



MDC Trilogy Wholesale Yield Fund I

This report has been prepared for financial advisers only



Favourable

January 2024

INTRODUCTION

Key Principles

SQM Research considers (but is not restricted to) the following key review elements within its assessment:

1. Business profile - product strategies and future direction
2. Marketing strategies and capabilities, market access
3. Executive Management / Oversight of the investment management firm
4. Corporate Governance / fund compliance / risk management
5. Investment team and investment process
6. Fund performance, investment style, market conditions, investment market outlook
7. Recent material portfolio changes
8. Investment liquidity
9. Investment risks
10. Fund/Trust fees and expenses

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Star Rating*

Investment products are awarded a star rating out of a possible five stars and placed on the following website:
www.sqmresearch.com.au

Star Rating*	Description	Definition	
4½ stars and above	Outstanding	Highly suitable for inclusion on APLs <i>SQM Research believes the Fund has considerable potential to outperform over the medium-to-long term. Past returns have typically been quite strong. Product disclosure statement (PDS) compliance processes are of a high-calibre. There are no corporate governance concerns. Management is extremely experienced, highly skilled and has access to significant resources.</i>	High Investment grade
4¼ stars	Superior	Suitable for inclusion on most APLs <i>SQM Research considers the Fund has substantial potential to outperform over the medium-to-long term. Past returns have tended to be strong. PDS compliance processes are high-quality. There are no material corporate governance concerns. Management is of a very high calibre.</i>	High Investment grade
4 stars	Superior	Suitable for inclusion on most APLs <i>In SQM Research's view, the Fund has an appreciable potential to outperform over the medium-to-long term. Historical performance has tended to be meaningful. PDS compliance processes are strong. There are very little to no corporate governance concerns. Management is of a high calibre.</i>	High Investment grade
3¾ stars	Favourable	Consider for APL inclusion <i>SQM Research concludes the Fund has a moderate potential to outperform over the medium-to-long term. Past performance has tended to be reasonable. Management is experienced and displays investment-grade quality. There are no corporate governance concerns, or they are of a minor nature.</i>	Approved
3½ stars	Acceptable	Consider for APL inclusion <i>In SQM Research's view, the potential for future outperformance in the medium-to-long term is somewhat uncertain. Historical performance has tended to be modest or patchy. Management is generally experienced and capable. SQM Research has identified weaknesses which need addressing in order to improve confidence in the Manager.</i>	Low Investment grade
3¼ stars	Caution Required	Not suitable for most APLs <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is very uncertain. Historical returns have tended to be disappointing or materially below expectations. PDS compliance processes are potential substandard. There are possible corporate governance concerns. Management quality is not of investment-grade standard.</i>	Unapproved
3 stars	Strong Caution Required	Not suitable for most APLs <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is unlikely. Historical performance has tended to be unacceptable. There may be some material corporate governance concerns. SQM Research has a number of concerns regarding management.</i>	Unapproved
Below 3 stars	Avoid or redeem	Not suitable for most APL inclusion	Unapproved

Event-driven Rating	Definition
Hold	<i>Rating is suspended until SQM Research receives further information. A rating is typically put on hold for a period of two days to four weeks.</i>
Withdrawn	<i>Rating no longer applies. Significant issues have arisen since the last report date. Investors should consider avoiding or redeeming units in the fund.</i>

* The definitions in the table above are not all encompassing and not all individual items mentioned will necessarily be relevant to the rated Fund. Users should read the current rating report for a comprehensive assessment.

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Report Date: 30 January 2024

CONTENTS

Summary	2
Fund Summary	3
SQM Research's Review & Key Observations	3
Strengths of the Fund	5
Weaknesses of the Fund	5
Other Considerations	6
Key Changes Since the Last Review	6
Investment Process & Portfolio Construction	7
Investment Process Diagram	7
Process Description	7
Corporate Governance / Business Strategy	13
Key Counterparties	13
Parent Company / Investment Manager	13
Trustee	13
Management Risk	13
Funds under Management (FUM)	14
Management & People	15
Investment Team	15
Meeting Schedule	16
Staffing Changes	16
Remuneration and Incentives	17
Product Features - Fees, Redemption Policy	18
Management Fee	18
Performance Fee	18
Quantitative Analysis	19
Quantitative Insight	19
Glossary	21

SQM Rating ★★★★★

Favourable. Consider for APL inclusion.

Fund Description	
Fund Name	MDC Trilogy Wholesale Yield Fund I
APIR code	Not applicable
Asset Class	Fixed Income
Management and Service Providers	
Investment Manager	MDC Trilogy Investment Management I Pty Ltd
Trustee	Specialised Investment and Lending Corporation Ltd (SILC)
Fund Information	
Fund Inception Date	20-Sep-22
Fund Size	\$27.4m
Return Objective (per IM)	10% p.a. (net of fees and expenses)
Internal Return Objective	Not applicable
Risk Level (per IM)	There are a number of risk factors that could affect the performance of the Fund, the repayment of Unitholders' capital and the payment of distributions (returns).
Internal Risk Objective	Not applicable
Benchmark	Absolute Return
Number of stocks/positions	More than 4,000 property management agreements held by the Portfolio Owner
Fund Leverage	Nil
Portfolio Turnover	Very low
Top 10 Holdings Weight	Not applicable
Investor Information	
Management Fee	0.00%*
Buy Spread	0.00%
Sell Spread	0.00%
Performance Fee Rate	0.00%
Minimum Application	\$250,000
Redemption Policy	Quarterly after a 12-month minimum term of investment
Distribution Frequency	Quarterly
Investment Horizon	Five Years
Currency Hedging Policy	Not applicable

* The Fund does not pay a fee to its Investment Manager. However, the Investment Manager for the Fund is **also** the Portfolio Manager for the Portfolio Owner, for which it receives a management fee of 2.75% p.a. of the gross asset value of the MDC Trilogy Group. These assets are indirectly financed with Fund monies and are the primary source of income that generates returns for Fund investors.

SUMMARY

Fund Summary

Description

The **MDC Trilogy Wholesale Yield Fund I (the "Fund")** is an open-ended unlisted, unregistered, managed investment scheme available to wholesale investors and offered under an Information Memorandum (IM). The Fund subscribes to Loan Notes (a form of loan) issued by MDC Trilogy Holdings I Pty Ltd ("MDC Trilogy Holdings"), for which a return of 10% p.a. is targeted. MDC Trilogy Holdings, in turn, provides that money to MDC Trilogy Property Management I Pty Ltd (the "Portfolio Owner") via the purchase of Equity Notes issued by the Portfolio Owner. The Portfolio Owner uses that money to acquire property management assets (or provide funding to other MDC Trilogy Group companies to acquire those assets) predominantly consisting of residential management assets (e.g., tenancy management agreements, rent rolls) in Australia. External borrowings may also be used to support the acquisition of property management assets. Both MDC Trilogy Holdings and the Portfolio Owner are members of the MDC Trilogy Group.

Where a default occurs under the Loan Notes, including a failure to pay interest, that is not due to the action or failure to act by MDC Trilogy Holdings, then the Trustee will have no right to enforce the Loan Notes provided MDC Trilogy Holdings provides regular reports on the steps it is taking to remedy the default during the remedy period of 90 days. MDC Trilogy Holdings will provide security over the Equity Notes it holds in the Portfolio Owner. After the remedy period, should the default still not be remedied, the Trustee can exercise its security over the Equity Notes in the Portfolio Owner.

Where the issuer of the Equity Notes does not pay sufficient amounts for MDC Trilogy Holdings to pay interest on the Loan Notes, MDC Trilogy Holdings will be in default, but the Portfolio Owner and its subsidiaries will not be, and there is no obligation on them to pay additional amounts. This limits the Fund's ability to recover amounts owing under the Loan Notes. Nevertheless, the Fund does have limited security over the Equity Notes in the Portfolio Owner.

Please note that the nature of security for the Loan Notes is described in the Information Memorandum thus: "To secure its obligations under the Loan Notes, the Investment Manager will provide security over the shares it holds in the Portfolio Owner."

Fund Rating

The Fund has achieved the following rating:

Star Rating	Description	Definition	Investment Grading
3.75 stars	Favourable	Consider for APL inclusion	Approved

Previous Rating: 3.75 stars (Issued December 2022)

SQM Research's Review & Key Observations

About the Manager

The Fund is managed by MDC Trilogy Investment Management I Pty Ltd (the "Investment Manager"). The Investment Manager is owned by the MDC Trilogy Group, which is a corporate joint venture formed by Trilogy Funds Management ("Trilogy") and Murray Darling Capital ("MDC") in early 2022, specifically to establish the Fund. The Investment Manager has also been appointed the Portfolio Manager (the "Portfolio Manager") of the Portfolio Owner. More information on Trilogy and MDC is available in the Investment Team sections below.

Investment Team

The Portfolio Manager's investment team includes the combined expertise of the MDC Trilogy Group and listed real estate company The Agency. The Agency is primarily responsible for managing acquired property management assets and plays an important role in the Portfolio Manager's key decision-making body, the Investment Committee. The Investment Committee's activities include coordinating due diligence and reviewing transaction documents for property management asset acquisitions, all of which require its approval. Its role in asset management is to oversee the financial performance of acquisitions.

As noted above, MDC Trilogy Group is a joint venture between MDC and Trilogy. MDC is an investment advisory business established by Michael Birch, the Chief Investment Officer (CIO) of MDC Trilogy Group and a member of the Investment Committee. He has over 25 years of capital markets experience and is the driving force behind the establishment of the Fund. Trilogy is a funds management business that has been operating for more than 20 years, focusing on property-based investments. It is represented on the Portfolio Manager's Investment Committee by Philip Ryan, a founder and ongoing senior leader of Trilogy, and Henry Elgood, Trilogy's Executive Director – Institutional Capital and Chief Risk Officer. The Agency is represented on the Investment Committee by Executive Chairman Andrew Jensen, Managing Director Geoff Lucas and Real Estate



CEO Matt Lahood. Andrew Jensen has around 19 years of experience in senior finance and management roles, including as CFO and Director of Ray White, Australasia's largest real estate group. Geoff Lucas has over 25 years of commercial experience and was previously CEO of McGrath Real Estate.

The pivotal role played by Michael Birch as the Fund's primary instigator and key coordinator of the involvement of Trilogy and The Agency means there is some key person risk associated with him. While this has diminished somewhat as Trilogy and The Agency have become increasingly engaged at the most senior levels, some low-level key person risk remains.

1. Investment Philosophy and Process

It is important to reiterate that the Fund only invests in Loan Notes issued by MDC Trilogy Holdings. MDC Trilogy Holdings uses the proceeds from the issue of the Loan Notes to subscribe to Equity Notes issued by the Portfolio Owner, who uses the proceeds to acquire and own property management assets for the MDC Trilogy Group (or to provide funding to other MDC Trilogy Group companies to acquire such assets). MDC Trilogy Holdings and the Portfolio Owner are both part of the MDC Trilogy Group, as is the Investment Manager of the Fund, which is also the Portfolio Manager for the Portfolio Owner.

MDC Trilogy Group established this structure for the Fund partly to meet regulatory requirements, including that property management assets must be owned by a licenced entity and partly for tax efficiency reasons. Please consult the Fund's information memorandum for more information on this structure.

The property management assets the Portfolio Owner acquires generate the income used to pay a return to Fund investors via the Fund structure.

The following sections of this report (until Performance & Risk) relate to the Portfolio Owner and its management of property management assets.

Investable Universe

The investible universe for the Portfolio Owner includes property management assets. According to the Fund's information memorandum, property management assets will predominantly be residential property management agreements, including rent rolls and similar property management investments.

Philosophy / Process / Style

The MDC Trilogy Group believes an opportunity exists to acquire property management assets across Australia

and add value to their operation by introducing cost-minimisation and revenue-enhancing measures to improve the returns to the Portfolio Owner. Introducing enhanced technology and other tools to drive operating efficiencies is one way it believes costs could be minimised. Another is deriving economies of scale benefits by acquiring multiple rent rolls. Revenue-enhancing measures include providing employee incentive structures that more directly encourage value-adding practices. MDC Trilogy Group believes the combination of capital from the Fund, its own expertise, including across acquisition due diligence, and the management expertise of The Agency, with whom MDC Trilogy Group has a Rent Roll Services Agreement, provide much of the mechanism required to make the most of the opportunity it has identified and enable them to deliver on the requirement of the Loan Notes.

The Portfolio Manager has made several rent roll acquisitions since the Fund's inception a little over a year ago and notes acquisition opportunities are currently numerous and likely to remain so.

Due diligence is almost entirely bottom-up and relies on the extensive involvement of both the Portfolio Manager and The Agency. It also relies on the input of external consultants, especially for activities in the formal stages of due diligence. Responsibility for much of the qualitative analysis, including that which feeds into financial model development, rests with The Agency. It has the right to veto any acquisition and holds the right of first refusal to acquire any property management asset the Portfolio Owner later chooses to sell. The due diligence process is consistent and repeatable and considers a reasonable number of acquisitions each quarter.

Asset selection will ultimately be driven by those property management assets identified by the Portfolio Manager that can be bought for appropriate prices and offer the best potential to meet the Portfolio Owner's strategic objectives. This potential comes from the possibility of executing efficiency gains in management, systems, and processes across the portfolio with the aim of delivering higher earnings from acquired property management assets. The assets with the best potential will be those that are more amenable to the introduction of cost-saving measures or offer the most fertile opportunities for revenue enhancement. SQM Research understands that the multiple for the sale of rent rolls in Australia has generally ranged from 2.5 times the average annual management income up to seven times in some instances. The Portfolio Manager aims to pay multiples close to the bottom of this range when acquiring property management assets. Portfolio construction will largely be opportunistic and expected to be skewed towards locations where The Agency is already present.

2. Performance & Risk

Return Objective

The return objective stated in the IM is: "to deliver a Target Return (net of Fund fees and expenses) of 10.00% p.a.". The Fund does not have a stated benchmark. SQM Research notes that there is no relevant standard industry benchmark for the Fund. As such, our analysis uses 10% p.a., the Fund's return objective, as a reference index to provide context on the Fund's relative performance.

Fund returns have to date been exactly in line with the return objective.

Length of Track Record

The MDC Trilogy Wholesale Yield Fund I has a relatively short history of 14 months. Observations and analysis of returns will have slight statistical meaning. SQM Research notes that returns, volatility, and other risk measures can be "noisy" and less reliable when quantified using a small sample size of observations.

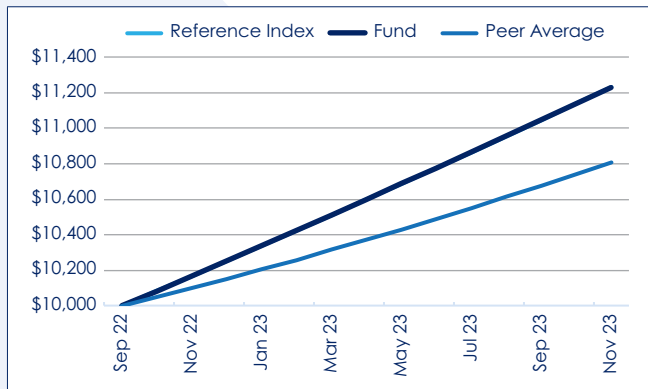
Risk Objective

A formal risk objective is not stipulated for the Fund. The Fund's IM notes, "There are a number of risk factors that could affect the performance of the Fund, the repayment of Unitholders' capital and the payment of distributions (returns)".

Fund Performance to 30 November 2023 (% p.a.)					
Total Return	1-Month	3-Month	6-Month	1-Year	Inception
Fund	0.83	2.50	5.00	10.00	10.00
Ref. Index	0.83	2.50	5.00	10.00	10.00
Peer Average	0.62	1.79	3.56	6.78	6.67
Alpha	0.00	0.00	0.00	0.00	0.00

Returns beyond one year are annualised. Return history starts Oct-2022
Reference Index: 10.00% per annum

Growth of \$10,000



Strengths of the Fund

- The Fund provides an attractive yield that is indirectly derived from returns from a type of asset (i.e. property management assets) that is generally unavailable to most investors.
- The targeted level of returns of 10% per annum is attractive, especially given the targeted very low volatility of Fund returns compared with the volatility of returns on assets that produce similar returns, such as equity investments.

- The Portfolio Manager and its property management partner, The Agency, have established significant expertise in the key activities required to operate property management assets successfully. These activities include not only funds management and due diligence but also the management of residential real estate agencies and related businesses such as property rental management. This experience and skill are now being applied to deliver returns that support the yield to the Fund.

Weaknesses of the Fund

- The Fund has a one-year lock-up with potential liquidity windows quarterly thereafter.
- The property management assets held by the Portfolio Owner have relatively limited liquidity compared with many fixed-income or listed equity assets, although there is an ongoing market in which they are bought and sold by real estate agencies.
- There is a risk that net returns to investors fall short of the expected 10% p.a. should the Portfolio Manager perform poorly in managing the property management assets.

- The link between the return to Fund investors and the performance of the property management assets of the Portfolio Owner is not direct. Any improvement in the performance of the property management assets that yield returns exceeding those required to deliver 10% p.a. to Fund investors will only be shared with Fund investors, in full or part, at the absolute discretion of MDC Trilogy Holdings.

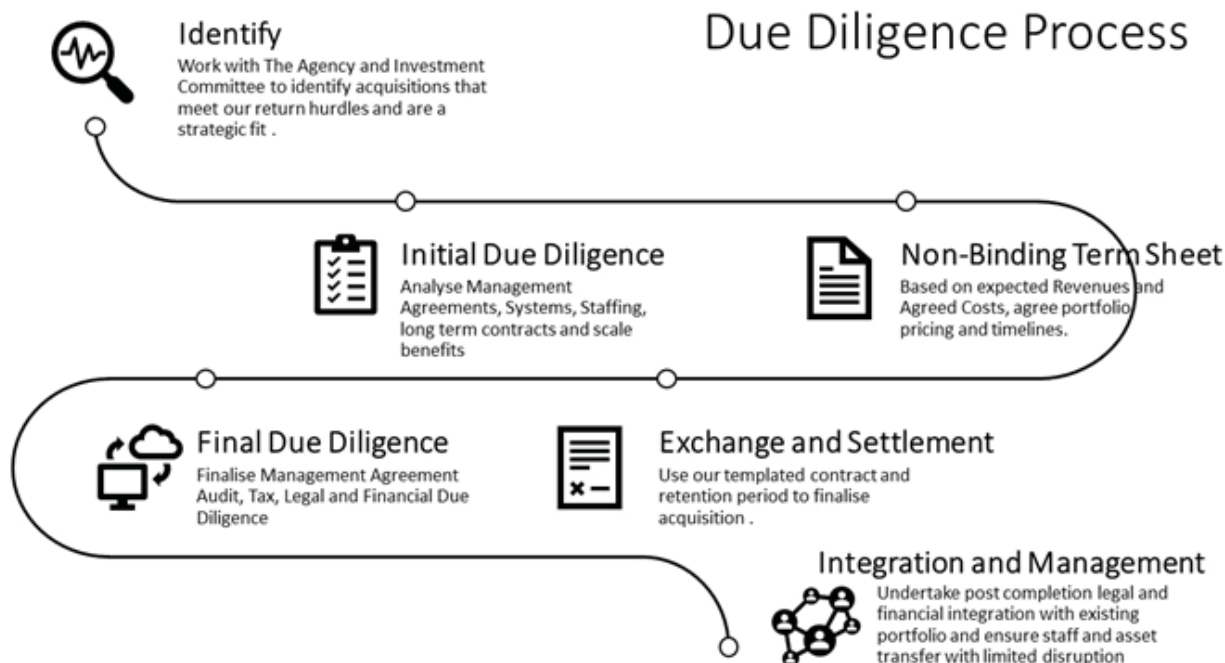
Other Considerations

- While SQM Research believes the concept and design of this Fund have merit, and a high level of expertise has been gathered to implement the investment strategy and manage the assets of the Portfolio Owner, many aspects of the Fund are yet to be tested. For example, this is a new fund in a new investment fund asset class operated by a strategic joint venture that has not previously worked together at a similar scale. The deployment to date of over \$30m to acquire real estate agency businesses and rent rolls, and subsequently operate them, is helping confirm the merits of the Fund.
- Security for the Loan Notes is described in the information memorandum thus: "To secure its obligations under the Loan Notes, the Investment Manager will provide security over the *shares* it holds in the Portfolio Owner" (emphasis added). The shares are Equity Notes issued by the Portfolio Owner. They are not ordinary equity. This security is limited. See IM for details.

Key Changes Since the Last Review

- No changes to the investment process since the previous review

Investment Process Diagram



Process Description

Investment Process

The majority of this section discusses the investment process of the Portfolio Owner, not the Fund.

Research and Portfolio Construction Process

Idea Generation

Investment ideas are mainly sourced directly by the Portfolio Manager or through referrals. The Portfolio Manager's engagement with the real estate market has increased substantially since the establishment of the Fund. This has increased its exposure to real estate agents who may be considering selling their businesses or may know someone in that position.

A key source of referrals for the Portfolio Manager is The Agency, which SQM Research believes has the expertise and motivation to be a reliable source of investment ideas. It is a publicly listed real estate services company looking to disrupt the market. Its unique business model focuses on attracting high-performing sales agents by offering them higher commissions and support than traditional franchises and independent models. Growth in agent numbers is a key strategic objective for The Agency to grow market share.

Investment Process

Research and Portfolio Construction Process

...continued

MDC Trilogy Group has entered into a Rent Roll Services Agreement (the "Agreement") with The Agency, whereby the Portfolio Owner will invest in and acquire real estate businesses, and The Agency will undertake the day-to-day management of these assets on a cost-recovery basis. Under the Agreement, The Agency will look to hire property management and real estate agents from acquired businesses. When announcing the Agreement with MDC Trilogy Group, which it labelled "a strategic alliance," to the ASX, The Agency characterised it as providing a "significant mechanism for market share growth." As such, The Agency is highly motivated to identify new acquisition targets for the Portfolio Manager. It has significant experience acquiring and integrating real estate businesses and can identify the most attractive acquisition targets.

Another key source of referrals is rent roll brokers, such as MC Rent Roll Broking ("MCRRB"), whom the Portfolio Manager has also engaged as an independent consultant to provide rent roll due diligence and other services. Another is agents that are already partnering with the Portfolio Manager.

Screening

Screening could be considered an active extension of idea generation. The Portfolio Manager continually engages in discussions with The Agency, whose understanding of the Portfolio Owner's strategic and commercial objectives enables it to identify the most appropriate investment opportunities. These include opportunities in locations where The Agency is best positioned to support the growth of the Portfolio Owner, where the potential for organic growth could be the greatest, and where the potential exists to consolidate several property management assets within the same geographic region. Partly as a result of this screening and its broader objectives, the Portfolio Manager is currently focussed on identifying opportunities within the 'growth corridors' of initially New South Wales and Queensland and then Victoria and South Australia as opportunities present. It emphasises mispriced property management assets in areas with favourable demographics, strong rental appreciation potential and high demand from renters and investors.

Due Diligence

The success of the Fund relies on the Portfolio Owner generating sufficient returns to make good on the 10% Loan Notes.

Due diligence is almost entirely bottom-up and relies on the extensive involvement of both the Portfolio Manager and The Agency. It also relies on the input of external consultants, especially for activities in the formal stages of due diligence. It involves quantitative and qualitative analysis, the former focusing on constructing a detailed financial model to help inform negotiations with vendors and ensure acquisitions will meet return expectations. Key inputs for the model include direct operating costs, which are agreed upon with The Agency, which is responsible for operating all acquired assets on a cost-recovery basis. Also key are assumptions about revenue growth which will consider, among other factors, the potential to organically grow the business or combine it with other businesses to drive economies of scale benefits.

Responsibility for much of the qualitative analysis, including that which feeds into financial model development, rests with The Agency. It has the right to veto any acquisition and holds the right of first refusal to acquire any property management asset the Portfolio Owner later chooses to sell. The Agency will confirm the operating metrics of the rent roll, ensure that the management agreements comply with relevant regulations and look to hire property management and sales staff for their business. Much of the relevant information for qualitative analysis will come from meetings with prospective vendors. This will include information about agent movements, agent performance, and where opportunities to expand or consolidate might exist in their local area.

Investment Process**Research
and Portfolio
Construction
Process***...continued*

The due diligence process is consistent and repeatable and considers a reasonable number of acquisitions each quarter. Reports on each are submitted to the Investment Committee, which typically decides to progress discussions with one or more of these acquisition targets. A term sheet will be issued and agreed upon with each vendor of preferred targets, after which more formal due diligence commences. This stage of the process utilises external consultants to undertake due diligence around taxation, legal, financial and other issues. It also involves a close assessment by MCRRB of the property management agreements that make up the rent roll. MCRRB will typically review around 20% of the agreements.

Asset Selection

Asset selection will ultimately be driven by those property management assets identified by the Portfolio Owner that can be bought for appropriate prices and offer the best potential to meet its strategic objectives. The property management assets with the best potential will be those that are more amenable to the introduction of cost-saving measures or offer the most fertile opportunities for revenue enhancement.

Property management assets operating in the same location as currently owned property management assets could be ideal for cost saving. Economies of scale benefits could be generated by migrating newly acquired property management assets onto existing IT platforms or relocating the acquired business to existing premises. Opportunities for revenue enhancement could be best in those acquisition targets with top-performing sales agents or agents that show the most promise, operating in sought-after locations.

When an acquisition has been identified, established processes are followed for Fund monies to be drawn down to assist in making either part or all of the acquisition, combined with any external debt. These processes include a recommendation to the Fund Trustee from the Investment Committee, on behalf of the Portfolio Manager, that acquisition funding be provided. SQM Research understands that the multiple for the sale of rent rolls in Australia has generally ranged from 2.5 times average annual management income up to seven times in some instances. The Portfolio Manager aims to pay multiples close to the bottom of this range when making acquisitions.

Portfolio Construction

Portfolio construction will largely be opportunistic and also reflect the Portfolio Manager's desire to acquire the most mispriced property management assets in the most sought-after areas. The portfolio's growth could be expected to be in areas where The Agency sees high growth expansion potential for both sales and property management that meet the return objectives of the Portfolio Manager. These are currently mostly along Australia's eastern seaboard. Another consideration is whether The Agency has the capacity to manage the integration of the business should it be acquired. The Agency currently has around 400 agents operating in all states and territories of Australia except the Northern Territory and South Australia. Almost half are in Western Australia, and slightly more than one-third are in NSW. Compared to these states, its presence in Queensland and Victoria is small.

The Portfolio Owner made over \$20m in acquisitions in its first year of operations. Its biggest was Devine Real Estate in Sydney's inner west. The locations of other acquisitions include the Sydney suburb of Manly and Toowoomba. The Portfolio Manager notes there are currently numerous acquisition opportunities, several of which it is pursuing, with some close to completion. These include bolt-on acquisitions in Sydney's inner west.

Investment Process**Research
and Portfolio
Construction
Process***...continued***Asset Management**

The importance of asset management for the success of the Fund is illustrated in the sentence from the Information Memorandum, that “the strategy of the Portfolio Manager in acquiring assets and implementing a value-add management improvement process, ... is expected to provide ... the income to meet the payment obligations under the secured Loan Notes and thus allowing the Fund to provide a return to Unitholders.” The process of acquiring property management assets for the Portfolio Owner is outlined above. The process of implementing value-add management improvements is governed by the Agreement the Portfolio Manager has with The Agency.

Under the Agreement, the Portfolio Owner will invest in and acquire real estate businesses, and The Agency will undertake the day-to-day management of the businesses on a cost-recovery basis. MDC Trilogy Group believes that The Agency has the systems, scale and management team to drive value-add improvements in acquired businesses. The Agency has long realised that the cost burden of maintaining a local office and paying fixed overheads is not essential to running a profitable residential real estate business. As such, it has built a national property management platform, the scale of which has allowed it to invest in systems and processes to drive down costs and improve efficiency. It has been able to attract highly effective sales agents, including by allowing them the flexibility to work across geographies and capture a higher percentage of the Gross Commission Income they generate. The Agency also runs the entire back office for its agents for sales and property management. The staff incentive systems that The Agency has developed also assist in managing churn from property management portfolios and generate organic growth. As a business growing its platform for several years, The Agency is also highly experienced in integrating acquisitions.

MDC Trilogy Group believes that partnering with The Agency offers greater potential for the portfolio to generate immediate scale benefits in the property management businesses acquired. It also believes that near-term valuation uplift will be provided by implementing The Agency’s appropriately incentivised referral practices, which will drive revenue growth. The Agreement also allows for portfolio businesses to receive a share of sales commission income in a range of circumstances, including where sales are made by agents introduced to The Agency through businesses acquired by the Portfolio Owner.

The Portfolio Owner believes the Agreement provides an appropriate incentive for The Agency to implement value-add management improvement processes for several reasons. Among them is that it enables The Agency to add agents to its national network, which is one of its key strategic objectives, in an extremely capital-efficient manner. Another is that the Portfolio Owner bears all costs incurred for managing acquired businesses. A third is that The Agency receives half of all returns generated by acquired businesses above 12% p.a. of the gross asset value of the Portfolio Owner and its subsidiaries.

Day-to-day management of the property management assets will be overseen by the Portfolio Manager’s Investment Committee, whose tasks include ensuring investments are operating at or above the acquisition benchmark levels. Ultimate oversight of the Portfolio Owner’s operations, including its management of acquired assets, rests with the Fund’s Trustee, who can intervene after 90 days if a default occurs under the secured Loan Notes.

Investment Process**Research and Portfolio Construction Process***...continued***Asset Valuation**

The Portfolio Manager has no plans to routinely revalue the acquired property management assets. This is nonetheless of muted significance for Fund investors given that the assets held by the Fund are Loan Notes. The value of acquired property management assets will have no direct impact on the Fund and will likely only marginally affect the ability of the Portfolio Owner to meet its funding obligations, which is the source of returns for Fund investors.

The Investment Manager does not expect the unit price to deviate from \$1 unless there is an underlying impairment on the Loan Notes the Fund holds. Units can be redeemed (net of any fees that may be charged) at times when redemptions are available.

Sell Discipline

The plan is that property management assets continue to be owned over the long term. Therefore a sell discipline has not been articulated. SQM Research notes that should the Portfolio Owner later choose to sell any of its assets, they must first be offered to The Agency.

Risk Management

Risk management is integrated through the investment process and includes thorough due diligence of property management assets before their acquisition. It also includes aspects of the day-to-day operation of portfolio assets, such as measures introduced to minimise churn in property management portfolios. Apart from overseeing the full range of investment process activities, the Investment Committee has some specific responsibility for risk management oversight. This includes a requirement that the Portfolio Owner adequately manages corporate governance risk and maintains internal operational controls across all acquisitions to ensure consistency of service levels.

Risk management is also enhanced by the involvement of Trilogy, whose Chief Risk Officer, Henry Elgood, is a member of the Investment Committee and oversees risk and compliance for the Fund.

Portfolio Characteristics**Portfolio Turnover**

Outside of acquisitions, portfolio turnover is expected to be very low as it is planned that property management assets be held for the long term and not sold under routine circumstances.

The Portfolio Manager has a full pipeline of potential acquisitions. Subject to the level of subscriptions to the Fund, it is expected that the number of actual acquisitions will mostly be limited by the capacity of the Portfolio Manager and its external providers to perform necessary structured due diligence activities. Another limiting factor will be the capacity of The Agency to integrate newly acquired property management assets.

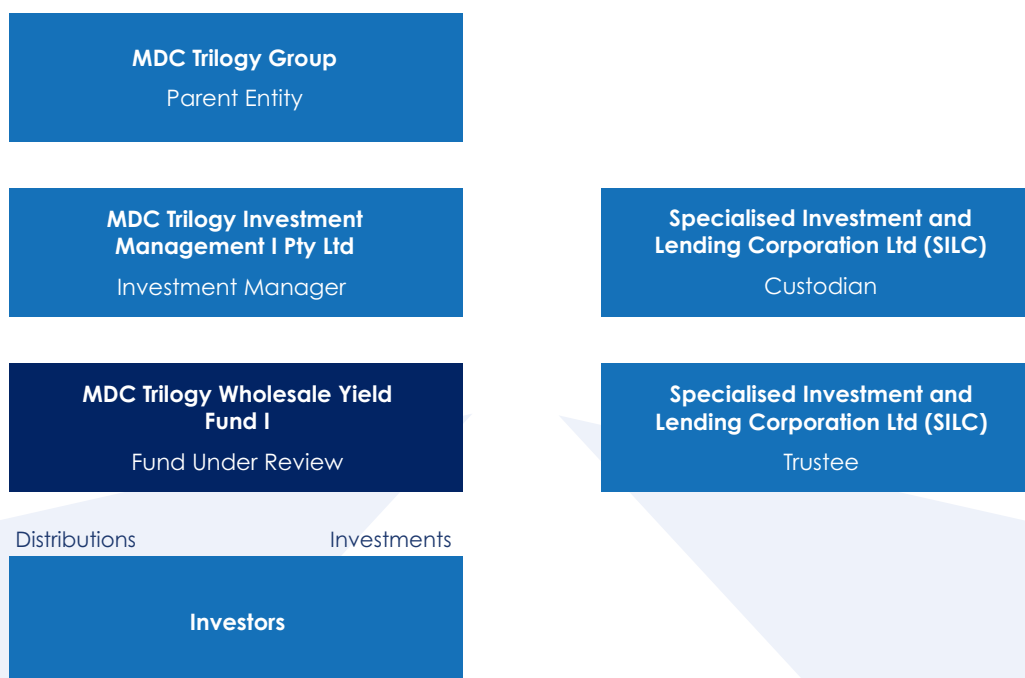
Liquidity

The Fund is not liquid. No redemptions are available within a year of investing. The Investment Manager plans to make redemption offers in relation to investments that are more than a year old, at the end of each quarter, on a best endeavours basis. Please see the Fund's information memorandum for more information.

Investment Process**Research
and Portfolio
Construction
Process***...continued***Leverage**

The Fund does not use leverage. As appropriate opportunities arise, the Portfolio Manager may consider using leverage to acquire property management assets that meet or exceed its return expectations. External borrowings are not expected to exceed 40% of the aggregate gross value of acquired assets.

Key Counterparties



Parent Company / Investment Manager

MDC Trilogy Group is a joint venture formed by Trilogy and MDC in early 2022 to establish the Fund. It owns the Investment Manager and all entities in the Fund structure, including the Portfolio Owner, through which Fund monies are used to acquire property management assets. The Investment Manager for the Fund is also the Portfolio Manager for the Portfolio Owner and, as such, is responsible for selecting and managing the property management assets to be held by the Portfolio Owner.

Governance

Trustee

The Trustee for the Fund is Specialised Investment and Lending Corporation Ltd (SILC). The board of SILC consists of 3 executive directors. Board members have an average of 23 years of industry experience.

SILC is overseen by an Advisory Board that provides the directors with guidance, direction and oversight concerning overall group risk management, strategy and development of the business and its operations.

SQM Research prefers the inclusion of independent members on the Board of Directors – it is a meaningful way to enhance governance and oversight. The structure employed by the Trustee provides independent oversight of the Fund.



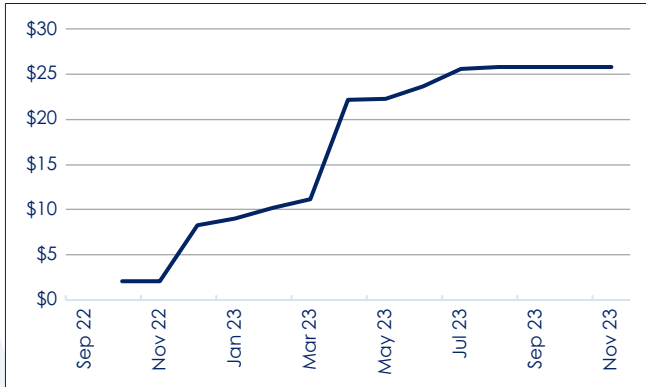
Management Risk

Funds management businesses rely on the operational capabilities of key counterparties. A critical element is the ability of the Trustee to monitor operational performance and to meet the regulatory and statutory responsibilities required. For any investment fund, there is a risk that a weak financial position or management performance deterioration of key counterparties could temporarily or permanently compromise their performance and competency. This can adversely affect financial or regulatory outcomes for the Fund or associated entities.

Based on the materials reviewed, SQM Research believes that the Portfolio Manager and associated key counterparties are reasonably qualified to carry out their assigned responsibilities. Management risk is rated as moderate.

Funds under Management (FUM)

FUM for Fund under Review (\$mill)



Distributions

Distributions occur on a quarterly basis, subject to the availability of distributable income. In a scenario where the Fund's realised losses and expenses exceed income in a distribution period, the Fund may elect not to make a distribution during that time.

Distribution Date	Distribution CPU
Dec-22	2.50
Mar-23	2.50
Jun-23	2.50
Sep-23	2.50

Name	Responsibility / Position	Location	Years at Firm	Years in Industry
Michael Birch	Director, Chief Investment Officer, Investment Committee member	NSW	1	26
Henry Elgood	Director, Investment Committee member	QLD	1	8
Philip Ryan	Chairman, Investment Committee member	QLD	1	35
Andrew Jensen	Chairman (The Agency), Investment Committee member	NSW	1	19
Geoff Lucas	Managing Director (The Agency), Investment Committee member	NSW	1	26
Matt Lahood	Real Estate CEO (The Agency) Investment Committee Member	NSW	1	28

Investment Team

The investment team **of the Portfolio Manager** includes the combined expertise of the MDC Trilogy Group and The Agency. MDC Trilogy Group is the Investment Manager for the Fund and the Portfolio Manager for the Portfolio Owner. The Agency is primarily responsible for managing acquired assets and plays an important role in the Portfolio Manager's key decision-making body, the Investment Committee.

The Investment Committee comprises three representatives of MDC Trilogy Group and three of The Agency. It has ultimate responsibility for asset acquisition and management, among other things, and is governed by Investment Committee guidelines. Meetings occur as required and must be held at least monthly. Committee members also communicate with each other regularly.

All asset acquisitions require approval from the Investment Committee, whose activities include coordinating due diligence and reviewing transaction documents. When reviewing the merits of each acquisition, the Investment Committee must specifically consider a range of factors, including the geographic diversity of the acquisition relative to the existing portfolio of property management assets. It must also consider the opportunity to implement strategies to support the acquired business's organic growth.

The role of the Investment Committee in asset management is to oversee the financial performance of acquisitions, including establishing key objectives and monitoring outcomes relative to the benchmarks set. It must also ensure that the Portfolio Manager adequately manages corporate governance risk and maintains internal operational controls across all acquisitions to ensure consistency of service levels.

As noted previously, MDC Trilogy Group is a joint venture between MDC and Trilogy. MDC is an investment advisory business established by Michael Birch, the CIO of MDC Trilogy Group and a member of the Investment Committee. He has over 25 years of capital markets experience in corporate advisory, funds management

and stockbroking, which includes the founding of Huon Capital, winner of the Best Emerging Hedge Fund category at the Australian Hedge Fund Awards in 2012. He is the driving force behind the establishment of the Fund, drawing on his relationships with The Agency and Trilogy. He manages all due diligence activities conducted on acquisition targets.

Trilogy is a funds management business that has been operating for more than 20 years, focusing on property-based investments. It has around \$1,124m in funds under management. As well as contributing significant expertise to MDC Trilogy Group, Trilogy provides much of the business infrastructure for the Fund. It has a workforce of more than 60 people with broad experience across investment products, loan and portfolio management, investor relations, treasury, marketing, and other relevant competencies. It is represented on the Portfolio Manager's Investment Committee by Philip Ryan, a founder and ongoing senior leader of Trilogy, and Henry Elgood, Trilogy's Executive Director – Institutional Capital and Chief Risk Officer. Outside of its involvement in the Investment Committee, Trilogy's key contributions to the investment process are due diligence and risk management.

MDC Trilogy Group's relationship with The Agency is a material aspect of the Fund. As noted in this report, The Agency plays a key role in asset acquisition and is primarily responsible for managing acquired assets. The relationship is formalised through the Rent Roll Services Agreement between MDC Trilogy Group and The Agency, which specifies the responsibilities of each party.

The Agency is a publicly listed residential real estate company operating in most Australian states and territories. It is engaged in the Fund at its most senior level. It is represented on the Investment Committee by Executive Chairman Andrew Jensen, Managing Director Geoff Lucas and Real Estate CEO Matt Lahood. Andrew Jensen has been in his role for over three years and has around 19 years of experience in senior finance and

management roles, including as CFO and Director of Ray White, Australasia's largest real estate group. Geoff Lucas has over 25 years of commercial experience, mostly in senior leadership roles. This includes almost 10 years as Chief Operating Officer and then CEO of McGrath Real Estate, before which he was CEO of the publicly listed financial services company Credit Corp Group.

The pivotal role played by Michael Birch as the Fund's primary instigator and key coordinator of the involvement of Trilogy and The Agency means there is some key person risk associated with him. While this has diminished somewhat as Trilogy and The Agency have become increasingly engaged at the most senior levels, moderate-level key person risk remains. Some risk could also be said to exist around The Agency, given it has made losses in all but one of its seven years as a publicly listed company.

Meeting Schedule

The table below shows regular meetings that form an essential part of the overall process. **Some are more relevant to the Portfolio Owner's operations, and others are more relevant to the Fund.**

Meeting	Agenda	Frequency	Participants
Board	Fund performance and financial position	At least monthly	MDC Trilogy Group directors
Investment Committee	Investments pursued and executed by the Portfolio Owner	At least monthly	Investment Committee members
Internal operations/distribution	Strategies regarding capital raising, marketing, reporting, client management etc.	Weekly	Operations/distribution management
Internal investments working meeting	The pipeline of acquisitions, including progress in due diligence, modelling, any changes to the underlying business being acquired etc., and to provide an update on timing	Weekly	Relevant Trilogy and MDC staff
Operational and risk meetings with key staff at The Agency	Discussing the integration of acquisitions, system enhancement, portfolio performance, working relationship between The Agency and new staff from acquisitions and other relevant operational issues	Weekly	Key MDC Trilogy personnel, Andrew Jensen and the management team at The Agency
CIO and CRO meeting	All aspects of Fund operations, as required	Weekly	Michael Birch and Henry Elgood

SQM Research believes the practice of constant communication and the broad-based inclusion of team members in decision-making is a vital ingredient to the success of the process and thus the ability of the Fund to pay 10% per annum. Interactive peer review and collaboration across a tightly knit group of experienced investors will likely make the best use of their combined intellectual property and shared history.

Staffing Changes

There have not been any material departures or hires among key people involved in the Fund or Portfolio Manager.

SQM Research observes that the levels of investment experience and company tenure are strong across the investment team. The size and nature of staff turnover are not an issue of concern, in SQM's view.

Remuneration and Incentives

Remuneration for the key individuals involved in managing the property management assets, that is, the Portfolio Manager's Investment Committee members, mainly occurs through their primary employers, who are the key parties to the operation of the Portfolio Owner. Most members of the Investment Committee are leaders of their respective primary employers, so their interests are closely tied to those of their primary employers.

SQM Research believes that the sources of remuneration for the key parties to the Fund, that is, MDC, Trilogy and The Agency, provide strong alignment of their interests with those of investors. Remuneration for MDC and Trilogy comes through their equal ownership in MDC Trilogy Group. As Investment Manager for the Fund and Portfolio Manager for the Portfolio Owner, MDC Trilogy receives management fees, which are zero at the Fund level but 2.75% p.a. of the gross asset value of the MDC Trilogy Group, which includes the property management assets held by the Portfolio Owner. It also receives all returns generated by the Portfolio Owner after the Portfolio Owner has paid a return on the Equity Notes sufficient for MDC Trilogy Holdings to meet its obligations to the Fund and after The Agency has been paid 50% of the returns generated by the Portfolio Owner above 12% p.a. of the Portfolio Owner's gross asset value. This offers a substantial incentive for MDC Trilogy to work to grow the returns generated by the Portfolio Owner, hence providing significant alignment of its interests with those of Fund investors.

Remuneration for The Agency comes through two key channels. One is the growth in agent numbers that occurs each time the Portfolio Owner acquires a property management asset. This gives The Agency a strong incentive to assist in asset acquisition because the commissions The Agency receives on sales of residential properties make up most of its revenue. This commission revenue is largely driven by the number of agents The Agency has on its payroll. The other key channel is its 50% share of the returns realised by the Portfolio Owner above 12% p.a. of the Portfolio Owner's gross asset value. These mechanisms generate significant alignment between the interests of The Agency and those of Fund investors.

SQM Research believes remuneration in the form of firm equity and client-focused performance bonuses act as strong incentives for optimising staff engagement, retention, and productivity. The intention (and SQM believes the effect) is to align staff performance with client and shareholder objectives. It focuses on the customers' needs and medium to long-term results.

Fees and Costs	Fund	Peer Avg
Management Fee (% p.a.)	0.00%*	1.22%
Expense Recovery / Other Costs (% p.a.)	–	–
Performance Fee (%)	0.00%	0.00%
Total Cost Ratio TCR (% p.a.)	0.00%	1.23%
Buy Spread (%) [‡]	0.00%	0.00%
Sell Spread (%) [‡]	0.00%	0.00%

* The Fund does not pay a fee to its Investment Manager. However, the Investment Manager for the Fund is also the Portfolio Manager for the Portfolio Owner, for which it receives a management fee of 2.75% p.a. of the gross asset value of the MDC Trilogy Group, whose assets are acquired using monies almost exclusively sourced from the Fund.

‡ This spread is the difference between the Fund's application price and withdrawal price and reflects transaction costs relating to the underlying assets.

Management Fee

There is no management fee for the Fund. However, the Investment Manager for the Fund is also the Portfolio Manager for the Portfolio Owner, for which it receives a management fee of 2.75% p.a. of the gross asset value of the MDC Trilogy Group, whose assets are acquired using monies almost exclusively sourced from the Fund.

Performance Fee

The Fund does not charge a performance fee

SQM Research observes that:

- The Fund management fee is 0.00% p.a., which is 122 basis points lower than the peer group average of 1.22% p.a.*
- The Total Cost Ratio (TCR) is 0.00% p.a., which is 123 basis points lower than the peer group average of 1.23% p.a.*
- The Investment Manager, in its capacity as Portfolio Manager for the Portfolio Owner, earns a management fee of 2.75% p.a. of the gross asset value of the MDC Trilogy Group. SQM Research notes that in effect, there is a strong incentive for this fee to only be paid after 10% is paid to the Fund via the secured Loan Note, otherwise the consequences for the Investment Manager, as set out in the information memorandum, will be extremely punitive.*

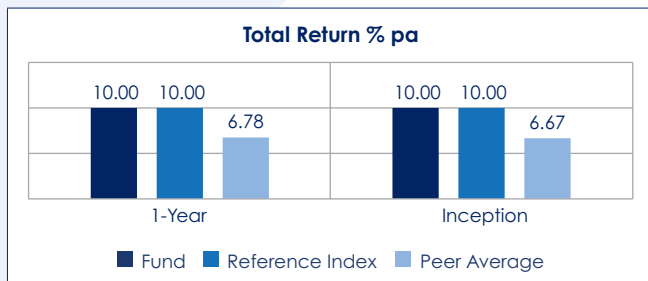
Risk/Return Data to 30 November 2023					
Total Return	1-Month	3-Month	6-Month	1-Year	Inception
Fund	0.83	2.50	5.00	10.00	10.00
Ref. Index	0.83	2.50	5.00	10.00	10.00
Peer Average	0.62	1.79	3.56	6.78	6.67
Alpha	0.00	0.00	0.00	0.00	0.00
Metrics				1-Year	Inception
Tracking Error (% p.a.) - Fund				0.00	0.00
Tracking Error (% p.a.) - Peer Average				0.19	0.19
Information Ratio - Peer Average				-29.62	-22.11
Sharpe Ratio - Peer Average				34.86	30.41
Volatility - Fund (% p.a.)				0.00	0.00
Volatility - Peer Average (% p.a.)				0.19	0.19
Volatility - Reference Index (% p.a.)				0.00	0.00

Returns beyond one year are annualised. Return history starts Oct-2022
Reference Index: 10.00% per annum

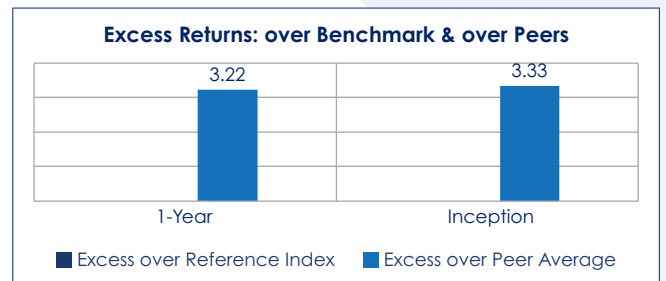
Quantitative Insight¹

Note: Unless otherwise stated, all return and risk data reported in this section are **after-fees** and for **periods ending Nov-2023**.

Returns



Excess Returns (Alpha)



The Fund has displayed strong performance across all periods when compared with benchmark and peers. The Fund has made distributions of 2.5 cents per unit every quarter since inception, meeting its target return of 10% per annum.

The **return outcomes** as described above are in line with the PDS objective and are consistent with SQM's expectations for the Fund relative to its fee level and volatility.

The consistency of Fund relative and absolute returns makes Fund risk measures such as volatility and tracking error, normally considered in SQM Research reports, meaningless.

¹ Note: Sharpe and Information Ratios are not reliable comparison tools in periods where both the Fund and its peers/benchmark record a negative result

Upside/Downside Capture

	Upside Capture Inception
Fund	100.0%
Peer Average	70.2%

for a cash reference index, downside capture is not valid

Tail Risk

*(The analysis in the table below looks at the **tail risk performance relationship of the Fund to the ASX300**, a practice that SQM has set as common across asset classes in Fund reviews. This approach recognises that for the large bulk of financial planner clients, their key traditional asset class **risk** regarding **size** and **volatility** is to Australian equities. Exploring that relationship is useful regardless of the asset class of the Fund itself, as it is helpful to understand how a Fund has acted in times of Australian equity market stress in terms of softening or exaggerating the negative performance experienced at such times.)*

The table below details the **largest negative monthly returns** for the ASX 300 **since the inception of the Fund**. This is compared to the Fund's performance over the same months.

Extreme Market Returns vs Fund Return Same Month

Index: S&P/ASX 300 TR		From Oct-22 to Nov-23		
Rank	Date	Market	Fund	Difference
1	Oct-23	-3.80%	+0.83%	+4.63%
2	Dec-22	-3.29%	+0.83%	+4.13%
3	Sep-23	-2.89%	+0.83%	+3.72%
4	Feb-23	-2.55%	+0.83%	+3.38%
5	May-23	-2.53%	+0.83%	+3.36%
6	Aug-23	-0.76%	+0.83%	+1.60%
7	Mar-23	-0.24%	+0.83%	+1.07%
Totals		-16.06%	+5.83%	+21.90%

	No. of Months		
Correlation	N/A	Positive Return	7
Capture	-36.3%	Outperform	7

Tail Risk Observations:

The data in the table above indicate that the Fund displays strong **defensive characteristics** in the face of extreme Australian equity tail risk.

Annual Returns

Year	Fund	Reference Index	Peer Avg	vs. Bench	vs. Peers
Nov-23	+9.17	+9.17	+6.28	+0.00	+2.89

2023 data = 11 months ending Nov-23

Drawdown

A drawdown tracks the path of the Fund's accumulated NAV (with dividends reinvested). It is measured over the period of a peak-to-trough decline and the subsequent recovery back to that previous peak level. The total return over that entire period is, of course, zero. The metric of interest, the drawdown itself, is quoted as the percentage change between the peak and the trough over that period. Funds typically have multiple drawdowns of varying size and length over their lifetime. The table above shows how many drawdowns have occurred and their average peak-to-trough size.

Alpha

SQM defines **Alpha** as the excess return compared to the Benchmark and is calculated as

$$\text{Alpha} = \text{Fund Return} - \text{Benchmark Return}$$

A General Note on Distributions for Managed Funds

The Responsible Entity of a Managed Fund will provide for a regular schedule of distributions, such as monthly/quarterly/semi-annual or annual. This is subject to the Fund having a sufficient distributable income. The official total distributable income available to pay to investors is determined for the period of that Fund's financial year. By distributing the net taxable income of the Fund to investors each year, a Fund itself should not be liable for tax on its net earnings.

If a Fund makes distributions more frequently than once over the financial year, those distributions will be based on estimates of the distributable income for that distribution period. The final total amount of distributable income available for passing on to investors can only be calculated after the close of the financial year, based on the Fund's taxable income for that year.

If the total distributions a Fund pays out exceed total taxable income for that particular financial year, the excess amount may be treated as a return of capital rather than income. This will possibly have tax implications for the investor.

Due to the considerations outlined above, there may be periods in which no distributions are made, or a Fund may make additional distributions.

A Fund's ability to distribute income is determined by the performance of the Fund and general market conditions. Accordingly, there is no guarantee that a Fund will make a distribution in any distribution period.

Total Cost Ratio (TCR)

Managed Investment Schemes: The TCR for Managed Investment Schemes, Exchange Traded Products, and Investment Bond funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, and the impact of dollar-based fees.

Superannuation funds: The TCR for Superannuation and Pension funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, Administration Fees and Costs, the impact of dollar-based fees and a deduction of Super OTC Derivative Costs.

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