



Investment Rating Report

Foresight Investment Rating: **VERY STRONG**
 Foresight Complexity Indicator: **COMPLEX**

Source: Trilogy
 Benchmark: Not Applicable

Fund Details
Investment Manager: Trilogy Funds Management, ABN 59 080 383 679
Investment Structure: Australian Unit Trust
Wholesale/Retail: Retail & Wholesale
Category: Mortgage Trust
Investment Style: Active management of mortgages over Australian property.
Inception: February 2007
Management Fee: 0.96% retail
Platform & Adviser Assisted: 0.46%
Responsible Entity: Trilogy Funds Management Ltd. ABN 59 080 383 679, AFSL 261425
Investment Objective: The Trust seeks to provide investors with a monthly income stream by investing in a portfolio of loans, secured by registered first mortgages, on Australian properties, primarily on the Eastern seaboard. The present strategy is to lend for property development, construction, and refinancing completed stock.

Review Summary

The Trilogy Monthly Income Trust (the Trust) is a pooled mortgage trust, established in February 2007. The underlying investments are loans secured by registered first mortgages on property development, construction and refinancing of completed stock.

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

The Trust has maintained returns at a level above 5% p.a. throughout the COVID-19 period. 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.

Foresight Investment Rating & Foresight 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 from this type of fund.

Performance 31 October 2021

	Return
1 month	5.15%
1 year	5.86%
5 year	7.16%
Inception (2007)	7.60%

Fund Details

Fund Name	Trilogy Monthly Income Trust
Dominant Strategy	Investment in mortgage-secured property loans, including construction loans
Investment Structure	Australian Unit Trust
Investment Manager	Trilogy Funds Management Ltd.
Responsible Entity	Trilogy Funds Management Ltd.
KEY FEATURES	DESCRIPTION
Fund Inception	February 2007
Domicile	Australia
Legal Form	Registered Managed Investment Scheme
Geographic Mandate	Australia
Open	Yes
Lock-up	Two months for initial investments.
Management Costs: Direct	0.96% of total FUM
Management Costs: Platform and Adviser Assisted	0.46% of total FUM
Performance Fee	Nil
Target Return	Trilogy does not specify a Benchmark for this Trust.
Distributions	Distributions are paid monthly in arrears.
Fund Size	\$536 million as at 31 October 2021
Minimum Subscription	\$10,000
Subsequent Subscription	\$1,000
Withdrawals	Withdrawal requests accepted daily. Withdrawals require a four-month notice period, although they may be processed more quickly at Trilogy's discretion.
Liquidity	A delay in processing withdrawals may occur where the withdrawal requests exceed the cash reserves of the Trust. In certain circumstances, Trilogy may be entitled to suspend withdrawals due to a lack of liquidity.
Entry Fee	Nil
Exit Fee	Nil
Fund Term	An investment time horizon of 3 years or more is recommended.
PRIMARY CONTACT	
Name and Title	Alison Lancaster – Head of Investor Relations & Distribution
Email Address	a.lancaster@trilogyfunds.com.au
Telephone Number	07 3039 2828
Address	Level 23, 10 Eagle Street, Brisbane Queensland 4001
Website	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 Trilogy Monthly Income Trust 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 Trilogy Monthly Income Trust has paid a distribution every month, has honoured all withdrawal requests and maintained a stable unit price of \$1.00.

The five years post the GFC (Global Financial Crisis) were difficult for pooled mortgage funds, with almost all pooled mortgage funds closing and/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.

An additional outcome of 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 improved significantly in the last few years, with banks facing regulatory pressure and the property sector recovering from post-GFC levels.

OBJECTIVE

The Trust 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 current strategy is to lend for the purposes of property development, construction, and refinancing completed stock.

FUNDS UNDER MANAGEMENT

The Trilogy Monthly Income Trust had funds under management of circa \$536m as at October 2021. In total as at 31 October 2021, Trilogy manages over \$800 million across mortgage trusts, enhanced income funds and property syndicates.

INVESTMENT UNIVERSE

The Trilogy Monthly Income Trust invests in loans of up to \$30m 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 South-east Queensland, Sydney, Melbourne and regional coastal areas located within two 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 Trust 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 \$30million. As at 31 October 2020, the portfolio contains 120 loans.

Trilogy believes that this type of lending is increasingly reliant on private investment, as the major banks step back due to increased regulation following the GFC and COVID crises. They assess loan suitability based on geography, focusing on locations with a stable or growing property market.

TRILOGY MONTHLY INCOME TRUST

Trilogy also believes that an open-ended mortgage trust, although illiquid, can be managed to satisfy the withdrawal requests of its investors.

Investment Strategy

The investment strategy for the Trilogy Monthly Income Trust 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 of 70% to provide strong downside protection. The Manager is currently targeting small loans of between \$5m and \$10m to provide sufficient diversification but can look for loan sizes up to \$30m. To increase liquidity, loan terms are capped at a maximum of two years.

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

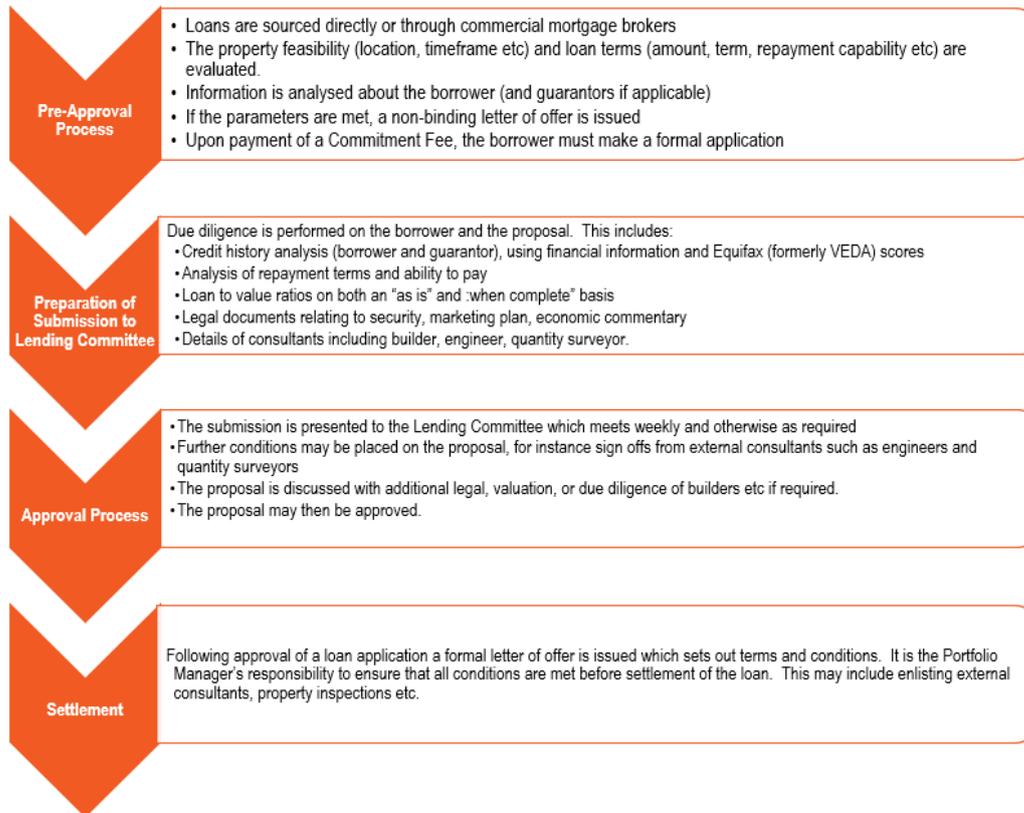
Borrowers Valuers	<ul style="list-style-type: none"> Borrowers and guarantors must be credit-worthy and satisfy the requirements under the Anti-Money Laundering and Counter-Terrorism Act. Exposure to borrowers is closely monitored, with exposure to any single borrower limited. The Trust appoints an independent valuer, and the valuation must be reviewed before funding. The Trust will not lend to any related parties of Trilogy Funds. 	
Portfolio/Loan Profile	<ul style="list-style-type: none"> The Manager is targeting a diverse range of borrowers with loans capped at \$30m. The Manager uses co-investment to improve Fund diversification. The maximum loan term is two years. 	
Property Location	<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 two hours of a capital city.</p> <p>Targets</p> <ul style="list-style-type: none"> Queensland 20% - 50% New South Wales 10% - 50% Victoria 10% - 40% ACT 10% - 20% 	
Property Sector as % of Portfolio	<ul style="list-style-type: none"> Construction and Development Residential 20% - 70% Commercial 0% - 30% 	<ul style="list-style-type: none"> Land (typically a sub-division) 20% - 50% Investment Loans Residential 0% - 50% Commercial 0% - 20%
Liquidity	<p>Formal target liquidity of 5% - 20%. Liquidity is monitored on a 12-month projection basis with stress-tested models.</p>	
Loan-to-Value Ratio	<p>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 four months.</p> <ul style="list-style-type: none"> For a property development or construction loan (development loan), the LVR is measured using the 'as if complete' valuation. For other loans, the LVR uses the 'as is' valuation. 	

Investment Process

The investment team consists of seven portfolio managers who analyse potential loans for inclusion in the portfolio. Once a loan is deemed in line with the Trust's strategy, the loan application must go through many stages of due diligence and meet the appropriate conditions before it is approved through 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 two 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 payment of interest (and principal) and adherence to ongoing reporting requirements and loan covenants. Defaults, 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 has been established by – and reports – to the Board.

COVID-19 Response

Throughout the COVID-19 crisis, Trilogy increased scrutiny of supply chain issues and construction pricing as it related to the construction mortgages in the portfolio. The Trust increased risk measurement as appropriate.

Portfolio Construction

TRILOGY MONTHLY INCOME TRUST

The suitability of loans for the portfolio is addressed at each stage of the process. The geographical spread, which historically favoured SE Queensland, is now almost equally spread over the eastern states. The impact of a new loan on portfolio liquidity is also considered.

Liquidity Management

Liquidity management is a key input to portfolio construction. While this Trust is considered a non-liquid investment, liquidity and the ability to honour redemptions is an important part of the strategy. Target liquidity for the Trust is 5% - 20%.

The policy of the Trust is to balance the maturity of the assets and the maturity of liabilities. A 12-month rolling projected cash flow report is produced and stress-tested by the Treasury Committee. The report is tabled for the Executive Committee regularly and presented to the Board every 3 months.

Liquidity management is further supported by the four-month redemption notice required as per the Trust rules.

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 six 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	
Clinton Arentz	<p>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.</p> <p>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. Clinton has been instrumental to the vast growth of Trilogy Funds' construction loan portfolio, as well as coordinating and expanding the national lending focus since joining the business in 2017. He completed his MBA in 2019.</p>
Lending Committee	
David Hogan	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.
Rodger Bacon	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 the establishment of Challenger Annuities and the development of 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.
Philip Ryan	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 was a founding director of the funds 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.
Rohan Butcher	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,

TRILOGY MONTHLY INCOME TRUST

	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.
Justin Smart	Justin Smart has been the Chief Operating Officer for Trilogy and Director of RELM 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. This, combined with his experience across audit, insurance, home loans and funds management, gives Justin a unique understanding of driving efficiencies within the industry.

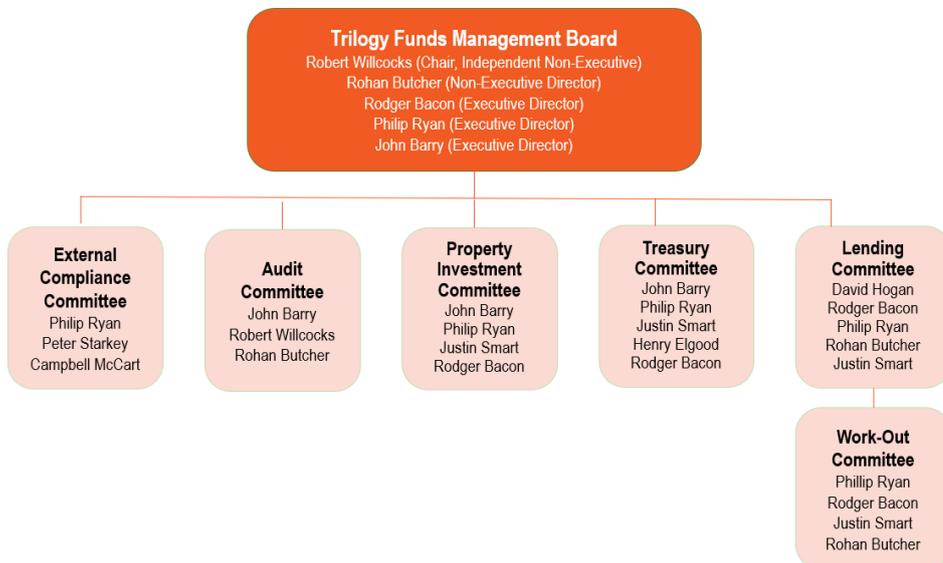
PORTFOLIO MANAGERS

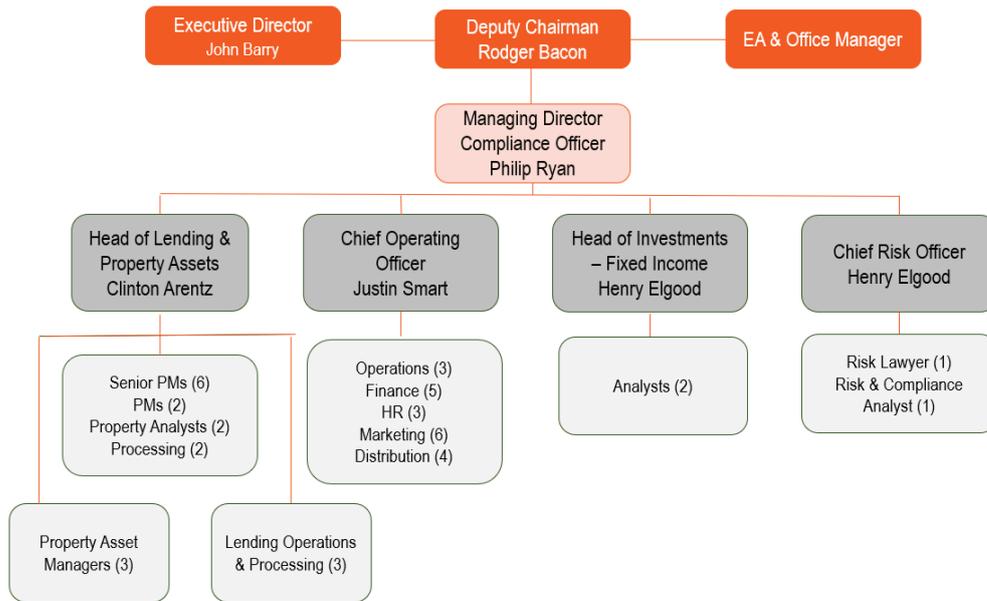
The Portfolio Managers are located in Brisbane, Sydney and Melbourne. Members of the team and the Lending Committee regularly commute (in non-COVID circumstances) between Sydney, Melbourne and Brisbane, and there is regular communication through teleconferencing. Trilogy has recruited 2 new Portfolio Managers in the last year.

Each Portfolio Manager is responsible for 15 - 20 loans.

Business Management

The key executives of Trilogy Funds Management are involved at all levels of management and compliance. There are 6 functional committees that 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

TRILOGY MONTHLY INCOME TRUST


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

Performance

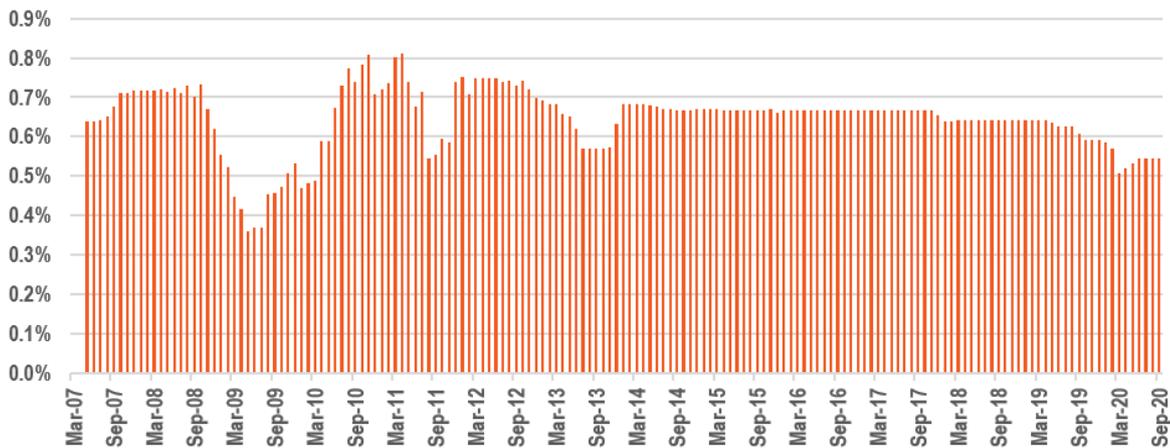
The Trilogy Monthly Income Trust is designed to have a constant unit price of \$1.00. The Trust distributes on a monthly basis.

NET RETURNS (annualised) as at 31 October 2021

	Return
1 month	5.15%
1 year	5.86%
5 year	7.16%
Inception (2007)	7.60%

Source: Trilogy

TMIT: Monthly Distributions



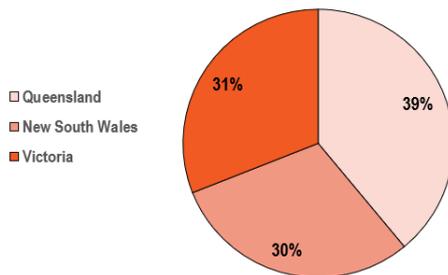
Source: Trilogy

KEY METRICS (as at October 2021)

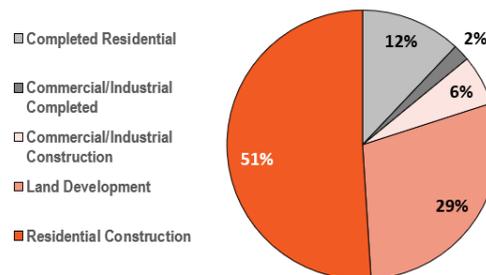
Total number of loans: 120	Weighted Average LVR (as if complete) 62.43%
Value of Loan Book: Approved: \$593m, Drawn: \$399m, Undrawn: \$194m	Weighted Average loan expiry: 7.63 months
Average Loan: \$4.94m (Approved)	Non-performing loans > 30 days: 0.46 %
Max. loan: \$25.32m (Approved)	Liquidity: 28.55%

GEOGRAPHIC SPREAD

TMIT: Geographic Spread, October 2021


PROPERTY/LOAN TYPE

TMIT: Loan Type, October 2021


Transparency & Reporting

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

In addition, they receive

- a receipt of funds notification;
- annual tax statements; and
- annual periodic (transaction) statements, and an annual financial report, if requested.

Trilogy maintains a website that publishes the current RG45 reports and continuous disclosure information. There is a new investor portal that enables the autonomous collection and review of these 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 of a framework of policies and procedures which 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;

TRILOGY MONTHLY INCOME TRUST

- 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 compliance function is overseen by the Managing Director and the Head of Governance & Risk. The internal policy review is driven by the Head of Governance & Risk and the Governance & Risk Officer.

THIRD-PARTY & SERVICE ADVISORS

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

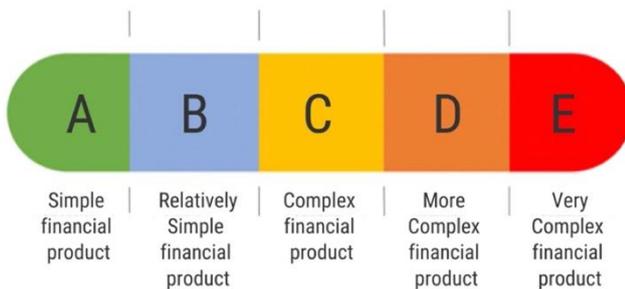
Foresight Investment Rating

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

Rating	Definition
Superior	Indicates our highest level of confidence that the fund can deliver a risk-adjusted return in line with its investment objectives.
Very Strong	Indicates our very strong conviction that the fund can deliver a risk-adjusted return in line with its investment objectives.
Strong	Indicates our strong conviction that the fund can deliver a risk-adjusted return in line with its investment objectives.
Competent	Indicates that the fund may deliver a return in line with its relevant benchmark.
Weak	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.



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