

Australian Financial Review 'Smart Investor'

La Trobe Mortgage Fund No. 1

La Trobe
financial

how investing should be

La Trobe Mortgage Fund has been rated as the top performing Mortgage Fund over the past three years in the March 2009 Australian Financial Review – *Smart Investor* magazine.

La Trobe Cash & Mortgages Option also rated the top performing CMA category.



Investing for income | **FEATURE**

Mortgage funds

These use the funds they raise to issue mortgages and then distribute the resulting interest payments to investors.

However, many mortgage funds have had their redemptions frozen or limited in recent times. Morningstar records 38 funds in this position (including 11 aggressive mortgage funds).

Funds that don't have a high exposure to development and stay away from second mortgages should endure the economic downturn, Morningstar's Serhan says.

"A number of the bigger mortgage funds will survive and come through this OK. Returns have gapped away from cash funds."

The investor considering these products needs to be comfortable with an average loan-to-value ratio of 65 per cent.

"What they have to ask is if a 30 per cent buffer is enough," Serhan says.

Many mortgage funds have exposure to fixed-rate mortgages, so they're still at higher rates, and even with variable mortgages, there's a lag before their interest rates are reset.

At right are the 10 top-performing mortgage funds over the past three years. However, note the conditions on redemptions for many of them.

TOP 10 MORTGAGE FUNDS					
Fund name	Fee %pa	Return 1 yr %	Return 3 yr %pa	Return 5 yr %pa	Conditions on redemptions
La Trobe Australian Mortgage Fund – Pooled Mortgages	1.22	8.29	7.77	7.58	None
Richmond Mortgage Fund	1.76	8.26	7.46	6.93	Redemptions suspended for 180 days from Oct 21, 2008
Mariner Mortgage Trust Wholesale Class	1.50	8.19	7.35	–	Suspended indefinitely
Mariner Mortgage Trust IDPS Class	1.00	8.09	7.33	–	Suspended indefinitely
Synergy (Inv) Challenger Howard Wholesale Mortgage Pool	–	7.95	7.17	6.86	Redemptions subject to quarterly withdrawal offer, subject to market conditions
Challenger Howard Wholesale Mortgage Fund	1.00	7.80	7.08	6.78	Redemptions subject to quarterly withdrawal offer, subject to market conditions
AXA Wholesale Aust'n Monthly Income Fund	0.71	7.76	7.05	6.71	Period for paying redemptions extended from daily to 6 months
Mariner Mortgage Trust Retail Class	1.50	7.72	6.83	–	Suspended indefinitely
Mirvac AQUA Income Fund	1.16	7.54	6.83	–	Redemptions move to a quarterly basis from March
Australian Unity Wholesale Mortgage Income Trust	0.80	7.30	6.76	6.50	Last year, from November 24 to December 15, \$50m was made available for investors to withdraw. The next amount will be made available in early March

Figures as at December 31, 2008. Condition information as at December 4, 2008. Source: Morningstar

Term deposits and cash management accounts

The Reserve Bank of Australia continues to cut interest rates. The cash rate is now 3.25 per cent. You can see how the pick of term deposits compares at right. On a \$25,000 sum, for example, the best you'll get for one year is 5 per cent.

Rates on online savings account are also on the way down and, unlike term deposits, where the period is fixed, they can change any day.

Both term deposits and online accounts are covered by the government's bank guarantee for amounts up to \$1 million. That might provide peace of mind, though its real point isn't to safeguard your deposit but to allay the anxiety that might lead to a run on banks.

Cash management accounts – not trusts – are also covered by the guarantee and are offering slightly better rates than term

deposits, although rates on CMAs can change frequently as well.

Cash management trusts don't come under the guarantee but most financial institutions

that manage such funds are looking to ensure that all cash is invested with organisations or in products that are covered by the government's undertaking.

TOP 5 CASH MANAGEMENT ACCOUNTS (AMOUNT OF \$10,000)			
Institution	Product name	Effective rate %	Minimum open
LaTrobe Financial Services	Cash & Mortgage	6.43	\$1000
AMP	eASYCash Management	6.01	–
CommSec	Investment Account (bonus rate to 30/6/09)	4.85	–
B&E	iCash Management	4.23	\$1
Asgard	CASH Connect (bonus rate to 31/3/09)	4.07	–
TOP 5 ONE-YEAR TERM DEPOSITS (AMOUNT OF \$25,000)			
Institution	Annual rate %	Effective rate %	
Elders Rural Bank	4.40	4.49	
Bankwest	4.25	4.33	
UBank	4.11	4.19	
MyState Financial Credit Union	4.10	4.18	
AMP/Encompass Credit Union/Queensland Credit Union	4.05	4.13	

Figures as at February 10, 2009. Source: InfoChoice