.

We have been lending against all types of residential property since early in our history, but in recent years enquiry and demand from our distribution partners and borrowers has led to the introduction of a wider product set aligned to the same borrower segment of commercial, residential and SMSF mortgage-finance solutions. All of these are consistent with existing bank and nonbank origination and issuance.

This has developed to the point where we now have multiple discrete RMBS warehouses to complement our commercial-mortgage warehouses. The time is fast approaching to launch our inaugural RMBS transaction, which we have planned for 2021.

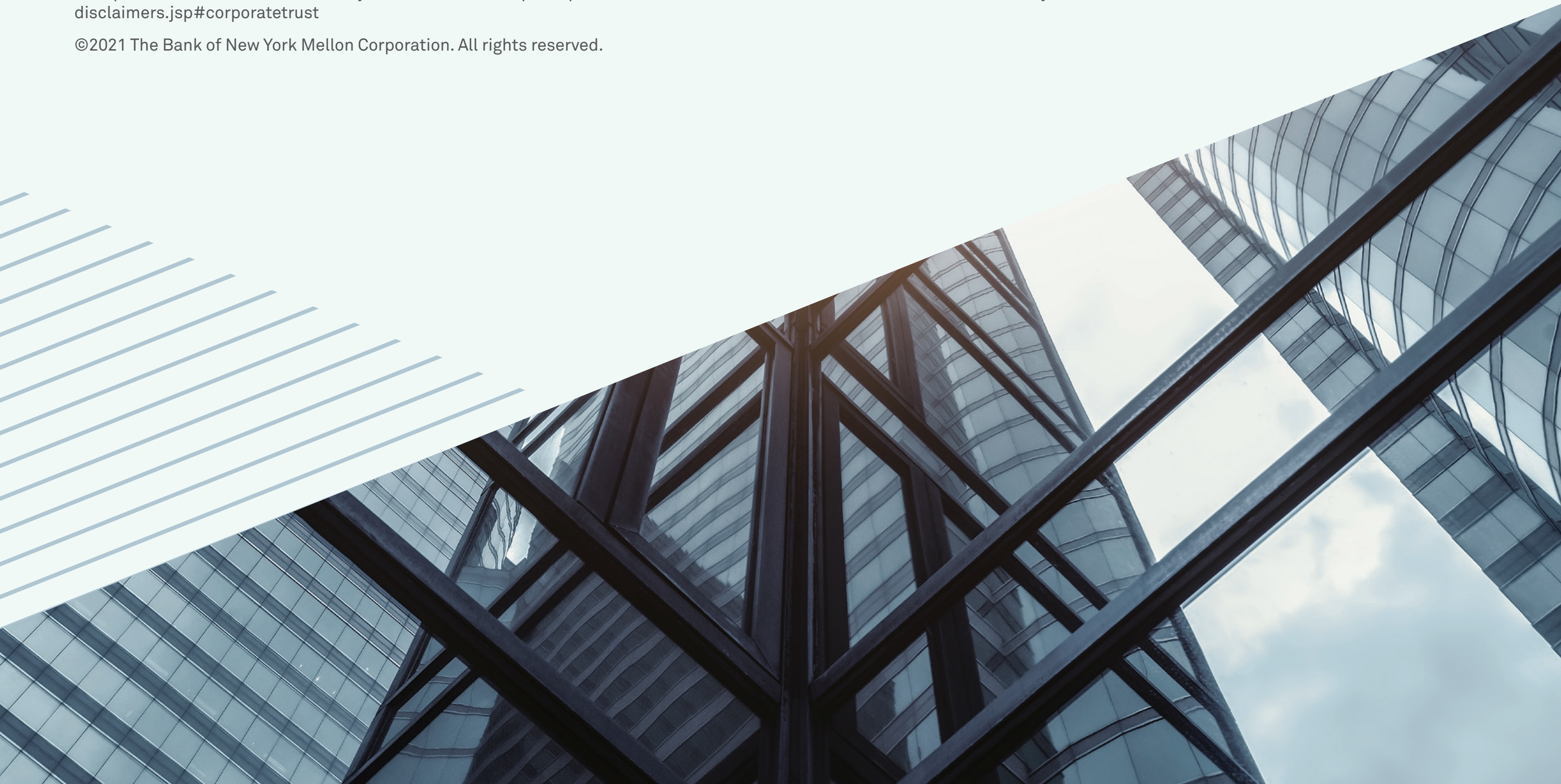
This wider product range allows us effectively to be part of the deepest pool when it comes to self-employed and SME borrower needs. It also neatly corresponds with our relationship-based approach in the third-party channel, where finance brokers and aggregators operate to source and deliver upon wider needs.

What will be the key characteristics of Thinktank's first RMBS pool?

◆ Thinktank's initial RMBS transaction will reflect our historical domain, with self-employed borrowers representing most of the pool – primarily on an alternate-verification basis. Other attributes include a maximum loan-to-value ratio (LVR) of 80 per cent, weighted-average LVR of less than 70 per cent and average loan size of A$650,000. Nearly 90 per cent of loans are in metro areas and approximately 20 per cent are to SMSFs. Two-thirds of the pool will be owner-occupiers and most securities will be standalone houses.

How frequently might Thinktank issue RMBS transactions, and does this development affect the strategy for ongoing CMBS issuance?

◆ We plan to come to market once this calendar year and once or twice in 2022, with similarly sized RMBS deals. This programme is separate from our CMBS programme, from which we expect to continue issuing once per year, likely in larger size. ■



Fertile ground for new lenders and securitisation issuers

Few would have predicted that 2020 would have become almost as productive a year for debut issuers as the Australian securitisation market has ever seen. At a May roundtable hosted by ASJ and ***National Australia Bank****, a group of recent and future new securitisers discussed pandemic resilience, growth opportunities, investor engagement and path to market.*

PARTICIPANTS

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- **Jason Finlay** Treasurer ATHENA
- **Jacqui Fox** Executive, Capital Markets NATIONAL AUSTRALIA BANK
- **Andrew Goodwin** Chief Financial Officer WISR
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- **Sarah Samson** Global Head of Securitisation Origination NATIONAL AUSTRALIA BANK

MODERATOR

- **Laurence Davison** Head of Content and Editor KANGANEWS

NAVIGATING 2020

Davison *A year ago, we might have thought the market environment would have turned very negative for new securitisation issuers. If anything it has been the reverse, with a number of new issuers able to complete successful debut transactions in 2020 and 2021 so far. How did this come to pass?*

◆ **SAMSON** It certainly wasn't just a matter of sitting back and assuming things would work out. The situation in March 2020 was pretty concerning from our perspective but NAB [National Australia Bank] backed a lot of lenders during this period.

We were very conscious of what the situation meant for availability of funding and for origination volume. Looking just at mortgages, no-one knew what was going to happen to house prices and demand for loans.

As an industry, we are very fortunate that the AOFM [Australian Office of Financial Management] was very quick to act and support the market – even though, in the end, it did not deploy much of the A$15 billion (US$11.5 billion) available into the capital market. The fact that the AOFM was there gave the market so much confidence and this in turn gave originators and banks confidence to continue to fund.

Off the back of this, securitisation was the capital-market hero in 2020 including issuance volume not being much down on previous years. There were inaugural transactions and these went well, while repeat issuers and the larger mortgage originators were able to issue what they needed. It could certainly all have gone very differently, much as it seems relatively smooth now.

◆ **GOUR** We had priced our debut deal in September 2019 with an eye to doing another transaction in a similar window in 2020. Around March last year, when the market was under pressure, we certainly questioned whether we would be able to bring a deal in 2020.

Around May, when the market started to pick up and transactions were possible, we assessed that there was investor interest. Despite the market volatility, investor comfort and demand led us to bring our second public transaction.

Although we didn't need to engage with the AOFM, it was great to know the support was there should a need arise. We tested the market and although the SFSF [structured finance support fund] was available for us to use we didn't need to tap

"AROUND MAY, WHEN THE MARKET STARTED TO PICK UP AND TRANSACTIONS WERE POSSIBLE, WE ASSESSED THAT THERE WAS INVESTOR INTEREST. DESPITE THE MARKET VOLATILITY, INVESTOR COMFORT AND DEMAND LED US TO BRING OUR SECOND PUBLIC TRANSACTION."

AKESHNI GOUR ZIP CO

into it as our book was oversubscribed. This was a fantastic result.

Davison *Brighte is one of 2020's debut public issuers. What was its experience?*

◆ **ROHL** It is interesting to reflect. When I first started at Brighte, about three-and-a-half years ago, we were aiming for an early-2020 debut. Until COVID-19, everything was going smoothly. Everything was set up, we were working with Moody's [Investors Service] and in February 2020 things looked good.

Then the world changed. I echo the comments made about the importance of the AOFM's role, as well as the importance of NAB as a strategic partner and the support and insights it provided through the early stages as the crisis developed. The fact that credit was available across equity and debt markets meant we could continue to originate knowing that support was there. This was vital, because when a company is in a growth phase having to turn off the origination taps would have significant and real implications for us as well as the customers and vendors that rely on us.

There were a lot of different options. I remember meetings from home with the ASF [Australian Securitisation Forum] and AOFM when the forbearance SPV [special-purpose vehicle] was being developed. Like many others, we contributed to costs – knowing that the nature of our book meant we probably wouldn't have been the first to use it, but aware of its importance to the market.

All this contributed to confidence. It then became about communicating COVID-19 hardship numbers. As of late May this year, 0.2 per cent of our book is in hardship. It spiked to 1.2 per cent early in the crisis and then came off over the next 3-4 months. We did a September pool cut ahead of coming to market in October and I'm sure our hardship profile helped us as a first-time issuer.

It was really interesting to hear from investors at that time. They seemed to have cleared the 'hardship concern' threshold because there had been a number of transactions before ours and I did not spend a lot of time discussing hardship ahead of the deal. There were some comments about economics and how we would manage the JobKeeper cliff, but by that stage hardship numbers were a second-order consideration. The backstop of the AOFM was very important – but we were 2-4 times oversubscribed in the end, across all the different tranches.

It is easy to say all this now but there were certainly periods of nervousness through April and May. We made internal decisions at the time to ensure we could wait it out if markets weren't there for us.

◆ **SAMSON** This was critical. We observed a lot of issuers making decisions like this, not wanting to come to market while hardship was still on the way up. It was then about planning for what to do if things got worse.

Fortunately, the Australian economy showed signs of improvement quite quickly and we saw hardship start to come down. Investors gained a lot of confidence from those signals.

"THE LUXURY OF A SMALL COHORT IS THAT WE COULD DO A FULL REVIEW WITH HARDSHIP APPLICANTS. FOR MANY, WHEN THEY UNDERSTOOD THAT IT WAS NOT FREE INTEREST FOR A PERIOD BUT THAT THEY WOULD BE CAPITALISING INTEREST AND PUSHING IT DOWN THE LINE, THEY DECIDED TO KEEP PAYING EVEN IF IT WAS AT A REDUCED LEVEL."

JASON FINLAY ATHENA

Demand surge supports new issuer ambitions

AUSTRALIA'S SECURITISATION MARKET IS ENJOYING AN UNPRECEDENTED LEVEL OF ENGAGEMENT FROM REAL-MONEY INVESTORS. NEAR-TERM FACTORS ARE AN IMPORTANT DRIVER BUT THERE IS GROWING CONFIDENCE THAT THE ASSET CLASS HAS ACHIEVED A NEW LEVEL OF RELEVANCE IN THE INVESTMENT LANDSCAPE.

Davison *We should also talk about the demand side of the Australian securitisation market. It feels in 2021 that this is more of a real-money market than it used to be – that banks are issuing less but are also less dominant as investors. Is this an accurate observation and, if so, does it make for a more healthy and sustainable environment today?*

SAMSON In bookbuilds from 2010-12, inevitably we would see the AOFM [Australian Office of Financial Management] listed as the largest buyer accompanied by three or four other investors. Fast forward to today and now we see much more granular, diverse books.

This is fantastic in part because it was a hard grind to get to this point, from educating investors so they want to do the work on this product to battling through offshore regulations around risk retention – including the fact that the US, UK and Japanese regimes are all different, and do not factor in Australia. We were able to navigate through all of that. Securitisation is quite a resilient product and we always seem to find a way to re-emerge from challenges.

On the subject of the bank bid, there is always good cornerstone support from joint lead managers but it's very rare nowadays that they don't get scaled – which I'm shocked to say, given how I would have spoken about it five years ago.

I think the emergence of mezzanine warehousing has also really helped, and a lot of investors are now quite interested in the space. Not only do they see it as a good investment but also as the 'ticket to the dance' to secure bonds in term deals. When the APS 120 [regulatory standard] changed, bringing with it an increase in mezzanine requirement, I think a lot of smart investors decided really to lean into securitisation. They did the work to understand the asset class, got their risk-committee approvals and increased their mandate scopes.

Even a couple of years ago, the books for most issuers would only have had a few investors. This has really changed, though I think we also need to acknowledge that the lack of

"It was a hard grind to get to this point, from educating investors so they want to do the work on this product to battling through offshore regulations around risk retention – including the fact that the US, UK and Japanese regimes are all different, and do not factor in Australia."

SARAH SAMSON NATIONAL AUSTRALIA BANK

By the time a lot of the newer issuers came to market, hardship nervousness was a lesser concern.

The conversations we were having in connection with the first-mover issuers were about where the numbers were going, what liquidity was like and the forbearance SPV facility. By the second half of last year the conversations were different.

Davison *The AOFM seems to have been a circuit-breaker, providing confidence first to banks and then to the wider market. Was this broadly how the transmission mechanism worked?*

◆ **SAMSON** NAB operates through the cycle so I think we would have done what we did regardless, but it certainly helped some of the conversations we had to have internally. It also helped the functioning of capital markets, in that we were able to get transactions into the market so issuers could recycle funding. We would never want to be the reason for a lender having to turn off the tap, because we appreciate the flow-on consequences of doing so.

◆ **FOX** NAB was directly engaged with the AOFM in the early days. Having been through the 2008 financial crisis and worked with some of the same counterparties, we could share thoughts and insights that I believe helped differentiate this crisis from the circumstances of the last one.

There were astronomically high unemployment expectations early in the COVID-19 crisis. Responding to this was not just about the AOFM. It was also the work that the ABA [Australian Banking Association] and the government did to put in place mechanisms that enabled people and businesses that needed it most to have some safety. The flow-on effects through the economy could have been quite substantial otherwise. Australia has done very well in this regard.

other products available has helped. The supply side won't be like this forever because the banks will be back to senior bond issuance relatively soon – so we should enjoy this environment while we can.

But I think we have made good use of the spotlight, including by getting investors comfortable. Once they buy, I think they'll continue to buy. No-one wants to do the work for a one-off investment – investors like to buy repeat issuance. Our product also offers some relative yield appeal.

Spreads may have to move a little wider if there is a flood of corporates and financials in the market. We need to consider global relative value as well. I think most of the new investors will stay – there will just be periods of time when we are competing a little harder with other products.

FOX It is important always to understand that investors have a fiduciary responsibility for the money they are managing and, as such, relative-value investment opportunity is something every portfolio manager will assess, including domestic and offshore markets. Keeping a longer-term mindset than the deal in front of you and not chasing the last basis point is good business management and should not be forgotten.

SAMSON It's also rarely wise to try to pick the market. It is much better to be an issuer through the cycle. This also means doing the deal that is there to be done rather than waiting to get a few basis points cheaper next week – it might not be the case.

Davison *Zip Co debuted in the securitisation market before COVID-19 and has been back for a second transaction more recently. Did the book change?*

GOUR We noticed a lot of repeat investors but we also saw new investors begin to engage with the BNPL [buy now, pay later] market. While investors are getting comfortable with the Zip story and BNPL, there is still a long way to go in this journey to build a global investor base.

I would like to highlight that when we started to see oversubscription and price tightening during the last two transactions, we also saw investors begin to drop off. We need to strike a balance to keep investors happy and engaged. By doing so, hopefully they will still be there when we need them.

Davison *It sounds like a high-quality problem – how to decide between looking after established investors but also develop as much diversification as possible. Is it a trade-off?*

GOUR There was strong appetite across the capital stack in our two recent transactions leading to scaling – which is a nice problem to have, but critical at the same time to ensure we are striking the balance of keeping our investors happy.

The trade-off depended on a few things, such as the ticket sizes and the tranches the investors came into. While the business grows and the need arises for broader diversification, it is equally important to ensure we are looking after our established investors. Transparency and having open dialogue is key.

Kleyman *Is there interest from offshore in new nonmortgage securitisation issuers?*

SAMSON Yes, there is. UK and US investors love ABS [asset-backed securities] as it has been a much bigger asset class in those jurisdictions. But there are challenges. Most investors require transactions to be compliant with their own regulations. Last year we had to deal with risk retention as well as the EU securitisation regulations – including a blip connected with the EU regulators under which Australia was initially blacklisted.

But yes, offshore investors really seem to like ABS transactions. ABS deals also tend to be shorter, which they like as well. We see good demand from offshore investors as long as the deals are compliant with the regulators.

We could see improvement coming through in the first three months after these mechanisms were implemented. This gave everyone time to transition into their new environment: to catch their breath, reshape business needs, refocus on activity and build confidence.

From there, unemployment numbers were revised down regularly. NAB was also keeping a close watch on the other data we have available and engaging with regulatory authorities on the insights these data provide. Confidence was built through multiple mechanisms, in other words.

◆ **SAMSON** We should also applaud the rating agencies for not overreacting. Given the talk about employment rates and assumptions about asset performance, I think if downgrades had come early it could have counteracted the support provided by the government. Rating agencies were very constructive, however. They had a lot of engagement with investors and gave downside risk analysis that was quite valid across different scenarios. This definitely contributed to stability.

◆ **FINLAY** The pace with which industry collaboration started was fantastic. It did not take long. We were not doing term deals at this point – we were busy renewing warehousing at the time – but the speed at which the market came together in a risk-balanced way gave a lot of confidence.

No-one was just handing out money. We had to run a lot of numbers, do presentations and explain where we were. Between the ASF, the AOFM and the banks all doing their bit it became clear that things were going to come together, though. This helped everyone at management level get behind us, even those outside treasury roles. We could give meaningful feedback on how we were going and could explain that it was going to be okay.

◆ **MCFADYEN** We had been looking to bring a transaction in early April, before all of this happened. We were talking with NAB

and our mezzanine investors because we had been promising them we would bring a public securitisation deal, and we also had some mezzanine funding that was nearing limit.

It was really important to engage with NAB early on. Our first moves were to lock in increases across all our warehouses and then inform our mezzanine investors that we would not be bringing a transaction in the near term. One never wants to be 'that deal', that comes when the market is not ready – so we told everyone we needed to put issuance on hold and come to market when the time was right.

We found support from the bank to increase our warehouse limits, from mezzanine investors to increase limits in some places and then from the AOFM – which we brought into a couple of warehouses. We didn't need the AOFM across the board, but it was there and it was great to have it locked in.

It was a lot of work and a busy time for the business. But we got through it – and then deals started coming and we found the right time for our debut.

◆ **FINLAY** We were approved for the forbearance special-purpose vehicle (FSPV) but did not draw on it in the end. I am not sure how much was ultimately drawn.

◆ **SAMSON** Only a very small amount ended up being drawn – and only A$3-4 billion was deployed from the whole SFSF.

◆ **MCFADYEN** We also were approved but did not draw on the FSPV. We did multiple forecasts for the board and could show how bad the situation would need to be for us to need the FSPV.

◆ **FINLAY** The FSPV was a great example of industry collaboration. I remember ringing [ASF chief executive] Chris Dalton at the time and asking whether the industry was doing anything about this issue. He was able to tell me he'd spoken with five different people about it that day and that I could attend a meeting the next day. I could see straight away that thought was going into the structure that was being put together.

We did not need it in the end, but we kept track of it and it was a big comfort to just know it was there as a backstop for us and others if needed.

◆ **SAMSON** I think the Australian securitisation market is unique in how collaborative it is. It is quite small but, in times like this, it is collaborative, positive and constructive even with our competitors. If someone does a bad deal it doesn't help anyone, so I think collaboration in these times helps everyone. We all wanted everyone to succeed, otherwise contagion risk can come through.

RATING RESPONSE

Davison *Sarah Samson brought up the rating agencies, suggesting that in March and April last year they could have taken a different direction from the one they ultimately took. What led to the conclusions and assumptions Moody's drew early in the pandemic?*

◆ **KLEYMAN** It was a very challenging time – probably even more challenging than the 2008 financial crisis because there was a lot more uncertainty about which way the Australian and global economies would go.

"WE FOUND SUPPORT FROM THE BANK TO INCREASE OUR WAREHOUSE LIMITS, FROM MEZZANINE INVESTORS TO INCREASE LIMITS IN SOME PLACES AND THEN FROM THE AOFM – WHICH WE BROUGHT INTO A COUPLE OF WAREHOUSES. WE DIDN'T NEED THE AOFM ACROSS THE BOARD, BUT IT WAS THERE AND IT WAS GREAT TO HAVE IT LOCKED IN."

JUNE MCFADYEN ALLIED CREDIT

We had a global collaboration because, of course, this was a global phenomenon. We had a lot of discussions to understand what stresses were relevant, how we could draw on the loss experience of previous crises and which asset classes were most affected.

For example, assets like commercial real estate were more of a concern than mortgage portfolios, which tend to be more diversified – although there was still concern, of course. We formed a base case so we could understand to what degree we needed to stress test. On the other hand, we also needed to take into account the effect of payment holidays and announcements of various support packages that happened quite quickly.

On a transaction-by-transaction basis, we were focused on what risk mitigants were in place. For example, liquidity facilities and how many months' interest payments these would cover. Low rates helped provide a lot of coverage generally, ensuring that even if hardships were quite high there was still a lot of room for investors to get interest payments. A lot of transactions also have significant excess spread that would need to go before there is any need to draw on the liquidity.

When we were thinking about the forbearance facility, we did not expect issuers to draw on it. But this wasn't the point: it was there to provide confidence to the market, which it clearly did.

Davison *At what point was Moody's in Australia able to tell its global organisation that things were looking different here?*

◆ **KLEYMAN** When we look at transactions we do so on an Australia-specific basis. We had the big global collaboration on how to approach the level of uncertainty, but we look at Australian transactions and developments in the Australian economy specifically.

We put a number of mezzanine and junior notes from a few nonconforming RMBS [residential mortgage-backed securities], one SME-backed and one ABS [asset-backed securities] deal on review in Australia, with two junior notes from nonconforming RMBS eventually downgraded and the rest of the notes confirmed.

On the subject of performance, consumer ABS assets generally performed well in 2020. Not only was their level of hardship quite a bit lower than RMBS, but also ultimately defaults were lower than they otherwise would have been if COVID-19 had not happened. This is because of government support and early access to superannuation. ABS assets also tend to have smaller repayments and are easier for borrowers to manage.

This is not specific to Australia. For example, performance of consumer ABS in the US has also been relatively strong because of payment holidays and government-support measures.

Davison *It must be surprising that the economic cliff at the end of various support measures has barely eventuated.*

◆ **FOX** It loomed larger last year before JobKeeper and JobSeeker were extended to March 2021. We were not ready for it to finish in September 2020.

PRE-EMPTIVE HARDSHIP

Davison *During the height of the COVID-19 crisis hardship numbers spiked because a lot of borrowers requested hardship as a pre-emptive measure – because they were worried about losing their jobs rather than because they had actually done so, for instance. It also seems that smaller lenders were more inclined to discuss whether hardship was really needed with their customers, rather than simply extending it on request. Are these fair assessments?*

◆ **FINLAY** We had single-digit figures of actual payment forbearance – literally seven or eight loans – over the whole period, so our sample size is not very big. We had double that for borrowers who converted to interest-only from principal-and-interest but who were still making payments.

However, we only had a relatively small loan portfolio and the luxury of a small cohort is that we could do a full review with hardship applicants. For many, when they understood that it was not free interest for a period but that they would be capitalising interest and pushing it down the line, they decided to keep paying even if it was at a reduced level through interest only. Not every lender had the luxury of talking to their borrowers in this detail, because of scale.

◆ **KLEYMAN** We saw variance in performance and hardship levels even among mortgage lenders. For instance, we found that mutual banks had hardship numbers quite a bit lower than average, which is probably reflective of very conservative

"WE ABSOLUTELY THINK ABOUT ESG AND FUNDING. A LOT OF THE DATA WE HAVE PUBLISHED COVERS ENGAGEMENT WITH THE PLATFORM AND HOW DOING SO IMPROVES THE CREDITWORTHINESS OF OUR CUSTOMERS."

ANDREW GOODWIN WISR

Financial crisis comparison

IT IS HARD TO IMAGINE THE NEW-ISSUER MARKET SURVIVING, LET ALONG FLOURISHING, IN THE GLOBAL FINANCIAL CRISIS TO ANYTHING LIKE THE EXTENT IT HAS IN THE COVID-19 ERA. LESSONS LEARNED LAST TIME AROUND HAVE PAID OFF IN 2020-21.

Davison *It is clear that this industry, particularly the nonbank sector, is in better shape now than it was emerging from the financial crisis – when a number of nonbanks fell by the wayside. What has enabled the situation to be so different?*

FOX Leading into the financial crisis, the securitisation market was heavily banked by international lenders. I am not criticising the international banks – there is a role for them – but what we experienced through the financial crisis was that international banks had to limit or withdraw the flow of funding. This put nonbanks, particularly a handful of larger nonbanks, under enormous refinancing pressure.

Another standout factor was that we had a predominantly residential-mortgage market. There was some ABS [asset-backed securities] issuance but not much of significant scale. Genuine standalone ABS lenders were few and far between. It was relatively easy to consolidate in the residential-mortgage market and we saw multiple acquisitions take place.

In the financial crisis itself we had government support, but it was in a different form. It is important to remember, this time around, that some legislative changes were made to facilitate the provision of mezzanine financing through the Australian Office of Financial Management.

We did not have these multiple capital tranches in the financial crisis. The support was much more simplistic back then.

SAMSON The banks don't really use securitisation for funding like they used to. They do it for different purposes and for much less volume. Ours is really a nonbank market nowadays – it has changed a lot over the past 10 years.

FINLAY In the decade or so bookended by the two crises the industry has gone through a bottom-up maturing in liquidity management as well as more top-down regulation through APRA [the Australian Prudential regulation Authority] and others.

All the banks did a lot of work on liquidity management over this period, but we talk about it a lot as well even though we are not APRA-regulated. We are talking about active liquidity management and diversification, to make sure we do not have that same issue as 10 years ago.

We do not want to have a crisis every 10 years after which the nonbank sector contracts because there is no structured-finance solution in place. On the other hand, crises themselves are not rare things and we need to have business models that can survive them.

FOX One of my observations with the most recent crisis is that there was a lot going on across the balance sheet. Irrespective of good risk management, it is a difficult environment to have concentrated demand for redraws and liquidity lines.

The quantum of liquidity the banks put out to corporate Australia – from big corporates all the way down to SMEs, along with our third-party securitisation businesses and other specialist financing – means the approach we take on liquidity is quite significant.

There was also a lot happening on the asset side in 2020, in some pockets much more than others. This was quite distinct from the financial crisis, which particularly in Australia was not really a credit event in any real sense. This meant 'management distraction' was more significant this time around, including diversity in asset performance and the funding and capital requirements for this event.

ROHL We kept a close eye on interbank overnight spreads – because I remember the financial crisis and the shape of that curve. It spiked up a little this time but it was a very different situation from the financial crisis.

FOX My current role at NAB has a broader remit, though in 2020 bringing a strong securitisation background in senior engagements certainly assisted in understanding the various considerations at play, including ensuring funding was applied broadly and where it was most needed in the early days of the pandemic. It was then important to understand where further funding would be needed and why.

Securitisation customers showed a lot of support and understanding of the processes we needed to follow to provide funding. There was a sense of confidence that funding would be there if needed.

underwriting and a generally low proportion of self-employed borrowers.

It was a different story for some nonbank lenders that have a much higher proportion of self-employed borrowers. A lot of these borrowers took hardship as a precautionary measure because they were concerned about income volatility throughout this period. Many did not end up needing it and returned to payments quickly, though.

◆ **FINLAY** We have a very small number of self-employed borrowers in our book. We are sure this played into performance given this sector was probably more susceptible to the economic downturn.

◆ **GOUR** We saw a spike in hardship requests in April last year when there was a high degree of uncertainty around how the lockdown would affect the economy. This quickly trended down as customers realised putting a loan into hardship would also mean their account was locked and they could not shop with it anymore.

Because buy-now, pay-later has smaller repayments it was easier for customers to keep making them – and thus to reopen accounts. In the height of the lockdown period we also saw an increase in repayment rates to higher than the pre-COVID-19 level, which suggested customers were using additional cash to pay down debt.

◆ **MCFADYEN** It was exactly the same for us. We had a spike early on but it was just the initial panic of customers calling up and asking whether they could apply for hardship.

At the time, most banks were just approving hardship without questions. We went through the process and followed the legislation for what we could and could not do. The customer had to make a formal application and complete a financial assessment.

For some customers, their loan with us is a relatively small amount they have to repay every month so in many cases we didn't have to accept or reject hardship – they just didn't come back with the information we needed and continued paying their loan as normal.

There were genuine cases to whom we gave payment holidays, extending the original term. But even at peak we were only about 5 per cent in hardship.

◆ **CUMMINS** I think it is often forgotten that that a large proportion of borrowers are first timers. Also, the lenders around this table are largely single-product providers – we are not like the banks.

The banks, quite sensibly, were telling customers to go into redraw at 2 per cent and get rid of their other loans. I would do exactly the same thing. We saw a lot of prepayments as a result, but this means we got our money back to lend again. There was a lot of common sense in how it was all treated, and it didn't lead to a panic. We were pleased with this.

Of course, we wanted to go and lend the money again. On the other hand, lenders were not rushing to lend money in May and June last year. While everyone around this table competes in the consumer lending space, I think there was some common sense at play where lenders were managing borrower expectations and making sure they were not overextending in a highly uncertain time.

◆ **SAMSON** For all of the emerging lenders that have not been around for a long time, investors, banks and counterparties have now seen how you acted through a crisis of uncertainty – and this should not be underestimated. There has been a massive internal gain for these lenders, in things like how management teams should behave and make decisions under this type of pressure and uncertainty. This will accelerate journeys with investors and warehouse banks more than issuers probably realise.

◆ **KLEYMAN** It was interesting to see how quickly a lot of originators looked at their underwriting policies and put measures in place to ensure they are not lending to risky industries or segments.

◆ **SAMSON** This was also at a time when these companies were moving their workforces to home in order to keep their businesses operating. I don't think we can underestimate all these decisions amid uncertainty.

◆ **CUMMINS** It also flushes out a new group of credit investors. All of a sudden there are a few new warehouse providers and we also see who was getting over their skis in the funds-management market. Getting to see all this is not a bad thing.

POST-CRISIS DEBUTS

Davison *Wisr has debuted in the public securitisation market very recently – in May 2021. How did the pandemic influence the path to market?*

◆ **GOODWIN** This time last year we absolutely were not thinking we would be issuing within 12 months. We were quite early in our warehouse piece – we went live with a NAB warehouse in November 2019 – and we entered the COVID-19 period with a relatively small on-balance-sheet book. We did have a broader book but a lot of it was off balance sheet.

We went through similar experiences to those that have already been described, such as hardship spiking then flattening. We had taken a concerted view to lend through the cycle, even before this crisis hit, because we knew that at some point there would be a cycle in Australia.

We have had fantastic support from NAB, while the AOFM also came into our warehouse. The playbook developed during the global financial crisis and used in this one was fantastic and how quickly it was rolled out is also commendable.

We obviously had to go through a rigorous process with the AOFM, which was very good to see – it was not free government

"SECURITISATION IS USED TO BEING AN ASSET CLASS THAT CAPTURES AND REPORTS ON DATA – WHICH MAKES IT RIPE FOR EVOLUTION IN THE ESG SPACE. BUT ISSUERS SHOULD NOT DO IT JUST FOR THE SAKE OF DOING IT. INVESTORS WILL ASSESS THE SUSTAINABILITY APPROACH OF THE CORPORATE ENTITY."

JACQUI FOX NATIONAL AUSTRALIA BANK

money. There were genuine market terms and due diligence, to the fullest extent possible given how swamped the AOFM was through that period.

In lending through the cycle, we have discovered that our book skews toward prime borrowers more than it did previously – even though we have always targeted prime borrowers. The last 12 months, ironically, has been very beneficial to book quality based on our credit-score metric and the fact that our arrears have come down.

We took the view at the end of last year that this was around the right time to come to market. It has been a fantastic process to go through. We did not receive a lot of queries about the stimulus cliff even though it was reached at the end of March. We certainly did not see this affecting our data.

Market demand, from domestic and international investors, was very encouraging. Actually, a challenge for us was that we were offering a A$225 million deal. There was room enough for some investors, but there are names out there that like to write big tickets. We tried to strike a balance.

We are very happy with how our funding journey has played out and how the underlying economy is performing. It is very encouraging.

Davison *SocietyOne has yet to issue publicly. Has its trajectory been affected by the pandemic?*

◆ **CUMMINS** We have been on a similar warehousing path to Wisr and we both have an off-balance-sheet back book as well.

One thing I'd highlight is that APRA [the Australian Prudential Regulation Authority] has nonbank lenders in its sights. It can exert influence via our relationship with banks, which ultimately APRA regulates – we all get some sort of partial regulation down the track, depending on our size.

It used to be that when the securitisation market was working well, issuers raced over to the rating agencies and arrangers to do term transactions because a funding arbitrage was available. This is no longer the case and securitisation funding is now consistently cheaper largely due to regulatory changes by APRA.

The rationale makes sense, but it forces nonbank lenders to realise that sourcing funding from the banks and other large institutions via securitisation structures is significantly cheaper and complies with the methodology APRA is comfortable with.

Realistically, I do not see this changing in the next five or 10 years. The goal is to maintain a strong banking system with a whole bunch of lenders around it that can compete and provide diversity.

Looking back to mid-2020, we took a very cautious approach as hardships increased sharply. Not everyone took this approach and the relatively quick economic rebound out of the pandemic rewarded those that did not significantly tighten their liquidity.

In hindsight, it was a smart thing to do. We are all reacting to what we see at the time, but the speed at which hardship numbers came down was phenomenal. Our credit people saw it coming through and, talking to others in the market, we found it was coming down really fast for everyone.

We are in clear air now and in good shape for talking to rating agencies. We are pretty optimistic and the feedback out of the Wisr transaction is really good – the margins are certainly phenomenal. We are due to come to market in the next half-year and it should be a good time to go.

The other thing to note is supply. There is no paper in our market and there is not going to be enough to match the amount of liquidity in the market for the next few years. Being an issuer is a good thing at the moment.

ESG ADVANTAGE

Davison *Another aspect of the demand story is the positive response when issuers are able to present environmental, social and governance (ESG)-aligned product. How does an issuer like*

"WE ARE NOT GOING TO BE A SINGLE-DEAL ISSUER, SO WHEN WE DEBUTED WE IDENTIFIED A GREAT POOL OF INVESTORS THAT WE EXPECT TO HAVE LONG-TERM RELATIONSHIPS WITH – THOSE THAT WILL BE THERE WHEN WE ISSUE AGAIN. PRICE BALANCE IS IMPORTANT: WE DO NOT WANT TO BE SQUEEZING EVERY LAST BASIS POINT ON THE FIRST DEAL."

JOHN ROHL BRIGHTE

Brighte, which has a natural source of green-compliant assets, think about demand?

◆ **ROHL** I think our experience is similar to others, actually. We have a very strong partnership with NAB in the first instance, and from there it has been a balance between trying to keep as many investors as possible happy as a repeat issuer. We are not going to be a single-deal issuer, so when we debuted we identified a great pool of investors that we expect to have long-term relationships with – those that will be there when we issue again.

Not all investors will get the volume they bid for, of course. But I agree that price balance is important: we do not want to be squeezing every last basis point on the first deal.

We saw a handful of investors that may not have participated in this space before. While some were not ready to bid on our first deal, a number indicated that they might be there for the second.

Some of this was due to the macro effects that have been described but I agree that the ESG piece helped bring some investors in. We offered a higher-yielding product with a green element, which generated a lot of interest.

I am not sure whether there was a price differential, though: I think the data is too thin to know for sure. Our objective is to minimise risk and maximise investor relationships over time, anyway – not trying to extract a pricing advantage all the time.

The second deal will be very exciting for us, particularly whether some of the investors with whom we have done some education participate. We are looking forward to issuance later this year.

Davison *To what extent does ESG securitisation give access to more and different investors?*

◆ **SAMSON** There is no question that more investors would buy a green deal than a vanilla one. There are investors with specific mandates that come into a transaction if it is structured and labelled appropriately, with the right certification and governance.

We have only seen green securitisation in Australia to date, but I'm hopeful that we will see other types of ESG transactions including social labels. NAB was involved in the inaugural UK social securitisation, which is a mortgage-backed deal where the issuer can demonstrate that the borrowers in the loan pool would not necessarily qualify for mainstream banking mortgages.

I think we will see this in Australia. It is just about making sure issuers have the right data so they can get the right certification. Investors need to be satisfied that the structure ticks all the right boxes. One of the challenges we have with securitisation is data reporting. This is an industry challenge, particularly for mortgages, that collectively I hope we can solve.

Davison *Should issuers expect or even demand a pricing benefit if they are taking the steps necessary to bring ESG issuance to market?*

◆ **MCFADYEN** Issuers that want a price benefit should be saying they will pass it on to their customers.

◆ **SAMSON** ESG really needs to be implemented throughout an organisation and I agree that any benefit should be passed on to the consumer. In time, I think ESG will become so mainstream that it will not be a case of relative price but the only price. It is possible there will be an interim step where there is better pricing for a period of time because there is just so much demand for ESG, but I am not sure.

◆ **FOX** An issuer like New South Wales Treasury Corporation, which has invested a lot of time and energy into its sustainability framework and funding programme, is seeing observable demand-driven benefits.

I also think there would be a pricing benefit for the major banks nowadays, and for some corporate deals issued in labelled format – which all things being equal would be seen through strong books and price contraction in the syndication process.

"CONSUMER ABS ASSETS GENERALLY PERFORMED WELL IN 2020. NOT ONLY WAS THEIR LEVEL OF HARDSHIP QUITE A BIT LOWER THAN RMBS, BUT ALSO ULTIMATELY DEFAULTS WERE LOWER THAN THEY OTHERWISE WOULD HAVE BEEN IF COVID-19 HAD NOT HAPPENED."

IRENE KLEYMAN MOODY'S INVESTORS SERVICE

"WHILE EVERYONE AROUND THIS TABLE COMPETES IN THE CONSUMER LENDING SPACE, I THINK THERE WAS SOME COMMON SENSE AT PLAY WHERE LENDERS WERE MANAGING BORROWER EXPECTATIONS AND MAKING SURE THEY WERE NOT OVEREXTENDING IN A HIGHLY UNCERTAIN TIME."

JOHN CUMMINS SOCIETYONE

To date this has been particularly seen in the financial space rather than in securitisation.

Having said this, securitisation is used to being an asset class that captures and reports on data – which makes it ripe for evolution in the ESG space. But issuers should not do it just for the sake of doing it. Investors will assess the sustainability approach of the corporate entity.

Increasingly, corporates are adopting sustainability frameworks that can be linked to business purpose and strategy along with the types of assets a lender writes. Thinking about these things early, including how to capture the data required to support transaction verification and the integrity associated with these types of issues, is important.

I think securitisation will, in time, have more use-of-proceeds transactions and some KPI-linked transactions to look forward to.

◆ **SAMSON** Fintech nonbanks should be well placed to capture good data. They do not have the legacy systems of the banks, which is part of our challenge. Capturing data to demonstrate ESG credentials should hopefully be a lot easier for some of the newer lenders.

Davison *Do newer issuers think a lot about ESG and the funding nexus? Or is it more about getting the business up and running before considering this further down the road?*

◆ **GOODWIN** We absolutely think about ESG and funding. There are two sides of the Wisr business: one is the digital lending side and the other is a financial-wellness platform, on which we have 400,000 Australians. A lot of the data we have published covers engagement with the platform and how doing so improves the creditworthiness of our customers. They are not necessarily borrowing customers, but it improves their creditworthiness and ability to borrow, and their familiarity with finance.

There is a real social angle to this. We had some conversations with NAB about how this could be relevant to us going forward. It certainly is at equity level in the company – we have investors that look at the business through the ESG lens and have requirements around it.

It is growing at such a rapid pace and is relevant to every corporate in Australia and globally. It is an evolving issue for Wisr but it is absolutely relevant. On the cost of funding side, I am not sure.

◆ **MCFADYEN** Electric cars is of course an interesting asset class for us. Obviously, a transaction would depend on demand and where the stock comes from. It is definitely on our minds and we will keep thinking about it going forward, but we just don't know how big the market is going to be in Australia. Hopefully we get more electric charging stations, which will drive confidence in electric vehicles.

COMPETITIVE ENVIRONMENT

Davison *How hard is it to maintain the growth that newer lenders want in a competitive environment where banks, particularly the big four, are flush with liquidity and have access to ultra-cheap funds from the Reserve Bank of Australia's term funding facility (TFF)?*

◆ **FINLAY** Our plans have never been to take on the big-four banks on volume. The residential-mortgage market is big enough with enough nuances to accommodate our size and the growth rate we want to achieve.

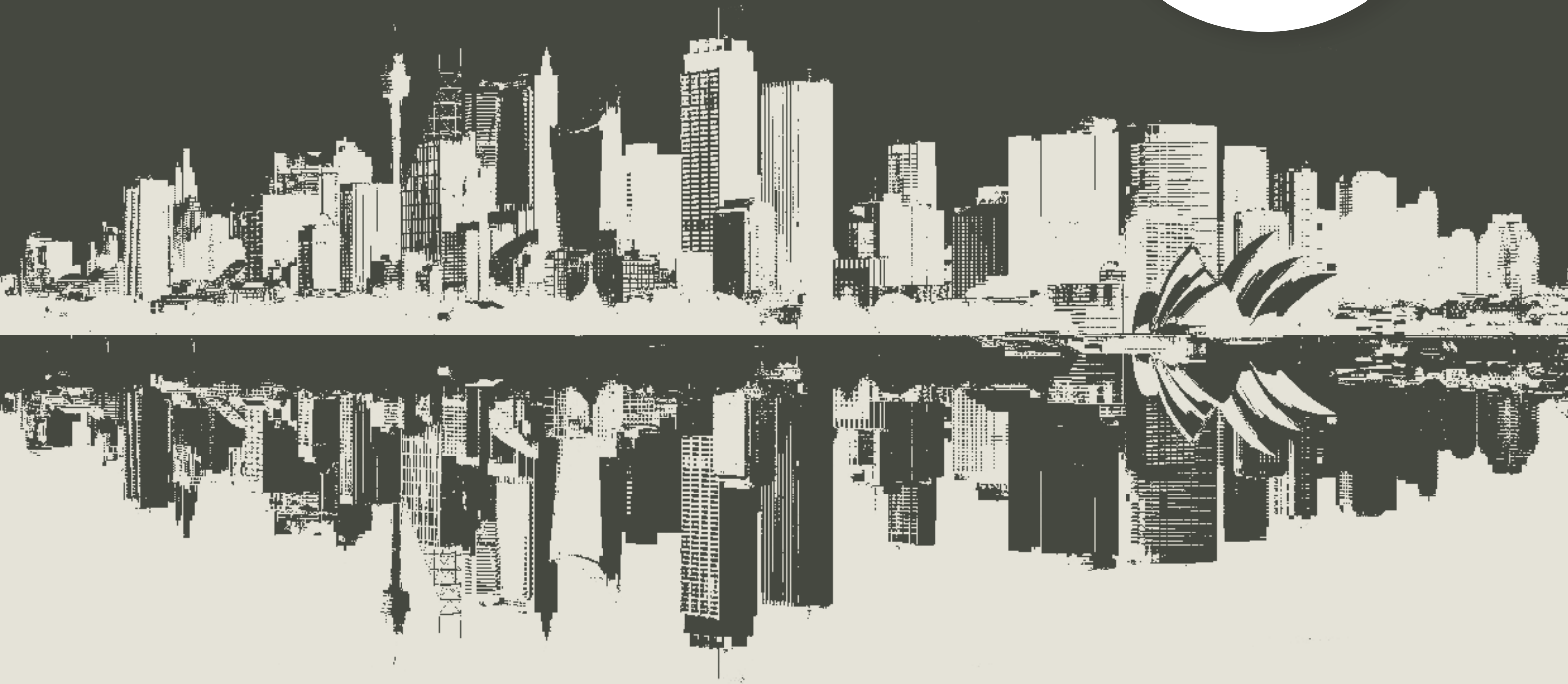
We look at it in a couple of ways. We need to have a good product, price and company. Brand awareness in the market is very important for this and a lot of our marketing goes along these lines.

The TFF is still influencing lending rates and it has curtailed our growth of late. Our role in treasury is about making sure funding is in place and that we have a diversified approach to how we are going to keep the business moving forward 6-12 months from now.

Our mezzanine and senior investors are aware of where we are going, and we want to continue partnering with them as we head toward our first term deal. We cannot get bogged down in what markets are doing at any point in time, though – we need to prepare for all stages of the cycle and play the long game.

◆ **GOUR** COVID-19 has obviously been a tailwind for the BNPL market – it is booming. Zip in Australia is the core business and our main focus, but we are also looking to grow globally. This means making sure there is enough liquidity in our warehouse funding and master trusts.

We also need to forecast the timing of our public issuance – not choosing particular moments to take price benefits. Ensuring funding diversity and appropriate headroom is maintained will allow business growth. ■



COPUBLISHED FEATURE

AVANTI'S WIDER AND DEEPER NICHE

The growth opportunity for New Zealand's nonbank lenders is not fundamentally dissimilar to their Australian peers: to capture market share in types of lending in which banks are either less competitive or less interested. New Zealand has its own local nuances, but the bottom line is a positive outlook for the nonbank sector and its funding need.

The nuts and bolts of the New Zealand nonbank story mirror developments in Australia fairly closely. Both countries had relatively diverse and healthy nonbank sectors ahead of the global financial crisis, which were then decimated by the liquidity squeeze before beginning a steady but increasingly successful climb back to prominence in the past decade.

A raft of players fell by the wayside in the financial-crisis era, but those that came through have seen increasing opportunities to take market share in areas where regulation has made banks less competitive – specifically specialist mortgage lending and some forms of personal finance. The nonbanks have also honed service offerings they believe better serve borrowers, in areas like processing speed and detailed understanding of credit specifics.

On the other hand, the New Zealand nonbank sector is not identical to Australia – and this shows in the pace at which its growth opportunity has evolved. Where Australian nonbanks have been eyeing market-share growth with increased optimism for at least half a decade, the story has been somewhat slower to unfold on the other side of the Tasman Sea.

To some extent this is simply a product of the relative pace of regulatory change. A major driver of growth opportunities for nonbanks has been banks pulling back from – or at least revising their pricing regime for – certain types of lending due to revised regulatory and capital requirements. The final form of bank capital regulations took slightly longer to finalise in New Zealand, as naturally did the accompanying remodelling of bank balance sheets.

LOCAL SPECIFICS

But New Zealand also has some of its own idiosyncrasies. For one thing, says Paul Jamieson, group treasurer at Avanti Finance in Auckland, the nonbank sector started from a lower base before the financial crisis. With a lower high-water mark even in the pre-crisis environment, the idea of getting a home or even a car loan from a nonbank is simply a less familiar concept to many New Zealanders.

This lower level of sector recognition is exacerbated by norms of product distribution and type. Jamieson explains that, historically, only around a third of New Zealanders sourced their home loan through a broker – barely half the proportion of Australian borrowers who use an intermediary. With brokers being nonbank lenders' primary means of customer acquisition, the share of new business available to the sector has naturally been smaller.

The typical New Zealand mortgage is also much more likely to be in a format that is typically hardest for nonbank lenders to compete with on price: fixed-rate loans. Jamieson says around 90 per cent of New Zealand mortgages are fixed rate and this proportion has been stable for some years.

While the proportion of fixed-rate loans is much lower in Australia, that market also saw a significant move from floating to fixed in 2020 – with a concurrent spike in prepayment for nonbank lenders as mortgage holders refinanced with banks. The cohort of loans that nonbanks can target in New Zealand may be smaller but its size is also arguably more stable.

Finally, the impact of the financial crisis itself was arguably deeper and more long-lasting for New Zealand nonbanks even than their Australian peers. This is because of the country's 'financial crisis before the financial crisis', the collapse of nearly 70 local finance companies between mid-2006 and the end of 2012. Not only did lenders like South Canterbury Finance and Bridgecorp fail but in many cases they took with them the deposits and debenture investments of local retail investors.

The crisis cast a long shadow over the nonbank sector in New Zealand, even for unaffected lenders. "The terms 'finance company' and 'nonbank' have since been associated with that crisis," Jamieson explains. "Even the companies that came through that period, survived and thrived – like ourselves – have

"As we have gained scale and investors have built confidence in our credit decisioning, we have been able to diversify our product set – first into autos and short-term mortgages, and now into long-term mortgages. We are also widening our product offering within each of these products wherever we see the greatest opportunities."

PAUL JAMIESON AVANTI FINANCE

to some extent been tarred by the same brush. It is taking some time for consumer perception of the sector to improve."

OPPORTUNITY KNOCKS

Taken together, these challenges mean the opportunity for nonbank lender growth has been slower to emerge in New Zealand. But the opportunity has arrived, including in the mortgage space.

"Capital rules are clearly influencing the banks and driving them to focus on the highest-quality borrowers. Nonbank lenders are now also competitive on price with most bank floating-rate mortgages," Jamieson tells *ASJ*. "Customers also increasingly recognise the nonbank service offering on things like turnaround time and our understanding of credit specifics."

Avanti started as a personal lender to borrowers who were unable to access bank loans and then expanded initially into the auto space. Jamieson says the credit discipline the company developed in the nonconforming market over 30 years combined with the growing opportunity has sparked an evolution in strategy. Avanti is now focused primarily on auto and mortgage lending but has increased its breadth of offering within both.

"As we have gained scale and investors have built confidence in our credit decisioning, we have been able to diversify our product set – first into autos and short-term mortgages, and now into long-term mortgages," Jamieson reveals. "We are also widening our product offering within each of these products where we see the greatest opportunities, which in this case means near-prime mortgages and prime autos."

The goal is not to be a full-service player but to maximise the competitive offering in the parts of the market it makes most sense for Avanti to target. In this respect, the lender is enjoying something of a win-win situation: its niche is growing but it retains the advantages of specialism.

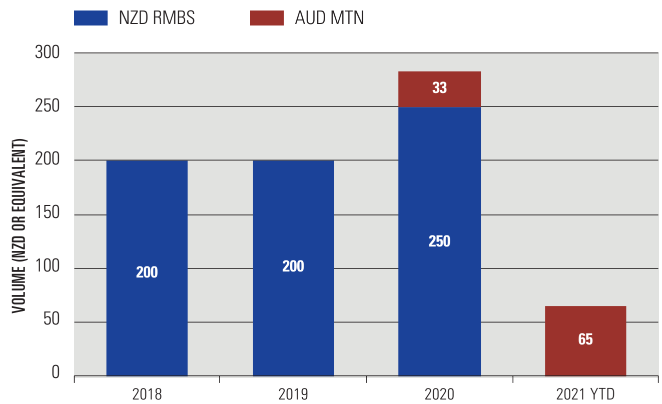
For instance, Jamieson says Avanti is used to, and comfortable with, relatively elevated prepayment rates in its mortgage book. Brokers tend to recommend Avanti loans to their customers based on the lender's wide range of solutions and as a means of establishing or re-establishing sufficient credit credentials to refinance with a bank. Jamieson says when this happens it reaffirms Avanti's own credit assessment of borrowers who would have likely received a flat 'no' from the bank sector in the first instance.

FUNDING GROWTH

Avanti's ambitions bring with them a larger funding requirement. Here, again, the nonbank lender faces challenges that have traditionally existed in the New Zealand market but does so with a degree of confidence about the future. In this case, the relatively smaller nonbank sector in New Zealand – and an almost complete lack of bank issuance – means a relatively less developed local securitisation market.

Nonetheless, Avanti completed its third public residential mortgage-backed securities (RMBS) transaction in the pandemic year of 2020, and also supplemented this deal – its largest ever – by debuting as an issuer of Australian dollar-denominated MTNs (see chart).

AVANTI WHOLESALE TERM-DEBT ISSUANCE



SOURCE: KANGANEWS 8 JUNE 2021

There are signs that New Zealand securitisation is ready to take a major step forward. These were evident even in advance of the pandemic: at the start of 2020 local market participants were quietly confident that the year would bring an unprecedented quantity and volume of deal flow. COVID-19 dashed those hopes, but the market rebounded quicker than anyone expected and expectations are high that the second half of 2021 will see issuance return to its previously expected trajectory.

In the wake of Avanti's 2020 RMBS, which priced in October, Jamieson said the issuer was pleasantly surprised to have been able to print a transaction it had earlier in the year all but abandoned hope of bringing to market in 2020 – although he acknowledges that pricing was relatively elevated.

The even better news was that, despite the backdrop of the pandemic, a larger group of investors than ever engaged with and bought Avanti's RMBS. Jamieson says the 2020 transaction had a book of 16 investors, roughly twice as many as its deal from 2019. This included domestic fund managers that were new to the issuer and, Jamieson believes, quite possibly securitisation as a whole. Avanti also found demand outside Australasia for the first time.

"Australian pension funds have been involved in securitisation for some time but we are now seeing some New Zealand superannuation funds getting comfortable with the asset class," Jamieson reveals. "As a funding model, securitisation works for us and I think it will continue to work. In fact, I think there is more demand out there than supply so – at least in the short-to-medium term – I don't foresee any issue matching funding to lending."

In practice and market conditions permitting, this means annual RMBS issuance from Avanti with the potential to increase frequency as the mortgage book grows. The nonbank also expects to become a regular issuer of nonmortgage asset-backed securities – albeit probably not starting in the next 12 months – and to retain or grow its access to the Australian dollar and New Zealand dollar MTN markets. ■

COPUBLISHED Q+A

SG SUPPORTING THE REAL ECONOMY AND NEW ASSET CLASSES

*Societe Generale has bold plans for developing niche areas in the Australian securitisation market, including equipment, SME and consumer lending. The bank's Hong Kong-based head of asset-backed products, APAC, **Florence Coeroli**, and Sydney-based head of asset-backed products, Australia, **Arkady Lippa**, discuss the strategy and product solutions.*

Societe Generale (SG) is a very significant player in global securitisation markets. What expertise does the bank bring to Australia?

◆ **COEROLI** SG is very active in securitisation and asset-backed products across the securitisation chain. We have well-established US and European franchises, where we are in top league-table positions. In APAC, we are building a platform on the back of our global leadership position.

Securitisation is one of the bank's core financing franchises so it is important for us to become more active in the region – especially in Australia, where we think our expertise in other jurisdictions could be relevant to local clients and offshore investors.

◆ **LIPPA** The structuring expertise for asset-backed products within SG is deep and broad across jurisdictions and asset classes, but particularly for those in which SG is a global leader. We understand key aspects and risks involved in structuring and distributing asset classes such as equipment financing, SMEs, consumer lending and insurance-premium funding.

We also have extensive expertise in trade receivables, which is one of the larger parts of SG's global asset-backed business. Our European trade-receivables programmes often include Australian assets, so this is a core expertise we are rolling out in Australia.

Another key part of SG's Australian business is its global ABS [asset-backed securities] distribution. We have an embedded, specialised sales function within the asset-backed business, which has salespeople who know the market landscape and are dedicated to the product. They can answer investor questions around structure and offer a range of investor solutions including financing, which is a great value-add for the client.

◆ **COEROLI** Our securitisation business is focused on the full value chain of the asset class. We are here for clients on primary issuance and warehouse facilities, as well as distribution. We also have trading, market-making, sales and repo-financing capabilities. Our business is a one-stop shop for securitisation including borrower and investor clients.

What are the key Australian market trends and opportunities SG wants to tap into?

◆ **LIPPA** A key global and Australian trend is regulation. The regulatory landscape is evolving all the time and this affects both sides of banks' balance sheets.

We are very active in capital management for SG itself and for banks globally. It is an area on which Australian banks are very focused and can benefit from. They are looking for solutions that work from a regulatory perspective and are economically sound. Banks need access to technology that enables transfer of risk and balance-sheet management, and we can use our expertise to find these solutions.

Another trend in Australia that continues to grow is the inflow of significant offshore private-equity capital. This is combining with the regulatory trend and is resulting in a lot of M&A activity, as local banks seek to optimise and reshape their operations in Australia and New Zealand.

◆ **COEROLI** ESG [environmental, social and governance] is another fundamental market trend. This has been embedded within SG's financing practice for several years and is becoming more relevant in securitisation. We want to raise awareness on the topic because we think securitisation can play a big part in helping our clients on their ESG journeys, and in achieving green and social ambitions.

How can Australia benefit from global trends?

◆ **COEROLI** We are looking at the asset classes we have developed in other jurisdictions and considering whether they are relevant for Australian securitisation issuers. We recently closed a couple of social securitisations in North Asia, where the proceeds

"We recently closed a couple of social securitisations in North Asia, where the proceeds were dedicated to access to financing for low- and moderate- income populations. Social securitisation is a new asset class we want to push further."

FLORENCE COEROLI SOCIETE GENERALE

were dedicated to access to financing for low- and moderate- income populations. Social securitisation is a new asset class we want to push further.

We are proud to be innovative in this space. We are focused not only on the 'E' of ESG but also at what can be meaningful and relevant in the social area. We have seen huge development of social bonds during the pandemic and this can make a lot of sense in securitisation as well.

The Australian securitisation market has a lot of experienced issuers and investors, and they are often interested in pushing the boundaries and being innovative. This is not just for the purpose of doing something new but to do something meaningful.

The social securitisations we were a part of are backed by credit receivables, but I think many underlying asset classes could be acceptable for this type of social issuance. The key is to work with the client to define what could be a meaningful and relevant social project.

It is important for us to be at the forefront of this innovation. We have been active in sectors such as renewables and other green financing for decades, and we want to contribute to social financing too.

◆ **LIPPA** SME lending is an interesting asset class in this regard. SMEs are the largest employer in Australia, so providing lending to SMEs is clearly a significant engine in the economy. Securitisation, and potentially social securitisation, could be an effective financing tool to help close the funding gap in this sector.

Case study: Judo Bank

JUDO BANK WAS ESTABLISHED IN 2016 AS A PURPOSE-BUILT, SME-FOCUSED BANK TO CHALLENGE THE AUSTRALIAN MAJOR BANKS. JUDO HAS GROWN ITS LENDING BOOK TO MORE THAN A$3 BILLION (US$2.3 BILLION), AND SINCE BECOMING AN AUTHORISED DEPOSIT-TAKING INSTITUTION IN 2019 HAS GROWN DEPOSITS TO IN EXCESS OF A$2 BILLION.

To do this it has required innovative funding solutions, which Societe Generale (SG) has helped facilitate.

SG and Judo's partnership began in 2019 ahead of the first round of the Australian Office of Financial Management (AOFM)'s Australian Business Securitisation Fund (ABSF) investment, to which Judo Bank intended to submit a proposal for investment. The ABSF is designed to help develop a wholesale funding market for SME securitisation.

Michael Heath, treasurer at Judo in Melbourne, says SG helped develop a structure that suited the interests of all parties. "The warehouse structure SG helped put together met the needs of Judo to further diversify and add to its committed funding sources across multiple tenors. The terms also provide flexibility to cater for the bespoke nature of the SME asset class, while addressing the AOFM's credit criteria and ABSF's market development goals."

The structure includes two- and four-year availability periods for the senior tranches, in which the ABSF invested A$250 million in April 2020. SG was arranger for the ABSF transaction and is also a senior financier in the warehouse.

"SG has been constructive in structuring and finding a good balance between all parties. This warehouse is one of the cornerstones of our secured-funding programme and allows us to grow with confidence through the COVID-19 period and beyond," Heath explains.

How is SG seeking to develop the local market for assets like SME, consumer and auto lending?

◆ **LIPPA** SME lending is a key sector for us in Australia and Europe, where we have a long history of supporting private and public SME ABS transactions. We have worked with the European Investment Fund, which previously ran programmes to support market development, and we have been strong supporters of the Australian Office of Financial Management's Australian Business Securitisation Fund (ABSF).

We worked alongside Judo Bank on its initial ABSF proposal (see box on this page). Judo, along with several other challenger loan securitisers, have now been around for some years, so it is an asset class that is gaining momentum.

In auto and equipment ABS, a significant amount of global sponsor and private-equity activity is happening in Australia, including among existing players like Pepper and Latitude but also with divestments from banks selling large portfolios of auto and equipment assets. This is a large part of the lending market that will continue to come into the public markets and SG has strong expertise in this sector, globally and locally.

How much demand for Australian assets is there from international investors?

◆ **LIPPA** Offshore investor support for Australian RMBS [residential mortgage-backed securities] and ABS has been steadily growing, in senior and mezzanine tranches, for years. We expect this to continue.

We have seen new investors coming into RMBS and ABS deals over the last 24 months, including some large accounts that had not bought Australian dollar product at all in the past. We are seeing German and French names in books, as well as investors from the US through European funds and even some from smaller European countries like Latvia.

Japan has historically been a big supporter of Australian product, starting with RMBS but now venturing into ABS as well. We would like to see a similar trend in other Asian markets. This demand needs to be supported to develop, such as through continuous education and marketing, secondary-market support and perhaps with repo financing attached to match yield targets for investors. ■

AUSTRALIAN AND NEW ZEALAND SECURITISATION INVESTOR PROFILES

The Australian Securitisation Forum is pleased to be able to share, for the first time, key facts and information on member firms active as investors in the securitisation market.

Investor membership of the Australian Securitisation Forun (ASF) has grown significantly in recent years, particularly so over the last 12 months. This mirrors the increasing participation of real-money investors in the Australian and New Zealand securitisation market.

Investors have always played a crucial role in market development and have been frequent contributors to the ASF's work through membership and participation in working groups, committees, conferences, evening-series events and other forums.

As such, in this 10th anniversary edition of *ASJ*, the ASF is pleased to present information on its investor members by offering each the opportunity to showcase its key facts and figures in the investor profile section.

This section profiles 16 ASF investor members operating in Australia and New Zealand, ranging from those with multiple funds and a large global footprint to boutique, specialist firms focusing on emerging areas of the local securtisation market including mezzanine and subordinated exposures.

Information in the profiles includes assets under management, number of funds that invest in securitisation, fund details and objectives, firm history and key contact details.

The ASF intends to make investor profiles a regular part of its membership entitlement, and hopes to see membership numbers continue to grow in the months and years ahead. ASF issuer member profiles will also remain a regular feature in the ASJ, and will return in subsequent editions.

ALEXANDER FUNDS MANAGEMENT

ALEXANDER
FUNDS MANAGEMENT

FUNDS UNDER MANAGEMENT (31 MAR 21)	A$352 MILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	2

About Alexander Funds Management

Alexander Funds Management (AFM) is an Australian fund manager that specialises in fixed-income credit markets. The business was established in 2009 and has produced consistent outperformance since inception.

The AFM investment team has decades of experience in domestic and offshore credit markets. This includes trading and structuring all forms of credit products, from vanilla corporate bonds to more complex credit vehicles and derivatives. AFM 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 AND WHOLESALE
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX +2%
KEY PORTFOLIO MANAGERS	CHRIS BLACK, ADAM SCULLY

Alexander Credit Opportunities Fund (ACOF) targets an absolute return by identifying opportunities within the Australian and global credit markets that offer attractive risk-adjusted returns.

ACOF can invest across a broad range of credit products including senior and subordinated bank debt, corporate debt, bank loans, private debt, RBMS, ABS, warehouse structures and credit derivatives. ACOF aims to hedge systemic risk so downside returns in periods of volatility are minimised.

ACOF's breadth within its credit and hedging programme are key to providing sustainable returns through different market environments.

ALEXANDER CREDIT INCOME FUND

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

Alexander Credit Income Fund (ACIF) targets an absolute return by investing in a diversified portfolio of primarily investment-grade Australasian credit assets.

ACIF can invest across a broad range of credit products including senior and subordinated bank debt, corporate debt, bank loans, private debt, RBMS, ABS, warehouse structures and credit derivatives. ACIF aims to hedge systemic risk so downside returns in periods of volatility are minimised.

ACIF's breadth within its credit and hedging programme are key to providing sustainable returns through different market environments.

◆ CONTACT DETAILS

Chris Black
Managing Director
chris.black@alexanderfunds.com.au

www.alexanderfunds.com.au

AURA GROUP

AURAGROUP

FUNDS UNDER MANAGEMENT (31 MAR 21)	A$554 MILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	2

About Aura Group

Aura Group is a financial-services business providing tailored wealth, funds management and corporate advisory solutions.

Founded in Australia in 2009, Aura's head office is in Singapore with a significant footprint across the Asia-Pacific region. Aura takes a client-centric approach and is proud to have been awarded the Best Wealth and Fund Management Company and Client Service Excellence Award 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% P.A
KEY PORTFOLIO MANAGERS	BRETT CRAIG

The Aura High Yield SME Fund is an open-ended, unlisted fund that invests in online nonbank lenders specialising in finance to Australian SMEs.

The fund offers monthly income, with a low level of expected capital loss provided the Australian economy does not slow significantly. As of April 2021 the fund has consistently returned 9.83% annually over the last three years. The fund's investments are backed by diversified pools of SME loans.

The fund offers access to an attractive investment on a risk-return basis that captures the higher interest-rate premium of SME loans.

AURA TACTICAL OPPORTUNITIES FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	WHOLESALE
FUND BENCHMARK	RBA CASH RATE +5% P.A.
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, and tactical and event-driven investments.

ATOF offers 12-monthly redemption terms and quarterly distributions, targeting a return of 15-20% per year net of fees and expenses.

The fund donates one-third of its management and performance fee to Opportunity International Australia and other charities.

◆ CONTACT DETAILS

Brett Craig
Portfolio Manager
brett.craig@aura.co

Calvin Ng
Managing Director
calvin.ng@aura.co

www.aura.co

CIP ASSET MANAGEMENT

FUNDS UNDER MANAGEMENT (31 MAR 21)	A$15.8 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	5

About CIP Asset Management

CIP Asset Management (CIPAM) is an alternative investment manager covering a global opportunity set in fixed income, real-estate investment and bespoke derivative solutions.

The 25-person CIPAM fixed-income team manages more than A$15 billion across public and private credit strategies in Australia and offshore, with a particular focus on less liquid market segments. Since inception in 2005, CIPAM has been an active investor across the capital structure in private and public securitisation markets in Australia, New Zealand, Europe and the US.

CIPAM 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 CIPAM Credit Income Fund aims to provide clients with capital stability and income on a regular basis accompanied by lower levels of 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.

CIPAM MULTI-SECTOR PRIVATE LENDING FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	WHOLESALE
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX +5% (AFTER FEES)
KEY PORTFOLIO MANAGERS	DAVID HOSKINS, PETE ROBINSON

The CIPAM 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 securitisation, corporate and real-estate lending.

◆ CONTACT DETAILS

Linda Mead
Senior Institutional Business Development Manager
lmead@challenger.com.au
www.cipam.com.au

COOLABAH CAPITAL INVESTMENTS

COOLABAH CAPITAL INVESTMENTS™
THE INTELLECTUAL EDGE: MAKING EVERY BASIS POINT COUNT

FUNDS UNDER MANAGEMENT (31 MAR 21)	A$6.5 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	5

About Coolabah Capital Investments

Coolabah Capital Investments (CCI) is a leading active credit alpha manager responsible for managing numerous institutional mandates and retail funds.

CCI's edge is in alpha generation in liquid, high-grade credit, in contrast to traditional fixed-income strategies that drive returns through adding more beta, through any or all of interest-rate duration risk, credit default risk, and illiquidity risk. This alpha is a function of the world-class analytical insights rendered by CCI's human capital, which includes 26 executives with a long-term track record of delivering prescient macro and quant insights.

◆ CONTACT DETAILS

Ying Yi Ann Cheng
Portfolio Management Director
yingyi.cheng@coolabahcapital.com
www.coolabahcapital.com

FIRST SENTIER INVESTORS

First Sentier Investors

FUNDS UNDER MANAGEMENT (31 MAR 21)	A$236.8 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	4 PUBLIC

About First Sentier Investors

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

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

FIRST SENTIER MORTGAGE BACKED SECURITIES FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	WHOLESALE AND 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

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

FIRST SENTIER PREMIUM CASH ENHANCED FUND

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

Fund objective is 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 and assuming income is reinvested.

FIRST SENTIER CASH FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL, WHOLESALE AND INSTITUTIONAL
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX (EXCESS RETURN TARGET OF +20 BPS)
KEY PORTFOLIO MANAGERS	TONY TOGHER, NICK DEPPELER, MARTIN ROSS, NATASHA FEDER, LIAM O'CONNOR

Fund objective is to provide a regular income stream from investments in money-market securities with 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 AND INSTITUTIONAL
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX (EXCESS RETURN TARGET OF +20 BPS)
KEY PORTFOLIO MANAGERS	TONY TOGHER, NICK DEPPELER, MARTIN ROSS, NATASHA FEDER, LIAM O'CONNOR

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

◆ CONTACT DETAILS

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

Richard Rauch
Investment Director
richard.rauch@firstsentier.com

www.firstsentierinvestors.com

GRYPHON CAPITAL INVESTMENTS

FUNDS UNDER MANAGEMENT (31 MAR 21)	A$2.4 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	4

About Gryphon Capital Investments

Gryphon Capital Investments is a specialist fixed-income manager focused on investments in structured finance and less liquid credit markets in Europe and Australia.

Gryphon has a highly seasoned and experienced team with partners averaging more than 20 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 an ASX-listed trust, Gryphon Capital Income Trust, on behalf of wholesale and retail investors seeking opportunities in fixed-income credit markets such as RMBS and ABS.

GRYPHON CAPITAL INCOME TRUST

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

GCI'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 distribution of the RBA cash rate +3.5% per year. GCI invests in structured-credit markets, primarily RMBS, a defensive and loss-remote asset class.

HIGH GRADE SECURITISED

CURRENCY	AUD
LISTING	UNLISTED
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 RMBS and ABS, with a strong focus on capital preservation.

INVESTMENT GRADE STRATEGY

CURRENCY	AUD
LISTING	UNLISTED
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 RMBS and ABS, with a strong focus on capital preservation.

◆ CONTACT DETAILS

Steven Fleming
Cofounder and Chief Executive Officer
steven.fleming@gcapinvest.com
www.gcapinvest.com

HARBOUR ASSET MANAGEMENT

FUNDS UNDER MANAGEMENT (31 MAR 21)	NZ$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, more recently, direct retail investors. The fixed-interest team has five members.

CORE FIXED INTEREST FUND

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

Harbour manages a number of benchmark-aware strategies that provide investors diversified exposure to fixed interest. The flagship Core Fixed Interest Fund aims to beat its Bloomberg Composite Bond Index by 100 basis points per annum. The fund is mindful of liquidity and invests around 5% in securitisation with a bias toward higher-rated tranches.

HARBOUR INCOME FUND

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

The 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 lower-rated tranches. It also has the remit to invest in a modest amount of private credit.

◆ CONTACT DETAILS

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

IFM INVESTORS

FUNDS UNDER MANAGEMENT (31 MAR 21)	A$155.2 BILLION

About IFM Investors

IFM Investors was established by a group of Australian superannuation funds more than 25 years ago to protect and grow their members' long-term retirement savings. Aligned with the objectives of its founders, IFM prioritises the interests of its investors by focusing on investments that seek to deliver strong net returns over the long term.

IFM manages assets for institutional investors from around the globe in debt, infrastructure, listed equities and private equity.

IFM's credit team aims to provide debt exposures not typically available to traditional fixed-income investors. IFM participated in the first ABS deal in Australia and supports new issuers and innovative structures. IFM portfolios include public-issue RMBS and ABS, along with private loans and warehouse facilities backed by commercial and SME mortgages, asset finance and leasing, and consumer and commercial receivables.

IFM has been an ASF member since its inception and congratulates the forum for reaching the 10-year anniversary of *ASJ*.

Bruce Potts, head of APAC diversified credit, has been privileged to receive a lifetime ASF membership and Scott Barker, IFM head of investment risk and execution oversight, sits on the ASF national committee and is chair of the ASF investors subcommittee. He is also a member of the ASF women in securitisation committee.

◆ CONTACT DETAILS

Bruce Potts
Executive Director and Head of APAC Diversified Credit and Debt Investments
bruce.potts@ifminvestors.com

Scott Barker
Head of Investment Risk, Execution Oversight and Operations
scott.barker@ifminvestors.com

Hiran Wanigasekara
Executive Director, Debt Investments
hiran.wanigasekara@ifminvestors.com

Lillian Nunez
Executive Director, Debt Investments
lillian.nunez@ifminvestors.com

www.ifminvestors.com

KAPSTREAM CAPITAL

FUNDS UNDER MANAGEMENT (31 MAR 21)	A$17.1 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	2

About Kapstream Capital

Kapstream 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 the 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 met the true requirements of investors in preserving capital and delivering consistent and positive absolute returns.

KAPSTREAM ABSOLUTE RETURN INCOME FUND

CURRENCY	AUD
LISTING	UNLISTED WITH ETF ATTACHED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	RBA CASH RATE +2-3%
KEY PORTFOLIO MANAGERS	STEVE GOLDMAN, DANIEL SILUK

The fund, targeting returns of 2-3% above cash, is designed to provide a steady income stream with minimal volatility and capital preservation.

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	STEVE GOLDMAN, DYLAN BOURKE

The fund, targeting returns of 3-4% above cash, 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	STEVE GOLDMAN, DANIEL SILUK, DYLAN BOURKE

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

◆ CONTACT DETAILS

Dylan Bourke
Portfolio Manager
dylan.bourke@kapstream.com

www.kapstream.com

MA FINANCIAL GROUP

MA Financial Group

FUNDS UNDER MANAGEMENT (31 MAR 21)	A$5.8 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	3

About MA Financial Group

MA Financial Group, formerly Moelis Australia, is an ASX-listed financial-services firm specialising in asset management, lending, corporate advisory and equities.

Launched in 2009, MA Financial Group has advised on deals worth more than A$110 billion and assisted clients to raise A$11.5 billion in equity capital markets. At 31 March 2021, the firm had A$5.8 billion in assets under management including more than A$1.3 billion in credit strategies.

Established as a joint venture with NYSE-listed Moelis & Company – a leading global independent investment bank – the firm has grown to become a team of more than 350 people across Sydney, Melbourne, London, Beijing, Shanghai and Hong Kong.

MA PRIORITY INCOME FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	TARGETED RETURN FUND
KEY PORTFOLIO MANAGERS	STEVE BENNETT, JOHN SHEFFIELD

A portfolio of credit investments diversified across market segments, borrowers, industries, credit qualities and origination platforms. The strategy is focused on structured credit and invests in ABS and RMBS private securitisation warehouses as a mezzanine lender, as well as investing in various tranches of public securitisations.

MA BOND INCOME FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	WHOLESALE
FUND BENCHMARK	TARGETED RETURN FUND
KEY PORTFOLIO MANAGER	FRANK DANIELI

The fund has an investment-grade credit strategy focused on capital preservation and stability of returns for its investor base, with current AUM of A$350 million. It is an active participant across bonds and notes issued by ASX-listed corporates or their subsidiaries, and other investment-grade rated bonds and notes.

MA CREDIT OPPORTUNITIES FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	WHOLESALE
FUND BENCHMARK	TARGETED RETURN FUND
KEY PORTFOLIO MANAGERS	FRANK DANIELI

The fund provides exposure to an actively managed portfolio diversified across three core credit market segments: structured finance, private credit and real-estate asset-backed credit.

◆ CONTACT DETAILS

Frank Danieli
Managing Director
frank.danieli@mafinancial.com

www.mafinancial.com

MANNING ASSET MANAGEMENT

MANNING
ASSET MANAGEMENT

NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	1

About Manning Asset Management

Manning Asset Management is a specialist credit investment manager established in 2015 and based in Sydney. 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 PRIVATE DEBT 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 a rolling five-year period, net of fees excluding tax, and limiting the risk of a negative return over this time period.

◆ CONTACT DETAILS

Josh Manning
Chief Executive Officer and Founder
josh.manning@manningam.com

www.manningam.com

MACQUARIE ASSET MANAGEMENT

MACQUARIE

FUNDS UNDER MANAGEMENT (31 MAR 21)	A$562.2 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	4 PUBLIC

About Macquarie Asset Management

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

Macquarie Fixed Income operates within Macquarie Asset Management and offers fixed-income and currency solutions to institutional and wholesale clients globally. The Macquarie Fixed Income team is located across four investment hubs in Philadelphia, New York, Sydney and London, with more than 115 investment professionals as at 31 March 2021 covering the spectrum of global fixed-income markets.

MACQUARIE INCOME OPPORTUNITIES FUND

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

The fund aims to outperform the Bloomberg AusBond Bank Bill Index over the medium term before fees. It also aims to provide higher income returns than traditional cash investments regardless of interest rates or 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

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 MULTI-ASSET OPPORTUNITIES FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX
KEY PORTFOLIO MANAGERS	GARY DING, DEAN STEWART, DAVID HANNA

The fund aims to provide positive returns of 3-5% per annum above Australian inflation (defined as: CPI measured by the RBA trimmed mean, as published by the ABS) 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+ YR INDEX
KEY PORTFOLIO MANAGERS	DAVID ASHTON, MATTHEW MULCAHY

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

◆ CONTACT DETAILS

Adam Daman
Credit Analyst
adam.daman@macquarie.com

www.macquarieim.com

PERPETUAL

Perpetual

FUNDS UNDER MANAGEMENT (31 MAR 21)	A$95.3 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	15

About Perpetual

Perpetual Limited is an Australian diversified financial services firm, which operates in three key areas: asset management, financial advisory and trustee services.

Perpetual is listed on the ASX and has a strong heritage managing investments across a range of asset classes including Australian equities, global equities, multiasset and credit and fixed-income securities.

In 2020, Perpetual established a significant global footprint when it acquired two US-based investment managers: Trillium Asset Management and 75% of Barrow Hanley Global Investors. In Australia, assets under management are A$23.7 billion, of which A$8 billion is invested in credit and fixed-income securities.

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 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 Bloomberg AusBond Bank Bill Index, 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.

PERPETUAL ETHICAL SRI CREDIT FUND

CURRENCY	AUD
LISTED OR UNLISTED	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 by investing in a diversified range of income-generating, ethical and socially responsible assets. It also aims to outperform the stated benchmark over rolling three-year periods before fees and taxes.

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, primarily by investing in and actively trading fixed-income securities and related derivatives.

CONTACT DETAILS

investments@perpetual.com.au
1800 022 033

www.perpetual.com.au

REALM INVESTMENT HOUSE

FUNDS UNDER MANAGEMENT (31 MAR 21)	A$1.4 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	4

About Realm Investment House

Realm is an absolute-return focused investment group, with deep experience investing in Australian credit and fixed-income markets. Realm's 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 SHORT TERM INCOME FUND

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

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

REALM HIGH INCOME FUND

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

Targets an after-fees total return of the RBA cash rate plus 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 preserving capital. It can invest up to 60% in RMBS and ABS with a cap on private RMBS and ABS of 20%.

RTEALM STRATEGIC INCOME FUND

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

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

◆ CONTACT DETAILS

Robert Camilleri
Co-founder and Head of Structured Credit
rob.c@realminvestments.com.au

www.realminvestments.com.au

REVOLUTION ASSET MANAGEMENT

FUNDS UNDER MANAGEMENT	A$1.4 BILLION
NUMBER OF FUNDS THAT INVEST IN RMBS/ABS	3

About Revolution Asset Management

Revolution Asset Management is a specialist investment manager established to provide institutional, wholesale and professional investors with access to the Australian and New Zealand private debt market. Its investment activities are focused on the most compelling relative-value opportunities across real-estate debt, ABS, private-company debt and leveraged-buyout debt.

REVOLUTION PRIVATE DEBT FUND I

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

Actively managed exposure to Australian and New Zealand corporate-loan market and ABS designed to deliver superior risk-adjusted returns and capital preservation with downside protection.

REVOLUTION PRIVATE DEBT FUND II

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

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

QIC SEPARATELY MANAGED ACCOUNT

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

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

◆ CONTACT DETAILS

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

www.revolutionam.com.au

SANDHURST TRUSTEES

FUNDS UNDER MANAGEMENT (31 MAR 21)	A$5.1 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, the business has evolved from being a traditional trustee provider to a modern full-service wealth manager with more than 96,000 customers in Australia as at 31 March 2021. Sandhurst Trustees' goal is to better the financial future of its customers through quality financial products and services including:

- 21 funds incorporating multi-manager funds and income funds for wholesale and retail investors.
- Superannuation.
- Commercial loans.
- Access to funeral bonds.
- Corporate-trustee and custodial services.

SANDHURST SELECT MORTGAGE FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL
FUND BENCHMARK	TERM DEPOSITS +
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.

SANDHURST INVESTMENT TERM FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL
FUND BENCHMARK	TERM DEPOSITS +
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 and 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.

SANDHURST STRATEGIC INCOME FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL +
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 by investing in a portfolio of mainly domestic interest-bearing securities including floating-rate notes and securitised assets.

BENDIGO INCOME GENERATION FUND

CURRENCY	AUD
LISTING	UNLISTED
ELIGIBLE INVESTORS	RETAIL AND WHOLESALE
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL +200 BPS
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. It achieves this by investing in a portfolio of credit securities including subordinated, hybrid and securitised assets.

CONTACT DETAILS

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