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# The (frozen) Conservative Mortgage Trust Sector

**balmainfunds**  
MORTGAGE FUNDS MANAGEMENT

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## ► Chronology of freeze

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- **Sunday 12 October 2008**

The Prime Minister announces an unlimited 3 year sovereign guarantee on bank deposits and ADI investments.

- **Tuesday 14 October 2008**

Mortgage trusts experience heightened redemption requests.

- **Tuesday 21 October 2008**

Challenger Howard announces freeze.

- **Friday 24 October 2008**

Most other mortgage trusts announce freeze.

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## ▶ Chronology of freeze (continued)

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- **Friday 31 October 2008**

ASIC facilitates withdrawals from frozen funds.

### **Redemptions**

ASIC advised that each trust is to offer 'periodic' offers to members once funds become available.

### **Hardship**

ASIC also allows fund managers to apply for a hardship relief instrument on behalf of their investors.

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## ▶ Platform / wrap dilemma

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- **Super wraps**

Product must be liquid.

- **Both investment and super wraps**

Pro rata redemptions have caused real processing issues.

Term products are an issue on platforms.

## ► **Currently and the way forward**

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- **Currently**

Many funds are moving to a fixed redemption percentage, either monthly or quarterly. This is making it a bit easier for platforms.

- **The way forward**

There are three options:

1. Wind down the funds.
2. Reopen (as a liquid investment).
3. Reopen (as a term investment).

## ► Is there a future for the conservative mortgage trust sector?

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- Yes, but this is not a universal view.
  - **Rudd Bank**  
This will not be the savior that it was first thought to be for the mortgage trust sector.
  - **Performance**  
Important investors have not lost any capital in conservative mortgage trusts, albeit their funds are frozen. The \$1.00 unit price has been preserved.
  - **Cycle**  
Historically, mortgage trusts have performed very well at this point in an economic cycle. Previous figures would suggest that if not for the freeze, conservative mortgage funds would be attracting \$2-3 billion in flows as a sector during 2009.
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## ▶ What is the financial planning community saying?

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- Again this is debatable, but when asked specifically 'would they like to see mortgage trusts back up and running and performing well', the answer we received was yes.
  - Additional feedback is there is a limited supply of asset with capital preservation with a solid income stream.
  - **Trivial statistic**  
The average age of a mortgage trust investor is 72 years.
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## ▶ Disclaimer

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## ▶ Who are the major conservative mortgage trust players?

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- CFS
  - AXA
  - AU
  - Perpetual
  - Challenger Howard
  - ING
  - Sandhurst
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## ▶ **Who are not conservative mortgage trusts?**

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- High yielding mortgage trusts, i.e. CPL and MFS.
- Debenture funds, i.e. Fincorp, Bridgecorp and ACR.