EQUITY Trustees

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# EQT RELEASE

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## Place for Mortgage Funds in portfolios

Recent developments have combined to suggest that mortgage funds still have a valuable place in investors' portfolios, says Mr John Terlikar, portfolio manager – mortgages, at Equity Trustees Limited (EQT).

"The watering down of the bank guarantee; recognition that the introduction of the guarantee itself was the cause of mortgage fund redemption problems; recent rating reports; and falling returns and risk considerations in other forms of fixed interest investment, all indicate mortgage funds should be considered again."

Mr Terlikar said the he believed that the basic attraction of mortgage funds with many investors has been forgotten.

"However investors and their advisers need to understand that not all mortgage funds are the same – for instance this month Zenith rated the EQT Mortgage Income Fund (MIF) 'Recommended', making it suitable for most fixed interest portfolios.

"Investors have always liked the diversity that mortgage funds can add to a portfolio, they like the stability of an investment backed by mortgages, they like the regular income and, in the current environment, they like the better rate of return than other options such as term deposits.

"Funds such as our MIF have clear points of difference to other funds and, despite the problems caused by the global financial crisis and the bank deposit guarantee to mortgage funds overall, our fund never closed to redemptions and continued to perform better than most alternative fixed income investments. In addition, it has never had a default or been in arrears.

"However, with Perpetual and AXA closing down their mortgage funds, there are increasingly limited choices for investors who like what mortgage funds offer.

"The MIF with its track record of security, liquidity and performance, can give a boost to a portfolio without adding risk and without investors finding they are locked in," Mr Terlikar said.

In its recent report, Zenith said that the EQT MIF is "a good choice for conservative investors looking for a stable quarterly income stream."

"The Fund has been one of the rare exceptions which managed to avoid the issues which have plagued the sector since 2008, liquidity issues and declining credit quality.

"Current conditions suit the fund in an environment where the appetite for real estate financing remains relatively subdued and a large number of dominant funds in the

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mortgage sector have either withdrawn or are currently unable to lend due to being frozen or suffering significantly constrained fund inflows.

“We feel that these conditions have combined to create a favourable environment for the fund in terms of expanding the loan book,” Zenith said in its report.

Mr Terlikar added that the appeal of mortgage funds is likely to increase now that the government guarantee is being reduced.

“This, combined with the declining returns from term deposits offered by banks, means that investors need to look for alternatives to help maintain their income.

“Our fund continues to outperform the benchmark and we’re currently returning 6.47 percent over three years, which is significantly better than any term deposits or bank interest rate now being offered.

“The fund is now over 40 years old and Equity Trustees is committed to continuing to offer mortgage funds to investors as we believe they are a very attractive option for those seeking reliable returns coupled with low risk,” he said.

***About Equity Trustees:*** *Equity Trustees is a publicly listed company that provides a range of financial services to corporate and private clients. Its businesses include private client wealth management, funds management, responsible entity appointments, and corporate and personal superannuation.*

*The company manages over $4 billion in its funds management, private client and superannuation businesses and has more than $19 billion under responsible entity administration. Equity Trustees employs over 180 people in its Melbourne, Sydney and Brisbane offices.*

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