



## Investment Rating Report

Foresight Investment Rating: **VERY STRONG**

Foresight Complexity Indicator: **COMPLEX**

Fund Details
<b>Investment Manager:</b> Trilogy Funds Management Ltd., ABN 59 080 383 679
<b>Investment Structure:</b> Australian unit trust
<b>Wholesale/Retail:</b> Retail & wholesale
<b>Category:</b> Mortgage trust
<b>Investment Style:</b> Active management of mortgages over Australian property
<b>Inception:</b> February 2007
<b>Management Fee:</b> 0.96% retail
<b>Platform &amp; Adviser Assisted:</b> 0.46%
<b>Responsible Entity:</b> Trilogy Funds Management Ltd. ABN 59 080 383 679, AFSL 261425
<b>Investment Objective:</b> To provide investors a monthly income stream by investing in a portfolio of loans, secured by registered first mortgages, on Australian properties.

### Review Summary

The Trilogy Monthly Income Trust ('TMIT' or 'the Trust') is a pooled mortgage trust established in February 2007 managed by Trilogy Funds Management Ltd ('the Manager'). The underlying investments are loans secured by registered first mortgages on property development, construction and refinancing of completed stock. The Trust is a floating interest rate investment strategy.

The team at Trilogy is very experienced, having been in this sector since before the GFC (Global Financial Crisis). They have built a diversified, risk-averse portfolio of mortgages, which continues to drive strong, stable returns.

Annualised monthly distributions troughed at 4.75% in March 2022 due to the impact of the RBA's interest rate easing policy. Subsequently, monthly distributions have increased (6% in September 2022), and we expect this trend to continue based on 1) the recycling of loan capital at currently higher market interest rates and 2) the expectation of further increases in the RBA Cash Rate. Since its inception in 2007, the Trilogy Monthly Income Trust has paid a distribution every month, has honoured all withdrawal requests and maintained a stable unit price of \$1.00. This includes what may be considered the 'Black Swan' event from around March to June 2020.

### Performance 30 September 2022

Period	Return
<b>1 month</b>	0.49%
<b>6 months</b>	2.64%
<b>1 year</b>	5.12%
<b>5 years</b>	6.63%
<b>Since Inception (2007)</b>	7.46%

Source: Trilogy  
Benchmark: Not Applicable

### Foresight Investment Rating & Complexity Indicator

A **VERY STRONG** rating indicates a very strong level of confidence that the Trust can deliver a risk-adjusted return in line with its investment objectives.

Designation as a **COMPLEX** product indicates that the underlying assets require specialist investment skills to acquire and monitor. In addition, a large proportion of the Trust's assets are illiquid, and investors should have a good understanding of the investment time horizon as well as the distribution characteristics of this type of fund.

**Fund Details**

<b>Fund Name</b>	Trilogy Monthly Income Trust
<b>Dominant Strategy</b>	Investment in mortgage-secured property loans, including construction loans
<b>Investment Structure</b>	Australian unit trust
<b>Investment Manager</b>	Trilogy Funds Management Ltd.
<b>Responsible Entity</b>	Trilogy Funds Management Ltd.
<b>KEY FEATURES</b>	<b>DESCRIPTION</b>
<b>Fund Inception</b>	February 2007
<b>Domicile</b>	Australia
<b>Legal Form</b>	Registered Managed Investment Scheme
<b>Geographic Mandate</b>	Australia
<b>Open</b>	Yes
<b>Lock-up</b>	2 months for initial investments
<b>Management Costs: Direct</b>	0.96% of total FUM
<b>Management Costs: Platform Class and Adviser Assisted</b>	0.46% of total FUM
<b>Performance Fee</b>	Nil
<b>Target Return</b>	Trilogy does not specify a benchmark for this Trust
<b>Distributions</b>	Distributions are paid monthly in arrears
<b>Fund Size</b>	\$648 million as at 30 September 2022
<b>Minimum Subscription</b>	\$10,000
<b>Subsequent Subscription</b>	\$1,000
<b>Withdrawals</b>	<p>There is a minimum holding period of 2 months. After this, withdrawal requests are accepted daily and can take up to 4 months to process.</p> <p>Platform Units Requests for withdrawal must be received by 11.00 am on the day that is at least 7 business days prior to the last calendar day of the month. The 2-month minimum holding period does not apply to Platform Units.</p>
<b>Liquidity</b>	In certain circumstances, Trilogy may be entitled to delay or suspend withdrawals due to a lack of liquidity.
<b>Entry Fee</b>	Nil
<b>Exit Fee</b>	Nil
<b>Fund Term</b>	An investment time horizon of 3 years or more is recommended
<b>PRIMARY CONTACT</b>	
<b>Name and Title</b>	Alison Lancaster – Head of Investor Relations & Distribution
<b>Email Address</b>	<a href="mailto:a.lancaster@trilogyfunds.com.au">a.lancaster@trilogyfunds.com.au</a>
<b>Telephone Number</b>	07 3039 2828
<b>Address</b>	Level 23, 10 Eagle Street, Brisbane Queensland 4001
<b>Website</b>	TrilogyFunds.com.au

## Investment Profile

### HISTORY/BACKGROUND

Trilogy Funds Management Limited has its origins in 1998 when a Brisbane law firm, of which Philip Ryan was a partner, started an investment company managing mortgages and property assets. In 2004 Rodger Bacon and John Barry left their executive positions at Challenger Financial to join Philip in founding Trilogy Funds. Trilogy Funds Management is a 100% subsidiary of Trilogy Services Trust, which is majority owned by Rodger Bacon. The other shareholders are senior executives of the company, such as Justin Smart, Phillip Ryan and John Barry.

The TMIT is a pooled mortgage trust that was established in February 2007. The underlying investments are loans secured by first mortgages on property development, construction, and refinancing of completed stock. Since its inception in 2007, the TMIT has paid a distribution every month, has honoured all withdrawal requests and maintained a stable unit price of \$1.00.

The 5 years after the GFC were difficult for pooled mortgage funds, with almost all pooled mortgage funds closing or in distress. During this time, Trilogy (at the request of investors) managed the sale of assets from an external fund, the City Pacific First Mortgage Fund. It also acted as the Responsible Entity (RE) for another external pooled mortgage-related fund.

The post-GFC mortgage fund upheaval has increased scrutiny from the regulator. Mortgage funds are now required to continuously disclose all relevant parameters, including related-party transactions, levels of gearing, liquidity, portfolio diversification and valuation policies.

The private (non-bank) lending environment has grown significantly over the last 5-7 years, with the sector increasingly attracting institutional and retail capital. In all but market dislocation events, private debt generates higher returns than listed debt instruments such as bonds and bank loans largely. This excess return stems from higher illiquidity and complexity. There is also a supply-demand premium since the Trust targets smaller-to-mid-sized loans size instead of the heavily-contested mid-to-large-sized loans. It has also been characterised by a lower degree of capital risk, with stronger collateral protections and a higher degree of look-through transparency of borrowers.

More broadly, in a period of listed market ructions, the downside stability characteristic of the asset class has come to the fore. While 'portfolio diversification' benefits are often heavily bandied around by both investment managers and analysts, the private debt sector truly offers such benefits to listed market portfolio exposures.

Importantly, private debt is both a floating interest rate asset class and, needless to say, a private market asset class. These 2 factors combine to deliver what can reasonably be expected to be a profile of capital stability, barring material 'loss-given-defaults' (LGDs) in the underlying loan portfolio.

### OBJECTIVE

The TMIT seeks to provide investors with a monthly income stream by investing in a portfolio of loans on Australian property, primarily on the Eastern seaboard. All loans in the portfolio are secured by first mortgages. The strategy is to lend for the purposes of property development, construction, and refinancing completed stock.

### FUNDS UNDER MANAGEMENT

The TMIT had funds under management of circa \$648M as at September 2022. In total, as at 30 September 2022, Trilogy managed approximately AU\$1 billion in assets under management spread across approximately 160 construction and development project loans, 4 property trusts and a diversified fixed-income fund.

### INVESTMENT UNIVERSE

The TMIT invests in loans of up to \$40M on properties located in capital cities and regional town centres. The type of property may be residential, commercial, development, retail or industrial. Trilogy typically advances loans to small subdivision projects located in Southeast Queensland, Sydney, Melbourne, Hobart, Adelaide and regional coastal areas located within 2 hours of a capital city.

All loans must be secured with registered first mortgages with a maximum loan-to-value (as complete) ratio of 70%, as well as guarantees and security measures deemed relevant by Trilogy. The TMIT may also invest in cash-style assets and other unlisted managed investment schemes to maintain some liquidity. Trilogy does not lend to related parties.

## Investment Philosophy

Trilogy's investment philosophy is to provide a stable monthly income stream by investing in a diverse portfolio of short-term property loans secured by registered first mortgages. Trilogy uses diversification as a key risk-mitigation tool by capping loans at \$40M. As at 30 September 2022, the portfolio contained 160 loans.

Trilogy's view is that this type of lending has and will continue to become increasingly reliant on private investment as the major banks retreat from certain lending segments due to increased regulation following the GFC and COVID crises. Less institutional capital available leads to a more competitively-priced loan market. Through its continued FUM growth and natural recycling of capital, the TMIT has developed the ability to be a consistent and steady supplier of loan capital to the eligible lender market which has served to build and maintain key broker, developer and builder relationships.

Trilogy assesses loan suitability based on geography, property sub-segment and builder/developer experience. The Manager's 'sweet spot' is 4-to-10-pack townhouse style developments in the inner-city ring of major metropolitan cities. Over time, the Manager has organically diversified the portfolio by geography and property sub-segment. The latter has involved loans to the NDIS, childcare, healthcare and petrol station segments, all underpinned by tenant contracts.

As noted, the TMIT is strictly a first mortgage debt provider. The Manager prides itself on the fact that it has never erred from this philosophy of retaining the highest position in the capital stack to underpin capital stability.

## Investment Strategy

The investment strategy for the TMIT is to provide a portfolio with a stable unit price of \$1.00 through good risk/return performance and significant diversification. The loans in the portfolio will have a maximum loan-to-value ratio (LVR) of 70% to provide strong downside protection. The Manager is currently targeting small loans of between \$5M and \$15M to provide sufficient diversification, but can look for loan sizes up to \$40M. To increase liquidity, loan terms are capped at a maximum of 2 years.

Below are the key strategic parameters for diversification and mitigation of risk:

<b>Borrowers Valuers</b>	<ul style="list-style-type: none"> <li>Borrowers and guarantors must be credit-worthy and satisfy the requirements under the Anti-Money Laundering and Counter-Terrorism Act.</li> <li>Exposure to borrowers is closely monitored, with exposure to any single borrower limited.</li> <li>The Trust appoints an independent valuer, and the valuation must be reviewed before funding.</li> <li>The Trust will not lend to any related parties of Trilogy Funds.</li> </ul>	
<b>Portfolio/Loan Profile</b>	<ul style="list-style-type: none"> <li>The Manager is targeting a diverse range of borrowers with loans capped at \$40M.</li> <li>The Manager uses co-investment to improve Fund diversification.</li> <li>The maximum loan term is 2 years.</li> </ul>	
<b>Property Location</b>	<p>Lending is for properties on the eastern seaboard of Australia. The property must be located in a capital city, a regional city, or a significant town within 2 hours of a capital city.</p> <p>Targets</p> <ul style="list-style-type: none"> <li>Queensland 20%-50%</li> <li>New South Wales 10%-50%</li> <li>Victoria 10%-40%</li> <li>ACT 10%-20%</li> <li>South Australia &lt;10%</li> <li>Tasmania &lt;10%</li> </ul>	
<b>Property Sector as % of Portfolio</b>	<ul style="list-style-type: none"> <li>Construction and Development Residential 20%-70% Commercial 0%-30%</li> </ul>	<ul style="list-style-type: none"> <li>Land (typically a sub-division) 20%-50%</li> <li>Investment Loans Residential 0%-50% Commercial 0%-20%</li> </ul>
<b>Liquidity</b>	Formal target liquidity of 5%-20%. Liquidity is monitored on a 12-month projection basis with stress-tested models.	

**Loan-to-Value Ratio**

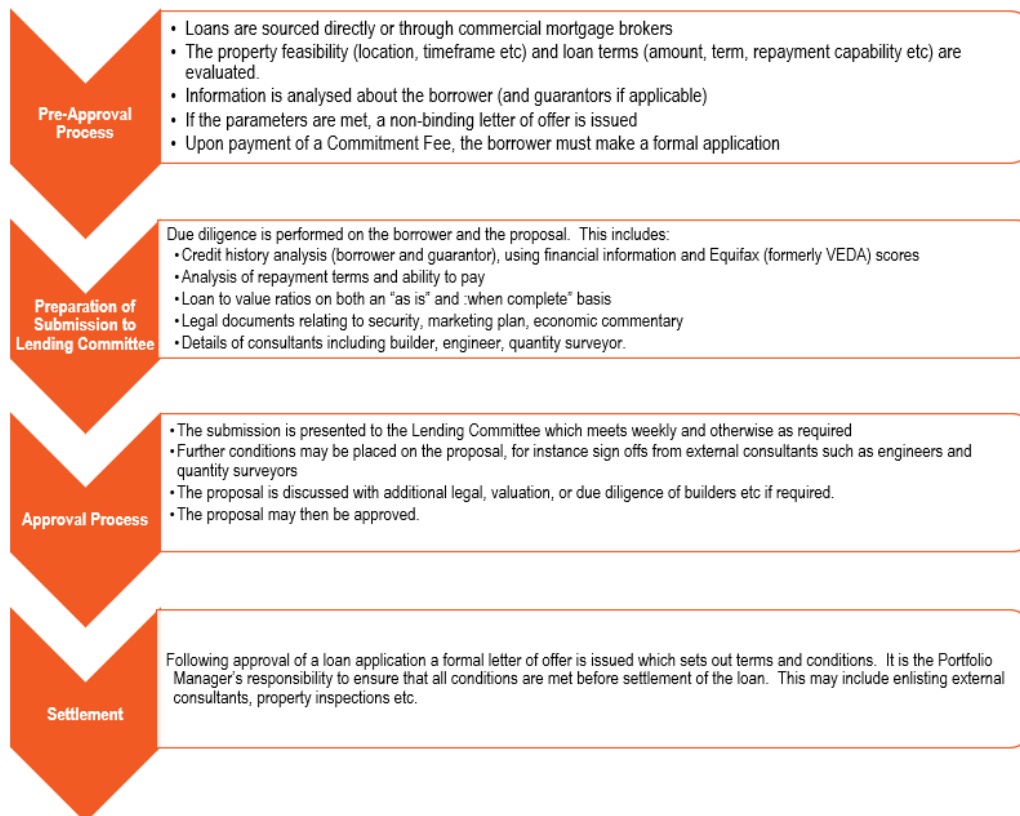
- All loans approved for inclusion in the portfolio must be under a maximum loan-to-value ratio (LVR) of 70%, with the valuation being no older than 4 months.
- For a property development or construction loan (development loan), the LVR is measured using the 'as if complete' valuation.

**Investment Process**

The investment team consists of 7 portfolio managers who analyse potential loans for inclusion in the portfolio. Once a loan is deemed in line with the TMIT's strategy, the loan application must go through many stages of due diligence and meet the appropriate conditions before it is approved by the Lending Committee.

The investment team makes use of consultants in its due diligence and ongoing monitoring:

- All external valuations must be performed by a qualified valuer on Trilogy's approved panel. The valuer must be independent of both Trilogy and the borrower.
- Quantity surveyors are used in both due diligence and the ongoing stages of the loan.

**Process Steps**

**Ongoing Monitoring**

Loans are monitored through ARM, the portfolio management system. For construction projects, a quantity surveyor makes periodic (usually monthly) reports and signs off on periodic drawdowns. Drawdowns also need to be signed off by the Portfolio Manager and 2 other signatories, including a member of the executive team.

The Trilogy Operations team is responsible for initially gathering reports from the quantity surveyor or borrower and communicating any proposed amendments to them. If the details meet those approved by the Lending Committee, they will be uploaded to the lending system, and documentation for the transaction will be prepared. Once approval is received from the Treasury Committee, Lending Operations is expected to liaise with Trilogy's trustee to process the payments. Further, the Operations team is responsible for compiling data in the lending system and updating the loan models. There is a high level of interaction with borrowers, particularly for development loans.

Monitoring reports are reviewed by the Lending Committee on a weekly basis to ensure timely repayment and adherence to ongoing reporting requirements and loan covenants. Issues such as a delay in having insurance in place or non-adherence to a loan covenant, are generally managed by the Portfolio Manager together with the appropriate consultant. Late repayments in arrears for 7 days or more are followed up by the Portfolio Manager with the assistance of Trilogy's solicitor. If a repayment is more than 30 days in arrears, or at the discretion of the Lending Committee, management of the loan is given to a Work-Out Committee, which reports to the board.

### COVID-19 Response

Throughout the COVID-19 crisis, Trilogy increased scrutiny of supply chain issues and construction pricing as they effected the construction mortgages in the portfolio. A particular focus was whether each developer had the required materials available as well as where materials were being sourced from (intra-state, cross-state borders or offshore). The Trust increased risk measurement as appropriate. We note that the TMIT did not record any adverse performance impacts during the period and, in fact, continued to grow strongly from a FUM/loan book perspective as other market participants withdrew.

### Portfolio Construction

The suitability and diversity of the existing loans in the portfolio is monitored at each stage of the process. The impact of a new loan on portfolio liquidity is also considered.

The geographical spread of the portfolio historically favoured SE Queensland, but is now almost equally spread over the eastern states and has recently expanded to Hobart and Adelaide.

As we mentioned above, the TMIT is now also materially involved in developments in the healthcare, NDIS, childcare, and petrol station sectors in addition to small-to-medium-sized townhouse-style developments in the inner ring of cities such as Brisbane, Sydney and Melbourne. Medium-density residential inner ring CBD projects are substantially less volatile than high-density residential projects. Should the Manager need to step in and appoint another developer, it is considerably easier and quicker to do so compared to a high-rise development.

### ESG Considerations

Within the context of ESG, the Manager is focused on the social component as evidenced by its investments in NDIS, childcare and healthcare projects. There is an acute shortage in the supply of the first 2 segments currently in Australia and by funding the provision of new housing, the manager is contributing to the solution for the current housing crisis.

### Liquidity Management

Liquidity management is a key input to portfolio construction. While this Trust is considered a non-liquid investment, the ability to honour redemptions is an important part of the strategy. We also believe that given the significant withdrawal in liquidity in the global credit markets, it is prudent for all investors to be mindful of the issue/risks.

From a process and structural perspective, the policy of the Trust is to balance the maturity of its assets and liabilities. A 12-month rolling projected cash flow report is produced and stress-tested by the Treasury Committee. The report is tabled for the Treasury Committee regularly and presented to the board on a periodic basis. Liquidity management is further supported by the 4-month redemption notice required as per the Trust rules, but this is reduced to a shorter timeframe for investors in the platform class.

The Trust's liquidity stems from 3 variables:

- 1) Loan Net Flows (issuance of loan capital less repayment of loan capital)
- 2) Investor Net Flows (investor applications less redemptions)
- 3) The underlying liquidity the Trust's cash holdings

Since the Manager has very little control over Investor Net Flows, it sensibly maintains a target liquidity range of 5%-20% of FUM.

The 'Monthly Liquidity' chart below displays monthly rates over the Trust's more recent history. While the monthly rates can be quite variable (a function of the variability of loan net flows), the Trust has not dipped below the lower threshold of the range (i.e., 5%). We note the level of liquidity at the beginning of October 2022 was 5.9% but was forecast to increase to 8.6% and 16.5% in November and December 2022, respectively. In fact, the Trust's 'issue' with liquidity over the last 2 years or so is that it has had too much of it,



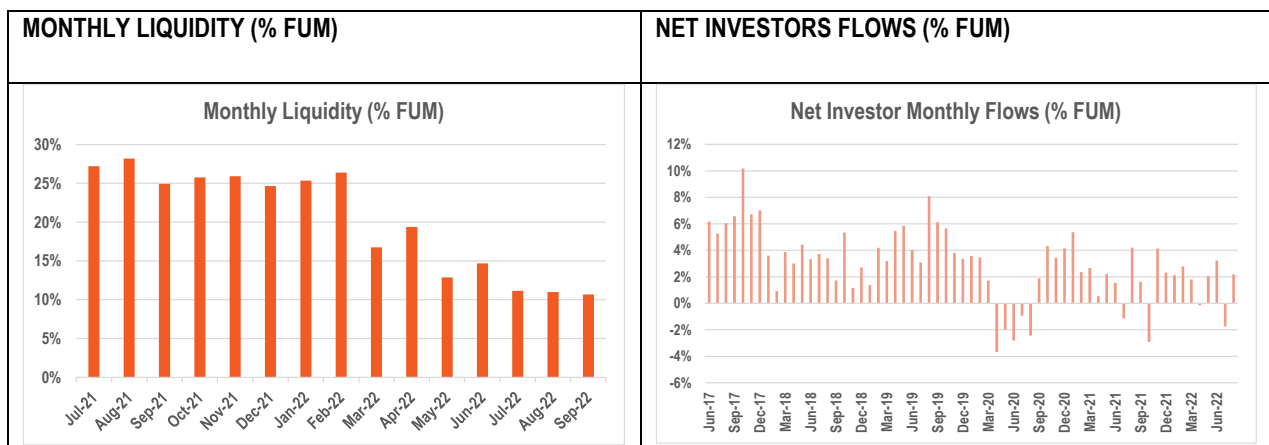
**TRILOGY MONTHLY INCOME TRUST**

noting the +25% levels over much of the CY21 period. This was higher than the Manager would have liked and reflected the issues in the property sector (supply chain and labour-related delays), adding additional uncertainties to the recycling of capital.

The question for investors is how has the Trust managed its liquidity in the past and how much confidence should investors have in the 5-20% target liquidity range. We note historically, over the last 8-year period (i.e., a period during which the TMIT had achieved FUM scale), the maximum monthly net outflow was 3.7% recorded in April 2020, and the largest cumulative consecutive monthly net outflow was 11.9% of FUM recorded over the April–August 2020 period. In short, the Trust comfortably covered redemption requests and did so over a period that can be perceived as a ‘black swan’ event (peak COVID).

The Trust can have a high cash position as a percentage of FUM. This is largely due to the natural recycling of capital and which occurs on a relatively short-dated cycle (as indicated by the current weighted average loan expiry of 7 months). Given this, the Manager needs to be mindful of potential excess cash drag which dampens overall income levels. To manage this, cash is invested in a mix of term deposits (from 30 up to 180 days at call), interest-bearing investments (typically floating-rate notes) and other third-party public and private debt investment vehicles.

Foresight is satisfied with the integrity of the liquidity of the cash portfolio, the mix of the underlying investments, and that these investments are not contrary to the floating-rate nature of the Trust itself. The only investment of concern is the Qualitas Real Estate Income Fund (ASX: QRI) and the mark-to-market risk associated with this type of listed investment trusts incur.



Source: Trilogy

On the topic of black swan events, which we view as the only conceivable situation in which the Trust may come under liquidity stress (short of an idiosyncratic issue specific to the Trust/Manager), investors should bear in mind that there is a natural offsetting liquidity buffer in the Trust’s lending activities. Specifically, in such an environment, the lending markets tend to grind to a halt. That is, the Trust would likely record a significant positive loan net flow, with repayments continuing as per loan contracts, yet little in the issuance of new loan capital. In conclusion, we feel comfortable with the liquidity profile of the TMIT based on its historical profile.

### Investment Team

The Investment Team is headed by Clinton Arentz, who joined Trilogy in 2017. Clinton has over 25 years of experience gained through project managing medium-density residential, commercial and industrial developments. Clinton Arentz manages a team of 6 Portfolio Managers who are collectively responsible for the loans, due diligence and ongoing management. The team is supported by the Lending Committee, all of whom are very experienced.

#### Experience

<b>Clinton Arentz</b>	Clinton has over 25 years of experience in asset and facilities management, property development, and project delivery. He is responsible for Trilogy Funds’ team of Portfolio Managers, overseeing the growth and management of the diverse construction loan portfolio, client and broker liaison and coordination, and new business development. Clinton also oversees the management of Trilogy Funds’ property assets, applying his experience in risk management, capital structuring, acquisitions and property syndications.
-----------------------	--

	Before joining Trilogy Funds, Clinton provided project structuring and development delivery services on commercial, industrial and residential projects in multiple locations. Several of his projects have achieved industry recognition among organisations such as the Master Builders Association, the Urban Development Institute of Australia, and the Property Council of Australia.
<b>Lending Committee</b>	
<b>David Hogan</b>	David Hogan co-founded Trilogy in 2004. David has experience in risk management, capital structuring, ending, acquisitions, and property syndications. Prior to joining Trilogy, he was an Executive Director at Challenger International, playing a significant role in developing its international property portfolio.
<b>Rodger Bacon</b>	Rodger Bacon is the co-founder of Trilogy and is now Executive Deputy-Chairman. Before forming Trilogy, Rodger served as an Executive Director at Challenger International, where he assisted in establishing Challenger Annuities and developing a property portfolio worth more than \$2.6b. Rodger also worked for 15 years at the Schroder Merchant Banking group, where he gained experience in all aspects of funds management. He is a Senior Fellow of the Financial Services Institute of Australasia.
<b>Philip Ryan</b>	Philip Ryan is the founder and Managing Director of Trilogy and was instrumental in the company's formation. He is also a member of Trilogy's Compliance Committee and Investment Committee and acts as General Counsel for Trilogy. Philip has been a solicitor of the Supreme Court of Queensland and the High Court of Australia for 30 years, specialising in corporate and commercial law. He was a partner in a Brisbane law firm for 20 years and a founding director of the fund's management entity, which evolved into Trilogy. In addition to qualifications in law, Philip has qualifications in mortgage lending (Diploma of Mortgage Lending), financial services and investment, and he is a Fellow of the Financial Services Institute of Australasia.
<b>Rohan Butcher</b>	Rohan Butcher is the Non-Executive Director of Trilogy and a member of the Lending Committee. Rohan has more than 20 years of experience in construction and property, having worked in quantity surveying, estimating, project administration, development management, planning and project management across both construction and development projects. He has been involved in several major projects within the residential, retail, and commercial property sectors, while undertaking a variety of senior appointments with major public and private companies. Rohan is a member of Master Builders Queensland.
<b>Justin Smart</b>	Justin Smart has been the Chief Operating Officer for Trilogy and Director of several entities in the Trilogy Group of Companies since 2007. He is also a Certified Practising Accountant. Prior to joining Trilogy, Justin worked with Aussie Home Loans and QBE Insurance. He also acted as the Financial Controller for the Australian Commonwealth Government's HIH Insurance Relief Scheme and was the Financial Controller for Charles Taylor Consulting's (a UK-listed Mutual Insurance Manager) Australian operations. Justin commenced his career with a multinational Chartered Accounting firm, specialising in audit. His expertise encompasses technology, strategic planning and program delivery, and reviewing existing systems and processes to improve operational efficiencies.

## PORTFOLIO MANAGERS

The Portfolio Managers (PMs) are located in Brisbane, Sydney and Melbourne. Members of the team and the Lending Committee regularly commute (in non-COVID circumstances) between Sydney, Melbourne and Brisbane, and there is regular communication through teleconferencing. Trilogy has recruited 3 new PMs over the last 2-year period. Each PM is responsible for 15 - 20 loans.

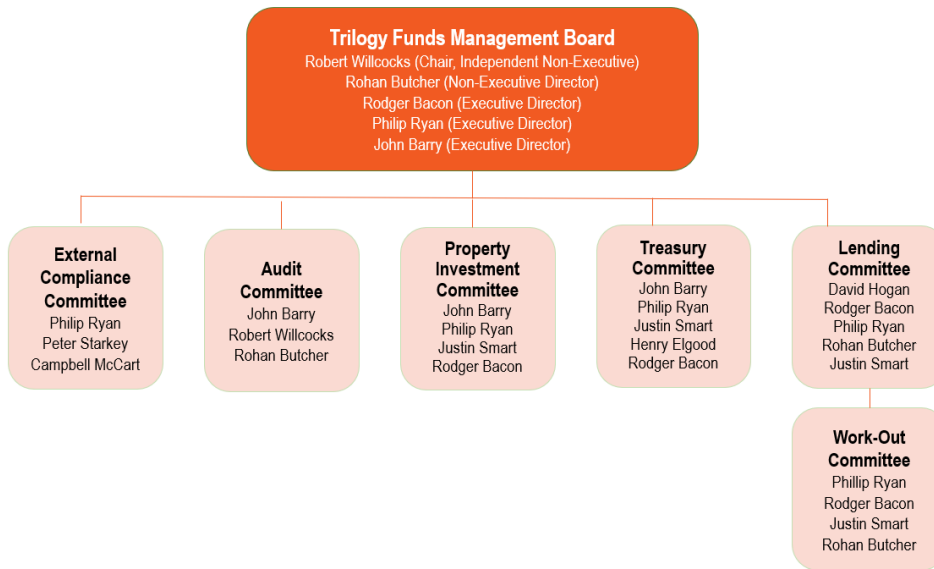
## Business Management

The key executives of Trilogy Funds Management are involved at all levels of management and compliance. 6 functional committees report to the board every month. The Treasury Committee, Property Investment Committee and the Lending Committee meet weekly, and the Executive Risk Committee meets monthly. Monthly updates are provided to the board by the Head of Governance & Risk.

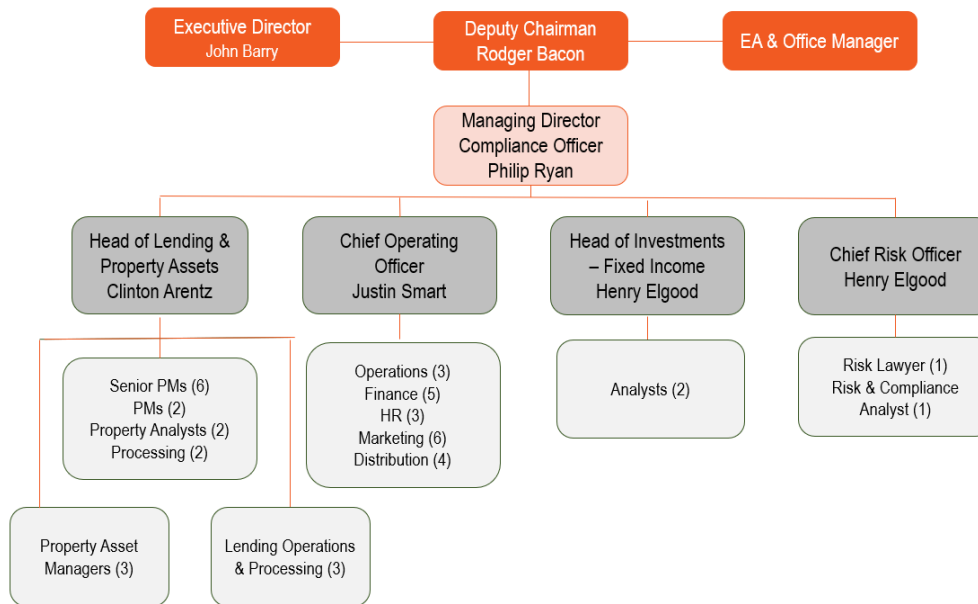




Board and Committees



Operations and Investment



The compliance function is overseen by the Managing Director and Chief Risk Officer.

Performance

The TMIT is designed to have a constant unit price of \$1.00. The Trust distributes monthly, with the latter being a function of the weighted average interest rate of the loan book, less all operating costs and the applicable MER. We note that any loss-given-defaults (LGDs) on loans would impact monthly income, but that the TMIT has historically never recorded a LGD. Should a LGD occur, investors are compensated by way of a rebate on a necessary portion of the MER. The TMIT is truly a LGD-remote investment vehicle.

Like any private debt lender in this segment, the weighted average interest rate of the Trust’s loan book is a function of 4 key factors: 1) the RBA Cash Rate (or the 90-day BBSW rate); 2) the collective perceived risk of lends; 3) the supply-demand dynamic (i.e., competition), and; 4) the level of cash drag in the portfolio (a function of net investor flows, loan repayments and settlements).

## TRILOGY MONTHLY INCOME TRUST

The key variable over time is the RBA Cash Rate, which is evident in the monthly distributions (annualised) chart below. As noted previously, the TMIT is effectively a floating-rate investment strategy. Though each loan is based on a fixed rate, the relatively short weighted average loan expiry of the loan book (6.5 months as at 30 September 2022) means the overall loan portfolio behaves as a floating rate investment portfolio (with a circa 6-9 month lag on moves in the RBA Cash Rate).

This characteristic means that investors should continue to expect an incremental rise in the monthly distribution profile while the RBA continues on its monetary tightening course, and for up to 6-9 months thereafter. As a guide we note the domestic bond markets are, at the date of this report, pricing in the RBA Cash Rate to peak at 3.92% in November 2023 before declining to 3.89% in April 2024 (a further +107 basis point of increases).

The perceived risk of a loan determines pricing and is a function of a range of factors such as the LVR, the purpose of the loan, the developer's experience, the property project's attractiveness, etc. Most notable is the purpose of the loan, which can be split between Investment - residual stock, construction, and bridging - land advances. In short, all things being equal, the construction loan category is priced higher, by anything from 100-150 basis points.

It is important to note that this is not so much a market where any manager makes a deliberate tactical tilt (generally speaking), but rather a market where a manager lends to where the demand is. The point being, this split (and key driver of returns) is subject to market vagaries. It is a driver that will not generally serve as a predictive tool to future income (short of a manager making a very deliberate tactical tilt) but it does serve as a key tool in the understanding of actually realised distribution levels.

Corroborating comments from other private debt lenders over the last 2 years, the Manager states that competition peaked just before the onset of COVID disruptions and has not returned to those levels. Competition abated as international, and some domestic money withdrew from the Australian market. One reason we are particularly favourably predisposed to the TMIT is that the smaller-to-mid-sized sector in the Australian private debt market is less contested than the mid-to-large segment. It does not attract institutional capital (the Trust does not compete against the likes of Metrics, MaxCap, Qualitas, etc.).

Cash drag is an important driver of monthly income, with income derived from this portion of the portfolio being less than that derived from lends. As noted in the Liquidity Management section above, the Manager seeks a balance between 'at call' TD investments and higher returning investments in 3<sup>rd</sup>-party (private debt) investment strategies. It is reasonable to assume that, while oscillating, the level of cash drag should mean-revert to a long-term average. Currently, the Manager expects that there may be an increase over the short term in the cash component (cash drag) of the portfolio due to the macro environment in the property sector – essentially a cooling of the market, which may naturally lead to fewer lending prospects. Investors should note that any potential increase in the Trust's cash potential does have the benefit of strengthening underlying liquidity.

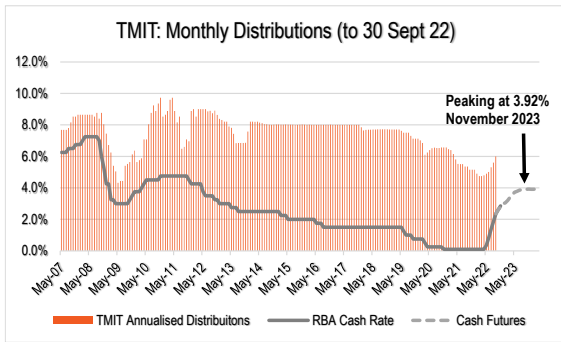
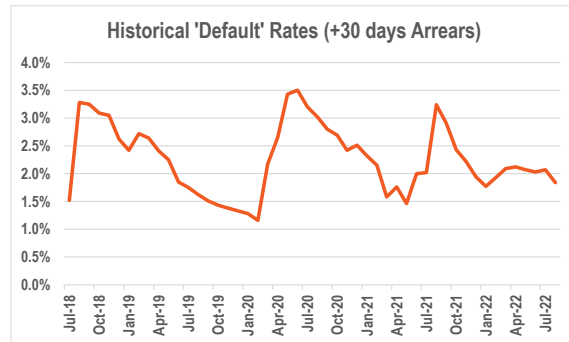
The Trust's historical performance is tabled below. This type of investment vehicle should generally have a target return of circa RBA Cash Rate + 4.5 - +5.0%. At the current RBA Cash Rate of 2.85%, this would imply a target rate in the low 7% range. Given that around 50% of the cash portfolio may sit in TDs, this target level may be closer to 7% based on the current RBA Cash Rate. Assuming the Manager does not price its fixed-rate loans off the front end of the yield curve, investors should note that the Trust's fixed-rate delay the RBA Cash Rate's impact on the Trust's distributions. Investors should also note that the Trust's liquidity/cash position has been higher than the Manager would have liked (i.e., higher cash drag). We acknowledge the capital recycling environment has been difficult for the Manager due to no fault of their own. This risk stems from supply constraint issues in the property development sector that investors need to consider and accept or otherwise.

### NET RETURNS & KEY METRICS as at 30 September 2022

	Return	Avg Arrears *	# LGDs
<b>1 month</b>	0.49%	1.66%	0
<b>1 year</b>	5.12%	2.12%	0
<b>5 years</b>	6.63%	2.26%	0
<b>Inception (2007)</b>	7.46%		0

\* Arrears = +30 days

Source: Trilogy

**TRILOGY MONTHLY INCOME TRUST**
**MONTHLY DISTRIBUTIONS**

**+30 DAYS ARREARS ('DEFAULT' RATES)**


Source: Trilogy / Foresight

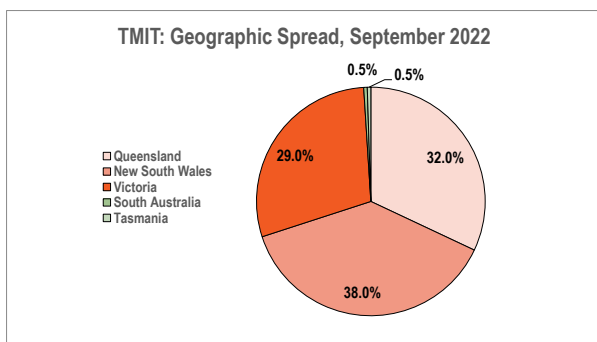
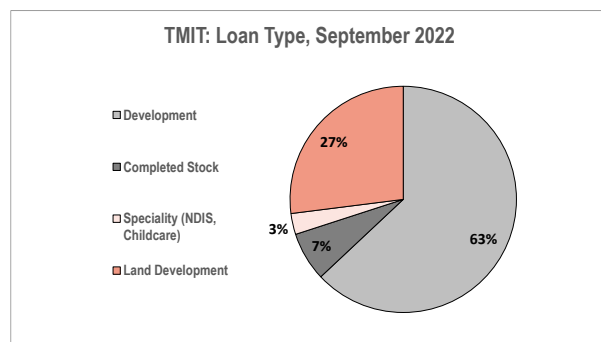
On the topic of defaults, debt is famously referred to as a 'losers' game. What this means is that in listed and unlisted (private) debt, the upside is limited (to the return of loan capital plus cumulative interest coupons), but the downside is unlimited (no repayment of loan capital). Examining the chart above depicting the Trust's +30 days arrears level (the Trust's definition of default) the approximate peak level for the Trust over the period was 3% which is considered at the lower end of industry averages.

Investors should not be concerned about a 'default' per se – the issue is how the borrower/loan is managed to ensure that the loan principal and any capitalised interest payments are fully recovered. When a borrower defaults, the loan is referred to the Trust's Workout Committee. A decision is ultimately made to either swap out the developer or sell the property.

We note historically that the Trust has never recorded a loss on a loan in default. This speaks well to the Manager's lending processes, but it also speaks to several key risk mitigants of the Trust, specifically conservative LVRs tied with a very short-dated weighted average loan expiry, which markedly reduces general property-cycle risk. A property would have to incur a circa 38% drop in assessed value over a circa 7-month period for the Trust to incur a LGD, which has never happened in Australia. This means a negative view on the property cycle is not incongruous with a positive investment view in the Trust.

**Portfolio Positioning**

The TMIT's portfolio positioning is presented below.

**GEOGRAPHIC SPREAD**

**PROPERTY/LOAN TYPE**


Source: Trilogy

**TRILOGY MONTHLY INCOME TRUST**
**KEY METRICS (as at September 2022)**

Metric		Metric	
<b>Total Number of Loans:</b>	<b>160</b>	<b>Weighted Average LVR (as if complete)</b>	<b>62.24%</b>
<b>Value of Loan Book: Approved</b>	<b>\$920M</b>	<b>Weighted Average Loan Expiry</b>	<b>6.54 mths</b>
<b>Drawn</b>	<b>\$600M</b>	<b>Non-performing Loans &gt; 30 days:</b>	<b>1.66%</b>
<b>Undrawn</b>	<b>\$321M</b>	<b>Liquidity</b>	<b>8.33%</b>
<b>Average Loan (Approved)</b>	<b>\$5.76M</b>		
<b>Maximum Loan</b>	<b>\$25.13M</b>		

**Transparency & Reporting**

Investors receive monthly reports showing 1-month, 1-year and 5-year net distributions. The reports show liquidity levels, the number and diversification of loans, updated LVR ranges, and the maturity spread of the loans.

In addition, they receive the following:

- A receipt of funds notification
- A monthly distribution statement
- Annual tax statements
- Annual transaction statements
- An annual financial report upon request

Trilogy maintains a website that publishes the current RG45 reports and continuous disclosure information. A new investor portal enables the autonomous collection and review of various documents by investors.

**Compliance & Risk**

Risk management for the Trilogy Monthly Income Trust is embedded throughout a due diligence process and ongoing monitoring. It is reported through various committees, including the Lending Committee and the Treasury Committee.

Trilogy's compliance management system comprises a framework of policies and procedures that set out roles, responsibilities and tools for identifying and managing compliance obligations. The Compliance Plan for the Trust addresses compliance with the legal framework and Trilogy's ethical standards.

The Compliance Plan includes provisions to be adopted for

- appointment of agents;
- management of the Trust;
- custody of the assets of the Trust;
- valuations;
- methods for the handling of application money;
- Trust assets, income and payments;
- complaints handling and dispute resolution;
- audits;
- conflict of interests;
- monitoring, resolving, and reporting suspected breaches of the Corporations Act; and
- formation and operation of the Compliance Committee.

The Managing Director and the Chief Risk Officer oversee the compliance function. The internal policy review is driven by the Chief Risk Officer and the Governance & Risk Officer.

## TRILOGY MONTHLY INCOME TRUST

## THIRD-PARTY &amp; SERVICE ADVISORS

<b>Fund Administrator</b>	In-house
<b>Custodian</b>	The Trust Company (Australia) Limited
<b>Taxation Advisor</b>	PwC Australia
<b>External Auditor</b>	BDO Australia (statutory and compliance audit)
<b>Fund Research</b>	In-house
<b>IT Consultant</b>	Wyntec
<b>Portfolio Software</b>	In-house

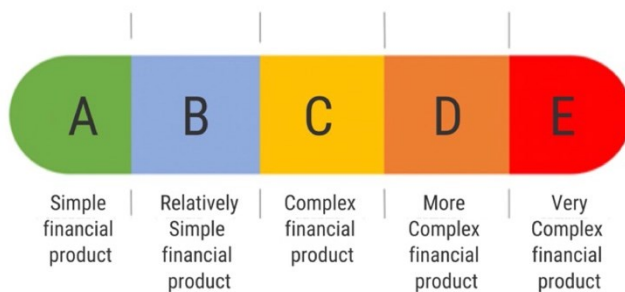
### Foresight Investment Rating

The Foresight Analytics' investment rating represents how well we believe a fund will perform against a range of risks.

Rating	Definition
<b>Superior</b>	Indicates our highest level of confidence that the fund can deliver a risk-adjusted return in line with its investment objectives.
<b>Very Strong</b>	Indicates our very strong conviction that the fund can deliver a risk-adjusted return in line with its investment objectives.
<b>Strong</b>	Indicates our strong conviction that the fund can deliver a risk-adjusted return in line with its investment objectives.
<b>Competent</b>	Indicates that the fund may deliver a return in line with its relevant benchmark.
<b>Weak</b>	Indicates our view that the fund is unlikely to deliver a return in line with its investment objective or outperform its benchmark.

### Foresight Complexity Indicator

Foresight Complexity Indicator (FCI) highlights the complexity of an investment and how it may affect the investors' returns. It's based on the structure of the fund's terms and conditions and its level of transparency.



### Foresight Analytics

Level 2, Suite 208, 33 Lexington Drive, Bella Vista, 2153

**Telephone:** 02 8883 1369

**Web:** [www.foresight-analytics.com](http://www.foresight-analytics.com)

### Rodney Lay

**Email:** [rodney@foresight-analytics.com](mailto:rodney@foresight-analytics.com)

### Disclaimer

This report has been prepared solely by Foresight Analytics and Ratings Pty. Ltd. (ABN 95616254294, AFSL No. 494552). This report is for information purposes only. It is neither an offer to sell nor a solicitation of any offer to purchase any securities in an investment product or investment fund. Any investment in a financial product or fund involves a degree of risk.

Foresight Analytics and Ratings Pty. Ltd. has made every effort to ensure the reliability of the views and ratings expressed in this report and those published on its website. Foresight Analytics and Ratings research is based upon information known to us or obtained from sources that we believed to be reliable and accurate at the time of publication. All opinions and views expressed constitute our judgment as of the date of the report and may change at any time without notice and without obligation. Such information may be based on certain assumptions and involve elements of subjective judgment and analysis.

Foresight Analytics and Ratings Pty. Ltd. has received a fee paid by either the fund manager or investment product sponsor for the rating and this report. This report is prepared for general information only and does not take into account individual circumstances and/or objectives. Individuals should therefore discuss, with their financial planner or advisor, the merits of each rating for their own specific circumstances and realise that not all investments will be appropriate for all subscribers.

To the extent permitted by law, Foresight Analytics and Ratings Pty. Ltd. and its employees, agents and authorised representatives exclude all liability for any loss or damage (including indirect, special or consequential loss or damage) arising from the use of, or reliance on, any information within the report whether or not caused by any negligent act or omission. If the law prohibits the exclusion of such liability, Foresight Analytics and Ratings Pty. Ltd. hereby limits its liability, to the extent permitted by law, to the resupply of the said information.

### Financial Services Guide

A copy of the Foresight Analytics' Financial Services Guide can be obtained at [Financial Services Guide](#) or by calling 02 8883 1369.