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The hunt for yield is over

In times of volatility, the case for certainty becomes even clearer

There are always two sides to every story. It's a phrase we've likely all muttered at least once in our lifetime and for any multitude of reasons. While almost always applicable, it rings particularly true when observing ongoing discussion around rising interest rates.

On the one hand, rising interest rates are the bane of many Australians' existence, since the first increase in May 2022, the average homeowners are now paying about \$1250 more a month towards their mortgage, according to Finder.

However, on the other hand, investors with a healthy allocation of fixed income products are finally reaping the rewards of their patience.

Over the last decade, interest rates have languished at some of the lowest levels on record; prior to the increases beginning, the cash rate of 0.10% was the lowest seen in more than 30 years. As such, investors were desperately searching for alternative sources of income, which resulted in climbing the risk spectrum.

La Trobe Financial senior vice president and chief investment officer Chris Paton says that with the official cash rate now above its 20-year average, the hunt for yield is over.

"Across the last decade, the key theme for income investors was the 'hunt for yield', particularly in an era of ultra-low interest rates," he says.

"But the question for income is no longer where yield can be sourced, but rather how it can be delivered with the requisite low-volatility."

One source, Paton says, is credit investments – namely, property credit. At \$2.5 trillion across both residential and commercial markets, the local property credit sector is one of the largest investable universes in Australia.

"Property credit as a sector has continued to deliver low-volatility income for investors, particularly as the property market has been in a period of price appreciation for much of the last decade," he says.

"The opportunity for investors is repeatable, with the asset class generating plenty of ongoing investment opportunity. There's approximately \$135 billion of contestable opportunities each year for non-banks, which presents a sizeable pipeline of high-quality, contestable assets."

With most of the property credit in Australia written on a floating or variable rate basis, as an asset class property credit is well positioned to respond to a more volatile inflationary environment.

"So, generally speaking, it's an asset class which has delivered low volatility income to investors for quite some time now," he adds.

High inflation, rising borrower rates and property price depreciation over the last 18 months have presented a challenge, however Paton says this also presents an opportunity.

"This has shone a light on the importance of selecting a manager with demonstrated ability to guide portfolios through volatility while delivering ongoing performance," he says.

"Indeed, it is these more unique times which demonstrate the ability of an investment strategy to continue to perform."

La Trobe Financial believes the key to ensuring this is constructing a diversified portfolio of high-quality, highly granular property credit assets that will perform across the cycle. It focuses on the 'complex prime' sector, targeting high quality borrowers with a credit proposition that can't easily be delegated to an algorithm and requires a 'hands on' credit decision.

"Each of our portfolios have been built with discipline over time, with careful selection of granular asset exposures, diversified across sector, loan size, borrower type, and security location," Paton explains.

For example, La Trobe Financial's flagship \$9.5 billion retail credit fund comprises 11,804 loans with an average loan amount of \$740,000. The average loan-to-value ratio is 64.6%.

"Geographically our assets follow the population, ensuring they remain within the broadest and deepest markets," Paton adds.

"Combined, these settings have allowed each of our portfolio accounts to deliver their advertised distribution rates to investors – month after month, year after year – irrespective of the market or macroeconomic environment we have operated within, while no investor has ever suffered a loss of investor capital.

"This is the kind of performance the asset class can deliver with the right manager."

Paton says financial advisers should also consider whether their clients have allocations to variable rate products which can move upwards in a rising rate or inflationary environment, ensuring their income isn't going backwards in real terms where combined portfolio returns are being outpaced by inflation.

La Trobe Financial has seven different investment accounts on offer to investors seeking consistent monthly income, all of which are comprised of pools or exposures to property credit originated, approved, and settled by its Real Estate Credit business. In total, La Trobe Financial now has approximately 93,000 investors.

Its most popular product, the 12 Month Term Account, has \$7.3 billion under management and has taken out 14 consecutive *Money* magazine Best of the Best awards. Currently, it's offering a variable return of 6.25%*, while also offering an additional 50 basis points for those who access the product via a financial adviser.

"Our 12 Month Term Account has delivered impeccable performance across its 20-year his-

tory; a dollar invested 20 years ago represents a dollar invested today and every day in between," Paton says.

It's that ongoing performance which has been recognised by investors, with the 12 Month Term Account growing by more than any other fund across Australia's entire wealth management industry in the 12 months to 31 May 2023, he adds.

"For our investors and adviser partners, our Credit Fund delivers that low-volatility income which complements a well-crafted investment strategy," Paton says.

For La Trobe Financial, the focus is always on having portfolios constructed to withstand and to perform through all market and macroeconomic cycles, all through the lens of providing low volatility, variable monthly income to investors.

"Our commitment to diversification, our commitment to transparency, and putting the customer at the heart of everything we do remains unbroken, and we sit well placed to continue in our role as careful custodians of the deep reservoir of trust we have built over 70 years," Paton says.

"While the macroeconomic environment can be complex, the solution is often simple." **FS**



The quote

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Watch the video
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Disclaimer

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To view their awards and ratings please visit the Awards and Ratings page on their website.

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