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Mortgage funds still useful in portfolio construction

The benefits of mortgage funds in investor portfolios are largely being ignored because of misunderstandings about their role and benefits, says Mr John Terlikar, portfolio manager – mortgages, at Equity Trustees Limited (EQT).

Mr Terlikar said that investors locking up cash in medium and long-term bank deposits will automatically miss out on any future interest rate hikes, which those invested in mortgage funds will benefit from.

“Most people still expect interest rates to trend upwards in the medium term and it is likely that bank deposit rates will stay around the same levels as they are now.

“Our returns are currently better than even short-term deposit rates, and deposits with us have always remained accessible.

“What a good mortgage fund can provide is a capital-stable investment coupled with the opportunity to take advantage of any rise in rates,” he said.

The EQT Mortgage Income Fund is one of the oldest mortgage funds in Australia and the wholesale fund produced an effective return after fees of 6.59 percent for the year ending 30 June 2011.

It is one of the few mortgage funds that has continued to make redemptions since the problems to such funds were created by the government guarantee on bank deposits in October 2009.

Mr Terlikar said that the EQT fund achieved its outstanding performance by only investing in commercial property first mortgages to a maximum of 67 percent of valuations, and keeping between 10 to 15 percent in cash.

“The fund does not invest in bond products or other investments that others may loosely describe as cash, so we always have liquidity,” he said.

“This stood us in good stead when cash flowed out of mortgage funds and into bank deposits following the introduction of the government guarantee.

“It is why we were able to meet all redemption requests, although we didn’t receive the same level of requests as other funds.

“It is not always recognised that investors in conventional mortgage funds have not lost capital and distributions have continued through the artificial environment created by the government guarantee.

“Mortgage funds therefore have a useful role to play in portfolio construction and investors who ignore this may miss out,” he said.

EQT RELEASE



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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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For more information please contact:

John Terlikar
Phone: 03 8623 5313
Email: jterlikar@eqt.com.au

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