

DUNSTAN

A 'safe as houses' manager

La Trobe hasn't lost a cent in 60 years. Its track record is likely to continue, writes **Barrie Dunstan**.

Greg O'Neill heads La Trobe Financial, one of the largest, privately owned Australian financial groups specialising in mortgage investments, which this year received a Melbourne Financial Services Symposium award for the most innovative fund.

It was recognised for its approach to risk-return and liquidity management. But O'Neill would also like to think the award is a field that has claimed more than its share of high-profile collapses over the decades.

La Trobe was founded by O'Neill's late father Ray in 1952 after he returned from the war and handed it on to his son 27 years ago. O'Neill says the group, which now invests about \$10 billion of wholesale and retail funds mainly in housing mortgages, hasn't lost a cent of capital or interest since its formation in 1952.

This is in an area of operations and period that has seen high-profile collapses and losses by groups like the Pyramid/Farrow building societies, Estate Mortgage, OST Friendly Society as well as the State Bank of Victoria's Tricontinental Corporation.

Its main business has always been to put investors' money into mortgage loans, mostly residential properties, with about 10 per cent in commercial properties. It also now has a representative office in Shanghai.

Last year, it bought IE (for Implementation Efficiency) group, which offers consultancy and advice to super funds and fund managers. IE was begun by former NAB custody executive Patrick



Greg O'Neill says La Trobe works on the view that 'it isn't our money and we need to give it back'.

Photo: LUIS ASCUI

Liddy and is chaired by former financial publisher Greg Bright.

The reason for La Trobe's record, O'Neill says, is simple: it isn't our money and we need to give it back. This means the group focuses on the real needs of investors, runs simple products that are easily understood and has a strong discipline in its investment process and selection of assets.

He says the group's senior investment team remember well the financial collapses in the 1990s in Victoria. Even during the illiquidity during the 2008 crisis, O'Neill says La Trobe has never frozen redemptions for retail or wholesale investors.

Some people might have doubts about a mortgage fund investing in residential property; La Trobe backs this by putting \$50 million of its own capital at risk. O'Neill says it has been able to generate returns of 4 to 5 per cent above inflation over the long term.

Problems usually arise with people who are building high-rise buildings or developing vacant land. There are some immutable

laws of prudential residential mortgage lending, and look what happens to people who think they can re-write the rules, he says.

He says the group is quite happy to invest in residential mortgages and asks: why do the highly rated major Australian banks have on average more than half of their balance sheet assets in mortgages?

Only now is the world starting to price risk properly.

The answer is that they know mortgage loans are reliable and predictable and their growth is driven by long-term demand and demographic factors.

If it's good enough for the banks, it should be good enough for the retail investor, as long as it's managed properly, O'Neill says. He notes there is still demand from investors to produce income in retirement from relatively capital-stable investments.

O'Neill is confident of the housing asset class in which La Trobe has been investing. "We have been under-building 120,000 to 140,000 (homes) a year for as long as I can remember."

Our population will continue to increase and a large part of that will be hard-working Chinese, who O'Neill says will fuel the housing market. Unlike others, he says, within 18 months of landing here the Chinese buy a home and open a business.

As for fears of housing prices falling or even a bubble bursting, he says prices have risen more than 100 per cent in the last decade. "If they come down 15 or 20 per cent, that's an adjustment."

La Trobe is satisfied it has chosen the right asset class for its investors' preferred term of investment and rate of return, he says. O'Neill believes the financial world has come out of the past 20 years of an incredible availability of credit. Global investors had such a surplus of cash and thought this was the norm. But as a result everyone was mis-pricing risk.

Only now, he says, is the world starting to price risk properly. The Western world for years has been on a credit binge, living on money that it hasn't yet earned. The Asians have been doing the opposite.

The world order has changed and it won't be reversed, O'Neill says. Our Asian neighbours are very thrifty, they want to work hard, get rich and get out of poverty; many in the Western economies have become lazy and just want to clip a ticket.

Meanwhile, with millions of foreclosed homes in the US, this will be a generational adjustment. And, with an eye to Europe, O'Neill says if global banks go broke, governments will have to bail them out.

Importantly, he says, Australia can be quarantined from this to some extent because we have wonderfully solvent banking institutions and we don't have hyper-competition like the US and UK. "You won't see a banking solvency problem," he says.

But he sees a tougher time for our future generations. It's not the end of the world but we are likely to see a long period of readjustment. "We have been through private deleveraging; now we are going to go through governments deleveraging."

This could lead to tougher times; O'Neill can see governments starting to work their way through the proposals in the Henry tax report. For instance, he expects a wealth tax to be introduced and a return of gift duties.

He fears we have progressively lost the attitudes towards saving which were imprinted on the last generation, like his father, who went through the Depression.

O'Neill says he learned lessons like putting some profits to one side, known as putting some money where the bookmakers can't get it, but worries that "some of the sell-side people are like drunks at the race track and who put everything on the last race".

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