



Firstmac High Livez Fund

This report has been prepared for financial advisers only



Superior

March 2020

INTRODUCTION

Key Principles

SQM Research considers (but is not restricted to) the following key review elements within its assessment:

1. Business profile - product strategies and future direction
2. Marketing strategies and capabilities, market access
3. Executive Management / Oversight of the investment management firm
4. Corporate Governance / fund compliance / risk management
5. Investment team and investment process
6. Fund performance, investment style, market conditions, investment market outlook
7. Recent material portfolio changes
8. Investment liquidity
9. Investment risks
10. Fund/Trust fees and expenses

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Report Date: 11 March 2020

Star Rating *	Description	Definition	Investment Grading
4½ stars and above	Outstanding	Highly suitable for inclusion on APLs <i>SQM Research believes the Fund has considerable potential to outperform over the medium-to-long term. Past returns have typically been quite strong. Product disclosure statement (PDS) compliance processes are of a high-calibre. There are no corporate governance concerns. Management is extremely experienced, highly skilled and has access to significant resources.</i>	High Investment grade
4¼ stars	Superior	Suitable for inclusion on most APLs <i>SQM Research considers the Fund has substantial potential to outperform over the medium-to-long term. Past returns have tended to be strong. PDS compliance processes are high-quality. There are no material corporate governance concerns. Management is of a very high calibre.</i>	High Investment grade
4 stars	Superior	Suitable for inclusion on most APLs <i>In SQM Research's view, the Fund has an appreciable potential to outperform over the medium-to-long term. Historical performance has tended to be meaningful. PDS compliance processes are strong. There are very little to no corporate governance concerns. Management is of a high calibre.</i>	High Investment grade
3¾ stars	Favourable	Consider for APL inclusion <i>SQM Research concludes the Fund has a moderate potential to outperform over the medium-to-long term. Past performance has tended to be reasonable. Management is experienced and displays investment-grade quality. There are no corporate governance concerns, or they are of a minor nature.</i>	Approved
3½ stars	Acceptable	Consider for APL inclusion <i>In SQM Research's view, the potential for future outperformance in the medium-to-long term is somewhat uncertain. Historical performance has tended to be modest or patchy. Management is generally experienced and capable. SQM Research has identified weaknesses which need addressing in order to improve confidence in the Manager.</i>	Low Investment grade
3¼ stars	Caution Required	Not suitable for most APLs <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is very uncertain. Historical returns have tended to be disappointing or materially below expectations. PDS compliance processes are potential substandard. There are possible corporate governance concerns. Management quality is not of investment-grade standard.</i>	Unapproved
3 stars	Strong Caution Required	Not suitable for most APLs <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is unlikely. Historical performance has tended to be unacceptable. There may be some material corporate governance concerns. SQM Research has a number of concerns regarding management.</i>	Unapproved
Below 3 stars	Avoid or redeem	Not suitable for most APL inclusion	Unapproved
Event-driven Rating		Definition	
Hold		<i>Rating is suspended until SQM Research receives further information. A rating is typically put on hold for a period of two days to four weeks.</i>	
Withdrawn		<i>Rating no longer applies. Significant issues have arisen since the last report date. Investors should consider avoiding or redeeming units in the fund.</i>	

* The definitions in the table above are not all encompassing and not all individual items mentioned will necessarily be relevant to the rated Fund. Users should read the current rating report for a comprehensive assessment.

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SQM Rating 
Superior. Suitable for inclusion on most APLs.

Fund Description	
Fund Name	Firstmac High Livez
APIR code	PER0561AU (Retail) and PER0697AU (Wholesale)
Asset Class	Mortgage Trust
Management and Service Providers	
Fund Manager	Firstmac Limited
Responsible Entity	Perpetual Trust Services Limited
Custodian	Perpetual Corporate Trust Limited
Fund Information	
Fund Inception Date	29-Mar-11
Fund Size	\$74.4 mill as at Dec-2019
Return Objective (as per PDS)	To provide stable monthly income returns from a diversified portfolio of Asset-Backed Securities supplemented by a small allocation towards Short Term Money Market Securities.
Internal Return Objective	RBA cash rate + 2.5%
Risk Level (per PDS)	Subject to risk
Internal Risk Objective	Not Applicable
Benchmark	Benchmark unaware
Number of stocks/positions	Not Applicable
Fund Leverage	Not Applicable
Turnover	Not Applicable
Top 10 Holdings Weight	Not Applicable
Investor Information	
Minimum Application	\$10,000 or less at the discretion of Firstmac and/or the RE
Redemption Policy	Monthly
Distribution Frequency	Monthly
Investment Horizon (per PDS)	Three to five years
Currency Hedging Policy	Not Applicable
Management Fee	0.45% of the NAV
ICR – latest	0.60% as at Jun 2019
Entry / Exit Fee	0.00%
Performance Fee Rate	0.00%

Fund Summary

Description

The **Firstmac High Livez (the “Fund”)** is a unit trust which gives investors the opportunity to pool their money with that of other investors which could achieve the benefit of economies of scale. The Fund generally suits investors with a medium-term investment horizon of 3 to 5 years. The Fund is structured as an open-ended unlisted registered managed investment scheme.

The aim is to provide stable monthly income returns from a diversified portfolio of medium-term residential mortgage-backed securities (RMBS). The Residential Mortgage-Backed Securities (RMBS) is a type of Asset-Backed Security that is secured by a pool of residential mortgages. The Fund will invest in Australian dollar-denominated RMBS issued by Australian issuers with underlying Australian residential mortgage collateral. To provide liquidity, the Fund will invest in Short Term Money Market Securities – in particular term deposits. The Fund offers retail investors exposure to RMBS and Short Term Money Market Securities which are normally only available to institutional and wholesale/sophisticated investors.

Fund Rating

The Fund has achieved the following rating:

Star Rating	Description	Definition	Investment Grading
4.0 stars	Superior	Suitable for inclusion on most APLs	High Investment Grade

SQM Research’s Review & Key Observations

1. People and Resources

About the Manager

Firstmac is a financial institution that markets an extensive range of flexible and competitive financial products to the Australian market via the internet and a national distribution network of partners. Firstmac provides prime home loan funding, loan servicing and portfolio management services to the Australian home loan market. Home loans are only extended to borrowers considered to be of prime quality – no prior credit defaults and the loans must be eligible for mortgage insurance cover.

Firstmac currently services a customer base of over 38,000 borrowers domiciled in all states and territories of Australia. The Firstmac managed loan portfolio was approximately \$12.4 billion as of January 2020.

Firstmac has developed expertise in investment management and holds an Australian Financial Services Licence number 290600, which authorises it to deal in and provide financial product advice in relation to several investments.

Firstmac's solid history in the residential mortgage space has positively affected the Fund's rating. Firstmac has been originating and servicing property loans for over 40 years, employing over 400 staff across its business operations. Moreover, it has publicly issued over \$26 billion RMBS since 2003. Firstmac earns a majority of its revenue through the 'net interest margin' of its home loan portfolio. This is the excess of interest earned on home loans less the cost of funding the home loans by issuing RMBS. This epitomises many lenders in the securitisation spectrum.

The Manager has advised any investments made by the Fund into Firstmac-issued paper are made on a commercial arm's length basis.

Investment Team

SQM Research notes that the portfolio management team possess a wealth of experience in the mortgage industry and, therefore, understands the underlying assets. However, their experience in managing credit funds is confined to the Fund under review. **Key-person risk is deemed to be low.**

2. Investment Process and Philosophy

Investable Universe

The Fund aims to provide stable monthly income returns from a diversified portfolio of Asset-Backed Securities (ABS) and short-term money market securities. ABS must be medium-term prime RMBS with a minimum 'A' rating. The Fund may invest in both the primary and secondary markets. Purchases to date have predominately been through primary issuance.

Liquid assets can be invested across A1 rated banks, term deposits and commercial paper.

Process / Philosophy / Style

The Fund adopts a sound investment process, with the inclusion of both quantitative and qualitative factors in the portfolio construction process. A quantitative ranking model is utilised to analyse underlying portfolios and exposures, (including state concentration factors, LVR's, borrower characteristics, foreclosure frequency, investors and seasoning) while a subjective qualitative overlay is applied to each investment, including an analysis of the issuer and geographical regions.

Risk Management

The Fund applies stringent standards and guidelines on RMBS investments.

3. Portfolio Characteristics

Portfolio Turnover

Not Applicable.

Liquidity

The liquidity is low to medium.

The Fund will maintain a minimum of 10% of total assets of the Trust in cash or short term money market securities. Investors should invest in the Fund with a medium-term investment horizon of 3 to 5 years. Potentially only 10% of the Trust's assets will be available to satisfy unitholder withdrawal requests in any one month.

Under the Constitution, the Responsible Entity need not accept withdrawal requests for more than 10% of the number of units on issue in any one month. If withdrawal requests received in any one month are more than 10% of the total number of units on issue, the Responsible Entity may redeem units on a pro-rata basis and reject the balance of each withdrawal request. The Responsible Entity may also suspend withdrawals and the payment of withdrawal.

The Trust can, however, readily sell RMBS in a normally operating RMBS market.

Leverage

This Fund does **not** employ direct leverage (through borrowing by the Fund) **or** economic leverage (through the use of derivatives).

4. Performance & Risk

Return Objective & Performance

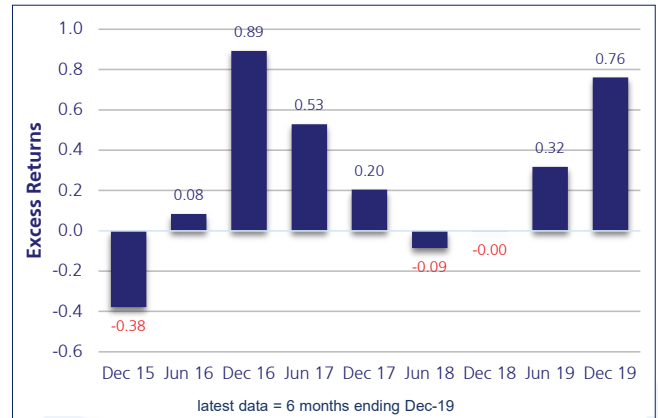
The return objective stated in the PDS is: "The Fund aims to "provide stable monthly income returns from a diversified portfolio of Asset-Backed Securities supplemented by a small allocation towards Short Term Money Market Securities."

The Fund is benchmark unaware.

The Fund believes its risk profile is similar to fixed income securities, and hence achieves a low to medium level of risk. SQM Research has used the RBA Cash Rate plus 2.50% pa as a hurdle rate for comparison purposes only.

Over the twelve months to Dec-2019, the Fund returned 4.80% (after fees) compared to 3.70% for the benchmark. This is an outperformance of 1.10%.

Fund Excess Returns %: Half-yearly (net of fees)



Length of Track Record

The Fund has a history of 8.8 years (or 105 months).

Observations and analysis of returns will have a moderate statistical meaning as a result of the sample size of observations.

Risk Objective

The Fund's **volatility** (standard deviation of monthly returns) over the **year to Dec-2019** was 0.63% compared to a peer average of 0.97% and 0.09% for the benchmark.

The true overall risk level in Mortgage Funds is determined by a range of risks, including (but not limited to): default/capital loss, liquidity, concentration, and interest rates risk. Advisers/Investors should read the 'Risks' section of the PDS to understand those risks.

SQM Research holds the view that the low volatility of returns often displayed by Mortgage Funds should not be interpreted as implying that these Funds have a low level of risk. The low volatility of returns (in this sector) is an artificial construct caused by an absence of frequent mark-to-market valuation of a Mortgage Fund's assets and the accrual nature of these products.

Therefore, Fund metrics such as Volatility, Tracking Error, Information Ratio, and Sharpe Ratio; add little statistical value within the Mortgage Funds sector.

Correlation to Australian Equities

Over the life of the Fund, the 3-year rolling correlation has ranged from a low of -14.98% to a high of 16.57% and averaged -6.99%. These patterns and levels are lower to the peer group average.

Over the same time frame, the peer group's 3-year rolling correlation has ranged from a low of 10.32% to a high of 41.93% and averaged 29.42%.

The correlation statistics show the Fund's usefulness as a diversifier, for an investor in Australian Equities.

5. Other Features

Fees

Fees and Costs	Fund	Peer Avg
Management Fee (% p.a.)	0.45%	0.60%
Expense Recovery (% p.a.)	0.15%	-
Performance Fee (%)	0.00%	4.10%
Buy Spread (%)	0.00%	0.13%
Sell Spread (%)	0.00%	0.13%

Management Fee

- Expressed as a percentage rate per annum of the Fund's Net Asset Value ("NAV")
- Calculated and paid to the Manager monthly from the Trust assets
- Including GST and impact of RITC (Reduced Input Tax Credit)

FUM (Funds under Management) / Capacity

The Fund is approximately \$74.4 million in size at Dec-2019.

Fund Performance to 31 December 2019 (% p.a.)							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund ¹	0.28	0.92	2.46	4.80	4.53	4.61	6.01
Benchmark ²	0.27	0.81	1.70	3.70	3.94	4.17	4.95
Peer Average	0.14	0.53	1.56	4.73	3.66	3.75	6.33
Alpha	0.00	0.11	0.76	1.10	0.59	0.44	1.06

1. Assumes dividend reinvestment. Returns one year and longer are annualised. Return history starts Apr-2011
 2. Benchmark: RBA Cash Rate plus 2.50%

Performance Fee:

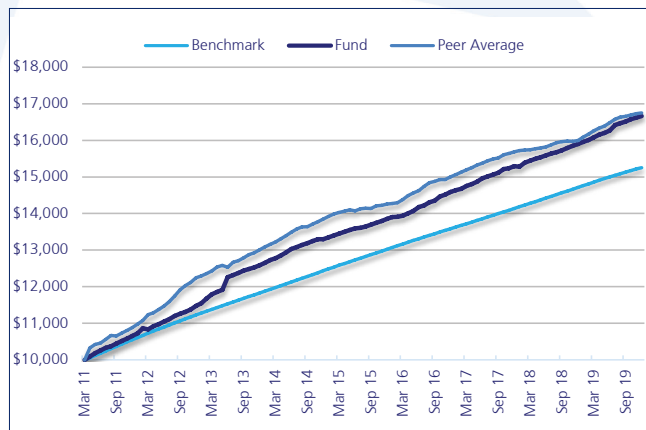
The Fund does not charge a performance fee.

Governance

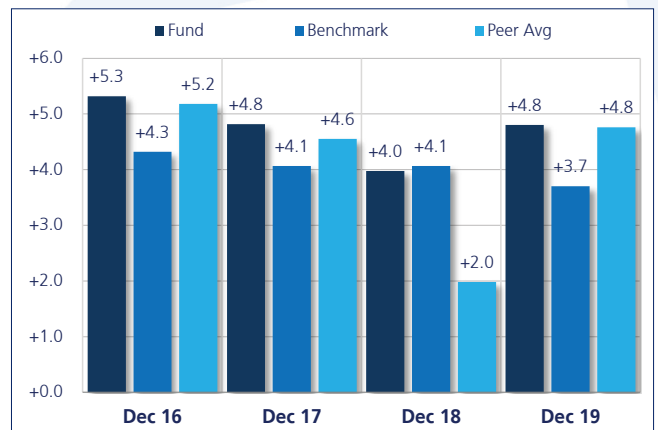
The Board of Directors of the Responsible Entity (Perpetual Trust Services Limited) consists of **4** directors and 1 alternate director, **none** of whom are independent. SQM Research prefers the inclusion of independent members on the Board of Directors – it is a meaningful way to enhance governance and oversight. Board members have an average of **23.0** years of industry experience.

The Responsible Entity's **Compliance Committee** is composed of **3** members, **2** of whom are independent. The Chair is independent. SQM Research views independence in a RE oversight body such as the Compliance Committee as a strong and favourable factor in Fund governance. Compliance Committee members have an average of **27.0** years of industry experience.

Growth of \$10,000



Annual Returns



Strengths of the Fund

- The Fund has outperformed compared to the benchmark in all time periods
- The FUM of the Fund has increased constantly in the last years.
- The Fund possesses a very knowledgeable and experienced team of professionals who have chartered the Fund's journey over the years and open to new opportunities in the market.
- The Fund offers retail investors exposure to residential mortgages by investing in Asset-Backed Securities and short-term money market securities. There are few other retail funds that offer investors similar exposures.
- The Fund's investments are governed by stringent investment guidelines, investing only in prime RMBS with a minimum A Rating. Furthermore, the Fund does not invest in RMBS with construction or development exposure, along with other strict risk constraints in place.
- The Fund has various tools for managing liquidity effectively. Liquidity percentages are reported and managed in terms of required, target and compliance.
- The Fund has performed very well across the board, outperforming both the peers and benchmark.
- Competitive fee structure.

Weaknesses of the Fund

- The Fund has underperformed against the peer average since inception. However, it should be noted that the Fund may have a lower risk profile compared to peers.
- The Investment Committee is not majority independent, giving rise to a potential conflict of interest.

Other Considerations

- AMP issued loans account for 13% of the issuer value. Other issuers include a host of banking and non-banking financial institutions, of which Firstmac accounted for 33% of the total value.
- The Fund is a Pooled mortgage scheme

Key Changes since the Last Review

- No material changes since the previous review

Process Description

Universe

Investable Universe The Fund will seek to achieve its investment objective by mainly investing in Asset-Backed Securities which will be medium-term residential mortgage-backed securities ('RMBS') with a minimum risk assessment of 'Category 3'. The Fund will invest in Australian dollar denominated RMBS issued by Australian issuers with underlying Australian residential mortgage collateral. The Fund will also invest in Short Term Money Market Securities with a minimum risk assessment of 'Category 2'. Investment guidelines for Asset-backed securities range from 50.00%–90.00% while short term money market securities can range from 10.00%–50.00%.

The Fund's risk assessment of the counterparty's ability to meet its financial commitments is set out across various categories. Category 1 is an assessment that the counterparty's capacity to meet its financial commitment on the obligation is 'extremely strong'. This is the highest possible category. Category 5 is assessed to be speculative in nature and vulnerable to adverse economic conditions.

In terms of a minimum assessment of Category 3, this means that an obligation is more susceptible to adverse effects in the change of circumstances and economic conditions. However, the counterparty's capacity to meet its financial commitment on the obligation is still assessed to be 'strong'. An assessment of Category 2 means that the counterparty's commitment to meet its financial commitment on the obligation is 'very strong'.

Investment Process

Top-down or bottom-up

The Fund applies a bottom-up fundamental approach to RMBS selection.

Research and Portfolio Construction Process

Initial screening

During the screening process, the Fund aims to identify securities that meet its investment criterion (as discussed above). The Fund sources the majority of its ABS and money market securities from brokers. The team additionally relies on industry contacts to keep up to date with the RMBS market.

Due Diligence

Given Firstmac's capabilities in loan origination and RMBS issuance, each mortgage pool deemed suitable for the Fund's investment is analysed on a loan by loan basis. The investment team adopts a bottom-up investment process, with detailed analysis conducted on both qualitative and quantitative factors. A quantitative ranking model is utilised to analyse underlying portfolios and exposures, (including state concentration factors, LVR's, borrower characteristics, foreclosure frequency, investors and seasoning) while a subjective qualitative overlay is applied to each investment, including an analysis of the issuer and geographical regions. Risk weightings are applied to 17 different characteristics of a loan pool to determine a 'loss given default' at an 'A' rated economic scenario. Subsequently, Firstmac's in-house model is then calibrated with the S&P Australian Mortgage assessment methodology. A further overlay of Firstmac's knowledge of the issuer programs and housing market fundamentals is applied.

Credit rating agency servicer ranking Strategy Selection

In February 2020, Standard and Poor's (S&P) issued Firstmac Limited with a 'Strong' servicer ranking and a Stable outlook on the back of the following sub-rankings:

- Management and Organisation – Strong
- Loan Administration – Strong
- Financial Position – Sufficient

Investment Process

Research and Portfolio Construction Process ...continued

S&P's review included an assessment of the servicer loan administration and default management process, compliance with stated guidelines, operational and financial stability, adherence to timelines and soundness of its internal control procedures.

The S&P ranking notes that the Strong prime residential loan servicer rankings on Firstmac Limited reflect a high level of competence in its servicing capabilities and key servicer strengths, which include:

- A well-developed and executed training and development program to heighten the processing and servicing skills of its experienced workforce
- Enhanced risk management strategies and practices to promote a risk-conscious culture at the business unit level
- A well-designed internal audit program
- Maintenance of sound data quality and quality assurance programs in key servicing functions such as processing payments and cash management, document production, imaging and tracking

Portfolio Construction

All potential deals that satisfy the Fund's investment criteria are presented to the Investment Committee for review and approval. All investment decisions are made collectively by the members of the Investment Committee. Investment Committee decisions must be unanimous. The Investment Committee plays a crucial role in assessing and reviewing the investment approach and is responsible for setting portfolio objectives. The overall pool exposure is monitored on a weighted average basis across 17 different characteristics with the aim to ensure the Fund remains sufficiently diversified across each of the considered factors.

Liquidity

There are minimum liquidity requirements as outlined in the PDS. Firstmac retains a buffer in excess of the minimum requirement. The Fund will maintain a minimum of 10% of total assets of the Trust in cash or short term money market securities. Investors should invest in the Fund with a medium-term investment horizon of 3 to 5 years. Potentially only 10% of the Trust's assets will be available to satisfy Unitholder withdrawal requests in any one month.

Under the Constitution, the Responsible Entity need not accept withdrawal requests for more than 10% of the number of units on issue in any one month. If withdrawal requests received in any one month are more than 10% of the total number of units on issue, the Responsible Entity may redeem units on a pro-rata basis and reject the balance of each withdrawal request. The Responsible Entity may also suspend withdrawals and the payment of withdrawal proceeds.

The Trust can, however, readily sell RMBS in a normally operating RMBS market.

Turnover

Not Applicable.

Sell Discipline

The Fund will only invest in assets with an expected life of less than 7.1 years. A typical RMBS transaction includes an option for the issuer to buy back the RMBS at face value once the underlying mortgage pool is repaid down to an agreed percentage (often 10%) of the original pool size. The RMBS note and underlying mortgages have a maximum legal term of up to 30 years.

**Research and
Portfolio
Construction
Process****...continued**

The expected life is determined based on forecast mortgage discharge speeds and issuer buyback action. If discharge speeds are slower than forecast and if the issuer does not buy back the RMBS at the agreed percentage then the life could be longer than the expected 7.1 years and up to the maximum legal term of 30 years. RMBS notes are tradeable securities that can be bought and sold. The Weighted Average Life of investments held by the Trust is anticipated to be between 3 and 5 years.

Risk Management

Given the Fund has a reasonable exposure to Firstmac issued RMBS, SQM Research believes it is important to review Firstmac's lending constraints which are described below.

Funding for Firstmac loans will only be provided on registered first mortgages. All loans must be fully insurable. Firstmac only approves prime residential loans, meaning the borrower cannot have any prior credit default history. Loans must be provided on a full documentation basis.

LVR limits for asset classes range from 80.00% to 90.00%. Limits are specified below:

- Fully Verified Owner Occupied Dwelling – 90.00%
- Fully Verified Investment Dwelling – 90.00%

The Fund will not invest in mortgage pools where the weighted average is greater than 80%.

Firstmac has applied various constraints to minimise its risk exposure. They include:

- Fully Verified Owner Occupied Dwelling – \$2m
- Fully Verified Investment Dwelling – \$2m

The Fund will only invest in RMBS that displays the following characteristics:

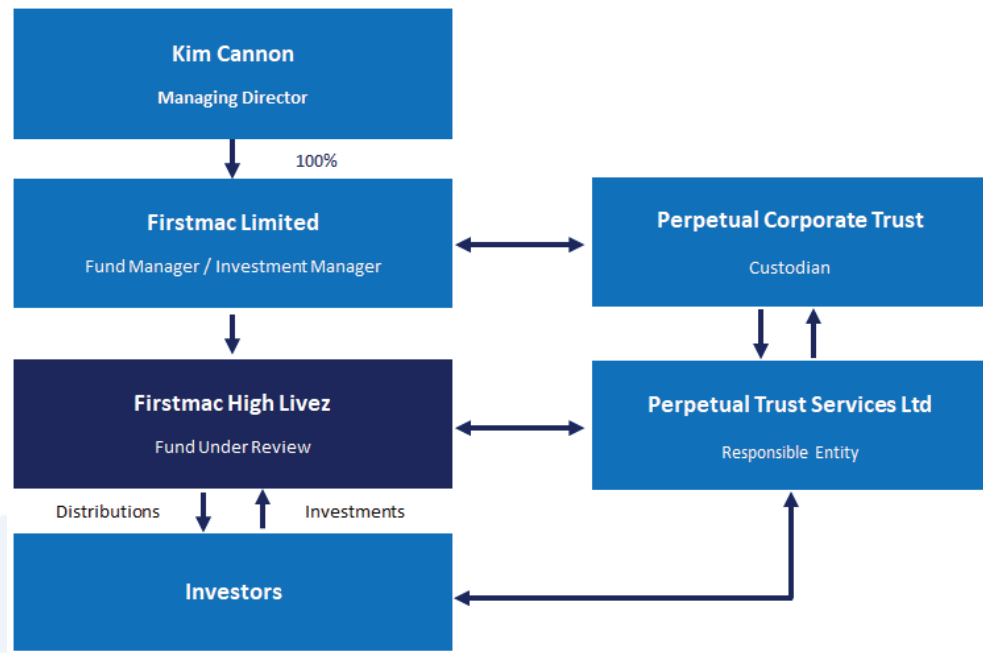
- Minimum A-rating.
- Prime residential loans.
- Registered first mortgages.
- Have insurable loans, with no adverse credit history.
- Australian Issuers.
- Mortgage pools with weighted average LVRs of less than 80.00%.
- AUD denominated assets only.
- Have an expected life of less than 7.1 years.

The Fund will not invest in RMBS with construction or development exposures and will only invest in minimum single A-rated tranches.

The Fund has applied some constraints to minimise its risk exposure. They include:

- The greater of \$10m or 10.00% of total fund assets in any single Asset-Backed Security.
- A minimum of 10.00% in liquid assets with maturities of less than 270 days.
- A maximum of 50.00% in short-term money market securities and a maximum of 90.00% in Asset-Backed Securities.

Key Counterparties



Parent Company

Firstmac is a specialised home loan lender and loan servicer. The company provides loans for the purchase and refinance of residential property, catering to both the owner-occupier and investor markets, including first home buyers. Firstmac currently has offices in Brisbane and Sydney. The company has issued approximately \$25 billion in RMBS both domestically and offshore across 37 transactions since 2003. The company has approximately 450 staff and an investment committee with two internal Firstmac staff and two external investment professionals who are directly responsible for the portfolio management of the fund.

The company has a 'Strong' servicer ranking from Standard & Poor's and holds an AFSL (290600) since 2004 which authorises dealing in and providing financial product advice to retail and wholesale clients. Firstmac also holds an Australian Credit License.

The managed fund, Firstmac High Livez commenced in March 2011 and now has approximately \$74.4m in funds under management as of Dec-2019. The Fund has been distributed through third-party advisory groups in Australia and Singapore and directs to retail investors in Australia.

Investment Manager / Fund Manager

Firstmac Limited is the Investment Manager of the Fund. As Investment Manager, Firstmac is responsible for investing and managing the Fund's investment portfolio in accordance with the Constitution and the Fund's investment strategy.

Responsible Entity

Perpetual Trust Services Limited is the Responsible Entity for the Fund. The Responsible Entity is a wholly-owned subsidiary of Perpetual Limited, which has been in operation for over 125 years. Perpetual Limited is an Australian public company that has been listed on the Australian Securities Exchange for more than four decades.

The Responsible Entity is bound by the Constitution and the Corporations Act and holds AFSL number 236648 issued by ASIC. This authorises it to operate the Fund. The Responsible Entity has lodged a compliance plan with ASIC, which sets out the key measures which the Responsible Entity will apply to comply with the Constitution and the Corporations Act. The Responsible Entity has established a compliance committee with a majority of external members. The compliance plan is overseen by the compliance committee and is audited annually with the audit report being lodged with ASIC.

Management Risk

Funds management businesses rely on the operational capabilities of key counterparties. A critical element is the ability of the Responsible Entity to monitor operational performance and to meet the regulatory and statutory responsibilities required. For any investment fund, there is a risk that a weak financial position or management performance deterioration of key counterparties could temporarily or permanently compromise their performance and competency. This can adversely affect financial or regulatory outcomes for the Fund or associated entities.

Based on the materials reviewed, SQM Research believes that Firstmac Limited and associated key counterparties are highly qualified to carry out their assigned responsibilities. Management risk is rated as low

Funds under Management (FUM)

The Fund is approximately \$74.4 million in size at Dec-2019.

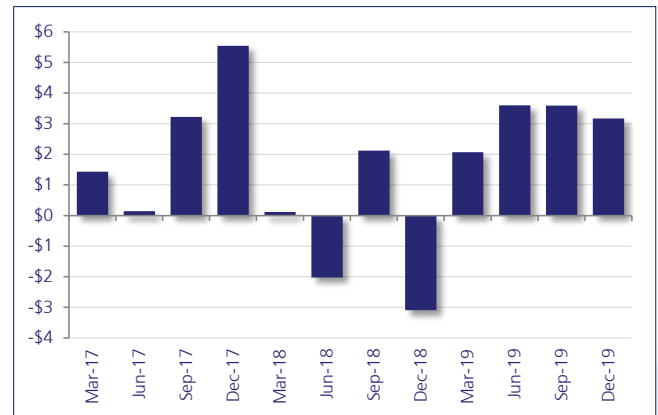
Date	FUM	Net Flows \$m *
Mar-18	\$60.2	\$0.12
Jun-18	\$58.7	-\$2.02
Sep-18	\$61.3	\$2.12
Dec-18	\$58.9	-\$3.09
Mar-19	\$61.7	\$2.07
Jun-19	\$66.0	\$3.60
Sep-19	\$70.6	\$3.59
Dec-19	\$74.4	\$3.17

* estimated

FUM for Fund Under Review (\$mil)



FUM for Fund Under Review (\$mil)



Distributions

Distributions occur on a monthly basis, subject to the availability of distributable income. In a scenario where the Fund's realised losses and expenses exceed income in a distribution period, the Fund may elect not to make a distribution during that time.

Distributions are generally made upon income received from bond coupon payments and interest income from the fund's holding in term deposits/short term money market securities.

The Fund aims to provide a regular income to the investors. Monthly distributions have been made consistently since inception.

Distribution Amount - cents per unit

Distribution Date	Distribution CPU	Unit Price \$	Distribution %
Apr-19	0.52	\$1.046	0.50
May-19	0.30	\$1.047	0.29
Jun-19	0.36	\$1.047	0.34
Jul-19	0.35	\$1.054	0.33
Aug-19	0.32	\$1.054	0.30
Sep-19	0.31	\$1.054	0.29
Oct-19	0.31	\$1.054	0.29
Nov-19	0.36	\$1.054	0.34
Dec-19	0.30	\$1.054	0.28

A General Note on Distributions for Managed Funds

The Responsible Entity of a Managed Fund will provide for a regular schedule of distributions, such as monthly/quarterly/semi-annual or annual. This is subject to the Fund having sufficient distributable income. The official total distributable income available to pay to investors is determined over the period of that Fund's financial year. By distributing the net taxable income of the Fund to investors each year, a Fund itself should not be liable for tax on its net earnings.

If a Fund makes distributions more frequently than once over the financial year, those distributions will be based on estimates of the distributable income for that distribution period. The final total amount of distributable income available for passing on to investors can only be calculated after the close of the financial year, based on the Fund's taxable income for that year.

If the total distributions a Fund pays out exceeds total taxable income for that particular financial year, the excess amount may be treated as a return of capital rather than income. This will possibly have tax implications for the investor.

Due to the considerations outlined above, there may be periods in which no distributions are made or a Fund may make additional distributions

A Fund's ability to distribute income is determined by the performance of the Fund and general market conditions. Accordingly, there is no guarantee a Fund will make a distribution in any distribution period.

Name	Responsibility/Position	Location	Years at Firm	Years in Industry
James Austin	Chief Financial Officer	Brisbane	15	29
Brian Reid	Portfolio Manager	Brisbane	19	27
Andrew Kemp	Chairman of Investment Committee (external)	Brisbane	17	38
Chris Black	Investment Committee Member (external)	Brisbane	5	26

Investment Team

The High Livez Investment Committee comprises of four members: Independent Chairman - Andrew Kemp, Chief Investment Officer - James Austin, Portfolio Manager – Brian Reid and Independent Member - Chris Black. Mr James Austin is primarily charged with the day to day oversight of the Fund. Mr Austin is closely supported by Mr Brian Reid. Together, Mr Reid and Mr Austin conduct the analysis and investment decision making of the Fund. They are additionally involved in managing external relationships and producing the required documentation.

The core investment team of the Fund is based in Brisbane and communication between team members is continual and informal. However, to provide a formal structure, the Investment Committee meetings are conducted on a regular basis. The Fund is supported by the broader resources of Firstmac, including the Senior Management, Treasury and Compliance team.

The Investment Committee plays an integral role in the overall management of the Fund's operations and investment decisions. Decisions regarding the selection of Asset-Backed Securities (ABS) and short-term money market securities in the Fund's portfolio are made collectively by the Investment Committee. As the Fund does not intend to invest directly into mortgages (achieving its mortgage exposure through ABS and short-term money market securities), the Investment Committee is not involved in reviewing and approving individual loans.

The Investment Committee meets on a regular basis to review and manage the portfolio and is responsible for setting portfolio objectives. All investment decisions are made collectively by the members of the Investment Committee. Investment decisions must be unanimous. The Committee plays a crucial role in assessing and reviewing the investment approach, Fund's portfolio and outlook to ensure that it is appropriate and in line with the Fund's guidelines.

SQM Research believes the practice of constant communication and the broad-based inclusion of team members in decision-making is a vital ingredient to the success of the process. Interactive peer review and

collaboration across a tightly knit group of experienced investors will likely make the best use of their combined intellectual property and shared history.

Staffing Changes

There have been no significant changes to staffing arrangements since the last review.

SQM Research observes that the levels of investment experience and company tenure are strong across the investment team. The size and nature of staff turnover are not an issue of concern, in SQM's view.

Key Investment Staff

Andrew Kemp: Chairman of Investment Committee

Mr Kemp heads Huntington Group Pty Limited; a Brisbane based corporate advisory company. He has experience in chartered accounting with KPMG and Littlewoods, merchant banking with AIFC (an affiliate of ANZ Banking Group) and since 1987 with Huntington Group. He is currently a Non-Executive Director of PTB Group Limited (since August 2006), and Silver Chef Limited (since April 2005). He has been a Director of Firstmac Limited since 7 January 2002.

James Austin: Chief Financial Officer

Mr Austin joined Firstmac in April 2005 and currently holds the position of Chief Financial Officer at Firstmac. Mr Austin demonstrates comprehensive 25 years' of investment expertise in financial markets accounting, market risk management, derivative valuations and debt/equity markets settlement. He has overseen the structuring and issuance of more than \$24 billion of RMBS including managing Firstmac through the global financial crisis of 2007~2009. Over the past decade, Mr Austin managed the acquisition and integration of HSBC's \$2.2 billion residential mortgage portfolio, established a retail managed investment fund, implemented internal credit scoring, and facilitated rapid customer origination growth over 2014 and 2015. Consequently, he improved the credit quality of the portfolio. Mr Austin studied at the Queensland University of Technology where he obtained his Bachelor of Business (Accounting) and

subsequently attained his ACA qualifications with the Institute of Chartered Accountants in his first role with KPMG Brisbane. Recognizing the benefits of broad international finance experience, he left Brisbane in the early 1990s and worked for CSFB and Abbey National in London before returning to Australia to work with HSBC in Sydney. After three years in Sydney, Mr Austin was promoted to the position of Chief Operating Officer, HSBC Japan where he stayed for a further six years. He built a wealth of knowledge in treasury and capital markets and developed expertise in debt, equity, and derivative markets including Issuance, trading, market risk management, valuations, and settlements. Mr Austin is responsible for accounting, funding & investor relations, human resources, market risk, credit risk, and compliance.

Brian Reid: Portfolio Manager

Mr Reid joined Firstmac in July 2001 and holds the position of Group Financial Controller. Mr Reid was promoted to the role of Portfolio Manager in December 2011. Before Firstmac, he was a Finance Manager at Reward Insurance Ltd. His previous experience includes working for Sunstate Credit Union for seven years, first as a management accountant and then as Financial Controller. After Sunstate merged with Northern and First State Building Societies, he was appointed Manager of Accounting Services, a position he held for two years. Before joining Firstmac he was Finance Manager for a general insurer in Brisbane. Mr Reid holds a Bachelor of Business (Acct) and is currently a Certified Practising Accountant.

Chris Black: Investment Committee Member (external)

Mr Black joined the Investment Committee as an independent member in June 2014. Mr Black holds the position of Managing Director at Alexander Funds Management, which is a provider of fixed interest opportunities in Australia. He has joined the Investment Committee at a time of growth and diversification in the fund size and assets. As a previous Managing Director at Alexander Funds Management, he brings exceptional experience, knowledge and industry insight to the investment committee team. Mr Black has over 20 years of expertise managing and structuring credit products both domestically and internationally. Having traded, structured and repackaged all forms of credit products, including bonds, asset swaps, credit derivatives, credit-linked notes, collateralized debt obligations, asset-backed securities and residential mortgage-backed securities, Mr Black provides the specialist investment management. Before Alexander Funds Management, he was a portfolio manager for

the Challenger High Yield Fund, Senior Vice President for the Structured Credit Products Group at DBS Singapore and Vice President of TD Securities' Structured Credit Products Group in Toronto. He also holds a post-graduate honours degree in econometrics from Monash University.

Remuneration and Incentives

Firstmac's remuneration structure is based on fixed pay and variable incentives, with the underlying aim of rewarding staff according to their performance. The fixed component is centred on a base salary plus superannuation. The variable component is based on an individual's performance against established benchmarks. Staff performance is reviewed at least annually.

Fund investment personnel do not have any issued equity in Firstmac Limited. Firstmac staffs are encouraged to invest in the fund and a number of staffs have existing holdings in High Livez.

SQM Research believes remuneration in the form of firm equity and client-focused performance bonuses act as strong incentives for optimising staff engagement, retention and productivity. The intention (and SQM believes, the effect) is to align staff performance with client and shareholder objectives. It focuses on the customers' needs and medium to long-term results.

Fees

Fees and Costs	Fund	Peer Avg
Management Fee (% p.a.)	0.45%	0.60%
Expense Recovery (% p.a.)	0.15%	-
Performance Fee (%)	0.00%	4.10%
Indirect Cost Ratio ICR (% p.a.)	0.60%	0.62%
ICR Date: 30-Jun-19		
Buy Spread (%)	0.00%	0.13%
Sell Spread (%)	0.00%	0.13%

Other Features	Fund	Peer Avg
Redemptions	Monthly	-
Distributions	Monthly	-
Minimum Investment	\$10,000	\$52,857
1-Year Investment: round Trip Cost	0.60%	0.86%

Buy/Sell Spread

This spread represents the difference between the application price and the withdrawal price of the Fund, a reflection of transaction costs relating to the underlying assets.

Ongoing Fees

The management fee Includes GST and is net of any applicable Reduced Input Tax Credits (RITC).

The management fee is calculated and paid to the Manager monthly.

An expense recover (operating fee) capped at 0.15% is also charged.

Performance Fees

The Fund does not charge a performance fee.

Overall Fees

1-year Investment: Round Trip Cost.

If held and redeemed within 12 months, total costs would amount to **0.60%** of investment in the Fund.

This figure includes the management fee, expense recovery (when disclosed) and the buy/sell spread. It does **not** consider rebates or negotiations or any potential **performance fee**.

Risk/Return Data to 31 December 2019							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund ¹	0.28	0.92	2.46	4.80	4.53	4.61	6.01
Benchmark ²	0.27	0.81	1.70	3.70	3.94	4.17	4.95
Peer Average	0.14	0.53	1.56	4.73	3.66	3.75	6.33
Alpha	0.00	0.11	0.76	1.10	0.59	0.44	1.06

Metrics	1-Year	3-Year	5-Year	Inception
Tracking Error (% p.a.) - Fund	0.64	0.60	0.60	1.09
Tracking Error (% p.a.) - Peer Average	0.94	0.92	1.04	2.44
Information Ratio - Fund	NM	NM	NM	NM
Information Ratio - Peer Average	NM	NM	NM	NM
Sharpe Ratio - Fund	NM	NM	NM	NM
Sharpe Ratio - Peer Average	NM	NM	NM	NM
Volatility - Fund (% p.a.)	0.63	0.59	0.58	1.15
Volatility - Peer Average (% p.a.)	0.97	0.92	1.04	2.53
Volatility - Benchmark (% p.a.)	0.09	0.07	0.11	0.31
Beta based on stated Benchmark	0.18	-0.45	-0.53	1.21

1. Assumes dividend reinvestment. Returns one year and longer are annualised. Return history starts Apr-2011

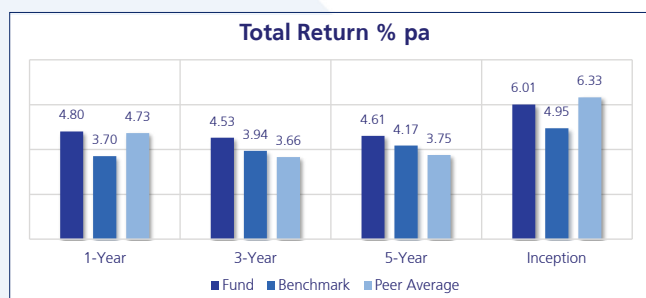
2. Benchmark: RBA Cash Rate plus 2.50%

Note: NM refers to "Not Meaningful"

Quantitative Insight¹

Note: Unless otherwise stated, all return and risk data reported in this section are **after-fees** and for periods **ending Dec-2019**.

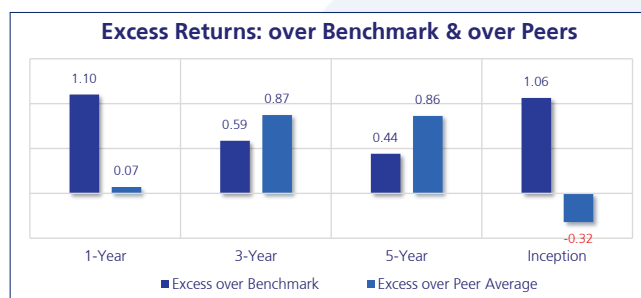
Returns



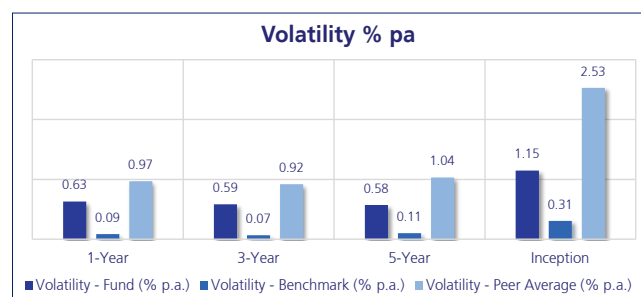
The Fund has displayed strong performance across all periods when compared with the benchmark and outperformed peer returns in all the time periods except since inception. However, it should be noted that the Fund may have a lower risk profile compared to peer.

The **return outcomes** as described above are in line with the PDS objective and are consistent with SQM's expectations for the Fund relative to its fee level and volatility.

Excess Returns (Alpha)



Risk



1. Note: Sharpe and Information Ratios are not reliable comparison tools in periods where both the Fund and its peers/benchmark record a negative result

QUANTITATIVE ANALYSIS

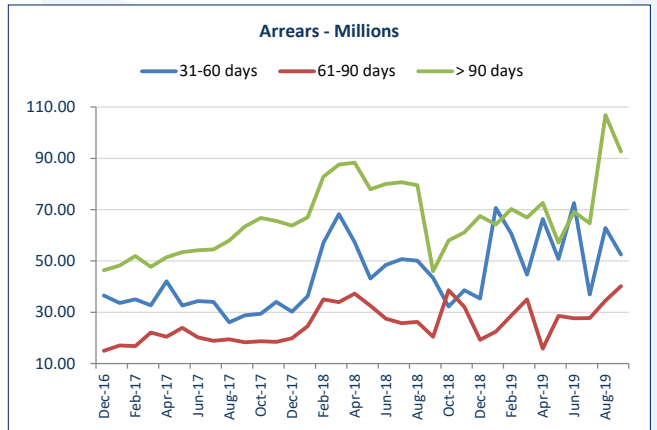
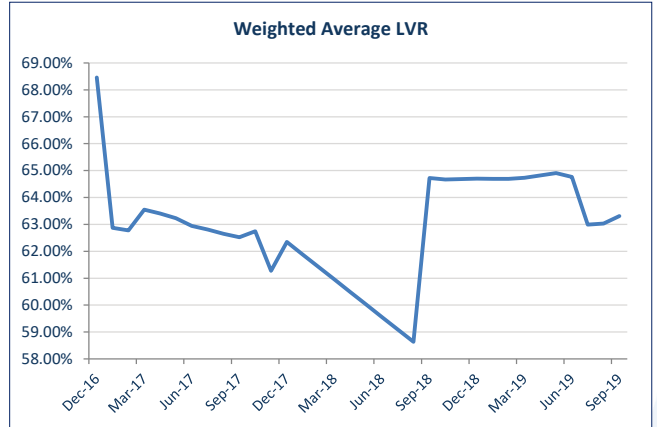
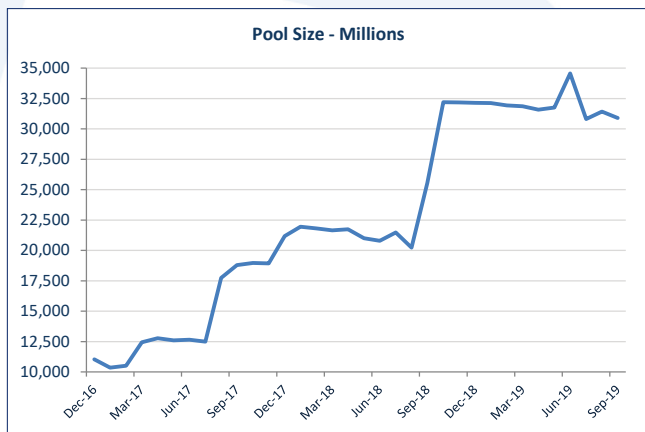
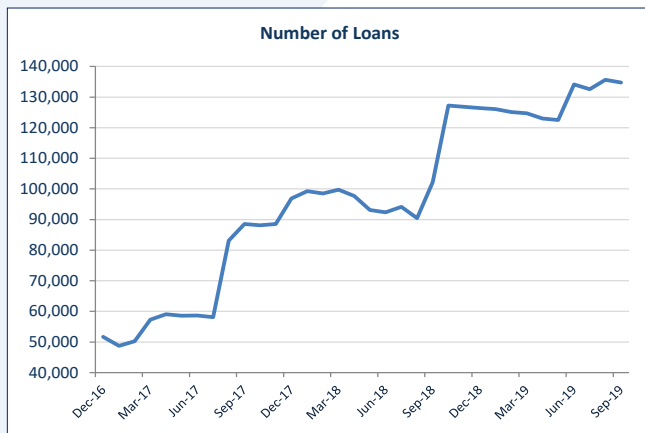
The Fund's **volatility** (standard deviation of monthly returns) has tended to be higher than the benchmark and lower than the peers in all time periods.

The true overall risk level in Mortgage Funds is determined by a range of risks, including (but not limited to): default/capital loss, liquidity, concentration, and interest rates risk. Advisers/Investors should read the 'Risks' section of the PDS to understand those risks.

SQM Research holds the view that the low volatility of returns often displayed by Mortgage Funds should not be interpreted as implying that these Funds have a low level of risk. The low volatility of returns (in this sector) is an artificial construct caused by an absence of frequent mark-to-market valuation of a Mortgage Fund's assets and the accrual nature of these products.

Therefore, Fund metrics such as Volatility, Tracking Error, Information Ratio, and Sharpe Ratio; add little statistical value within the Mortgage Funds sector.

Historical Trends



The table below outline limits on the Fund's asset allocation and other risk parameters:

Fund Constraints & Risk Limits	Permitted Range or Limit
Property Type	
Residential	100%
State/Region	
NSW	29.87%
VIC	23.32%
QLD	21.77%
SA/TAS/NT	18.25%
WA	6.79%
Loan Type	
First Mortgage	Yes
Variable Interest	85.38%
Fixed Interest	14.62%

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