

Balmain



Role in Portfolio:

Supporting Player

Risks:

- **Restricted short-term liquidity**
- **High dependency on a few mortgage segments**
- **Main fishing ground is more risky small to medium-sized businesses**

Morningstar Analyst:

Zac Wallis

Morningstar Take

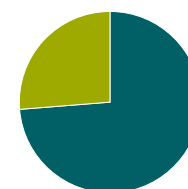
Balmain assumed management of the former Mariner mortgage funds in 2009. Despite the name change, the underlying approach remains largely in place and the key players are still calling the shots, although the team size has been reduced. Portfolio Manager John Thomas has been in the driving seat since the fund's creation. Thomas and Head of Commercial Lending Mark Andersen are experienced hands and their level of expertise gives us confidence that Balmain can run this offering effectively with only two dedicated investment staff. Balmain Chairman Michael Holm is also involved in the process and sits on the investment committee. What sets this strategy apart is the focus on the small- to medium-sized market segment. This less developed area of the market has been a key source of value-add to date, but we caution that it also means that this strategy sits higher up the risk curve than more conservative peers. Arrears were minimal at the time of writing, although there are testing times ahead. Balmain's mortgage origination business also gives this team an advantage when sourcing new loans. While investors like the stable return patterns attached to mortgage funds, the unlisted assets that provide these returns are less liquid than cash, and shouldn't be used as replacements for cash funds. Like most mortgage managers, Balmain has had to limit redemptions as a result of the increased number of withdrawal applications in 2008 and 2009. The firm has created new share classes to better manage liquidity in the portfolio. Investors have been given the choice of remaining in the existing class, which will be drawn down quarterly until fully-redeemed, or switching into the new 36-month fixed term investment. We believe the new term option is good for investors, and thoroughly approve of the proactive approach Balmain has taken to facilitate redemptions and manage liquidity. While the name has changed, we still believe that this is a reasonable approach for investors with a longer-term outlook seeking returns over cash.

Strategy/Process

Balmain attempts to provide regular monthly income above the UBS Australian Bank Bill Index. The firm invests in registered first mortgages over residential, commercial, industrial, and retail properties, focusing on small to medium-sized enterprises. Balmain won't hold construction or development loans but does have a large chunk in residential property. Each borrower is subject to a credit bureau search, a detailed financials check, and an external valuation, all standard elements of a mortgage approach. All new properties are valued by an external party before entering the portfolio, and then revalued at least every three years. Loans up to A\$2.0 million are signed off by portfolio manager John Thomas, while all loans above this amount require investment committee approval. The maximum loan amount is A\$3.0 million, and exposure to any single borrower may not exceed five percent of assets under management. Balmain invests cash in secure, short-term liquid investments, while all mortgages have to date been written at a variable rate. The firm created new share classes that match the liquidity nature of the assets in 2009. Existing investors have two options. The first is to hold the existing units and apply for equal redemptions over the next 25 quarters commencing in March 2010. The second option is a three-year fixed investment (FT36) with optional 10.0 percent annual redemptions. New investors will only have access to the FT36 units and another new FT18 class units, which offers an 18-month fixed term investment with full redemption at maturity.

Flagship Fund: Mortgage Trust - Wholesale

Asset Allocation 31 Oct 2009 % Assets



Domestic Equity	0.00
Int'l Equity	0.00
Listed Property	0.00
Unlisted Property	0.00
Mortgages	73.73
Dom Fixed Interest	0.00
Intl Fixed Interest	0.00
Cash	26.27
Other	0.00

Sector Allocation 31 August 2009 %

CBD	0.00
Other Commercial	38.00
Industrial	23.00
Retail	6.00
Residential	29.00
Rural	0.00
Hospitality/Leisure	0.00
Construction	0.00
Vacant Land	4.00
Non-Mortgage Exposure	0.00

Structure Allocation 31 August 2009 %

First Mortgages	76.00
Second Mortgages	0.00
Mortgage-Backed Securities	0.00
Mezzanine Debt	0.00
Syndicated Loans	0.00
Non-Mortgage Exposure	24.00

Geographical Allocation 31 August 2009 %

NSW	53.00
VIC	11.00
QLD	21.00
SA	3.00
WA	11.00
ACT/NT/TAS	1.00
Non-Mortgage Exposure	0.00

Loan Book Stats

Mgr Bmark: UBS 90 Day Bank
 Bill Rate +0.50%
 Avg LVR: 60.0
 Max LVR: 70.0
 Interest Cover Ratio: 1.80 times
 Fix Rate Exp - Actual/Limit:
 N.Ap.
 Max Loan Terms: 5 years
 No. Loans: 142
 Avg Loan Size: A\$729,465
 Avg Maturity (yrs): 1.43
 Maturity <= 12 mths %: 51.0
 90+ Days Arrears %: 5.63

People Stats

Lead Manager: John Thomas
 Appointed: 2003
 Years Experience: 34
 Team Size: 2
 Average Years Experience: 29
 Average Years Tenure: 5

Interest Rate Risk Mgmt Strategy

Floating. All mortgages are on a variable rate.

Role in Portfolio

Supporting Player. Balmain is suitable for mortgage exposure, although it should be paired with another income strategy given the riskier profile of lending to small to medium-sized businesses.

People

Balmain Mortgage is led by CEO John Thomas, who's been in the top job since the strategy's inception under the Mariner banner in March 2004. Thomas was previously a portfolio manager for the Challenger Howard Mortgage Trust, and is a veteran of mortgage investing, with almost 22 years' track record in managing money, and over 34 years' wider financial services experience. Thomas and Head of Commercial Lending Mark Andersen were the only investment staff retained by Balmain after the acquisition of Mariner. Thomas has a very active role managing this strategy, and approves all loans before they go into the portfolio. The firm's investment committee comprises Thomas, Andersen, Balmain Corporation executive chairman Michael Holm, and Head of Credit Bill Davis. The committee must approve all loans over A\$2.0 million.

Performance

Balmain's Mortgage Trust – Wholesale Class has had a good run since launch in March 2004. The strategy outpaced many of its peers and the UBS Australian Bank Bill Index over the one, three, and five years ending 30 September 2009. Commercial mortgages was the biggest contributor to performance for the 12 months ended 31 July 2009, residential also adding significant value. Balmain has to date been able to take advantage of a low assets base and its relatively small average loan size of around A\$600,000, compared to other mortgage managers, whose average loan sizes are well over A\$1.0 million. The firm targets a number of small business owners for loans, and has been able to generate marginally higher yields from this.

Parent

Balmain Fund Administration is now the responsible entity after Balmain NB Corporation acquired the Mariner Mortgage Trust in 2009. The Balmain Mortgage Trust had A\$136.0 million in assets at 30 September 2009.

Fees

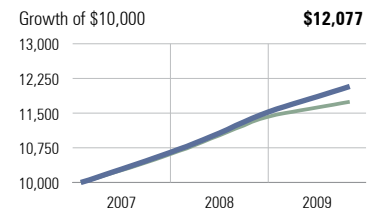
Balmain charges an ongoing wholesale fee of one percent per annum, while the retail version costs 1.50 percent. Both are slightly higher than the respective category averages.

Top 5 Funds by Net Assets

	Ticker	Net Assets (\$Mil)	Quartile Rank 3yr	Total Ret 3yr
Balmain (MWM) Mortgage Trust - IDPS Class	11597	65.89	■	7.06
Balmain (MMT) Mortgage Trust - Retail Class	11598	51.69	■	6.59
Balmain (MMT) Mortgage Trust - Wholesale Class	11599	18.82	■	7.10
Balmain (MMT) Mortgage Trust - FT36 Units	17498	--	NAv	--
Balmain (MMT) Mortgage Trust - FT18 Units	17497	--	NAv	--

Flagship Fund: Mortgage Trust - Wholesale

Performance 31 Oct 2009 Fund Index **\$12,077**



	1Yr	3Yr	5Yr	10Yr
Quartile Rank	■	■	■	NAv
Total Ret%	6.07	7.10	6.92	--
Income Ret%	6.07	7.10	6.92	--
Growth Ret%	0.00	0.00	0.00	--
Index%	3.83	6.07	5.96	5.66

Index: UBS Bank 0+ Yrs
 Category: Mortgages

Performance Analysis 3 Yrs to 30 September 2009

Value Add vs Mgr Bmark%	0.97
Tracking Error	0.26
Information Ratio	3.79

MPT Statistics 31 Oct 2009

	3Yr%	5Yr%	10Yr%
Beta	1.02	1.02	--
Alpha	0.97	0.90	--
R Squared	0.19	0.22	--
Sharpe Ratio	4.04	4.95	--

Risk Meter (3 Year Standard Deviation)

All figures and stats relate to the Flagship Fund, and all performance figures are shown as % per annum, net of fees.

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