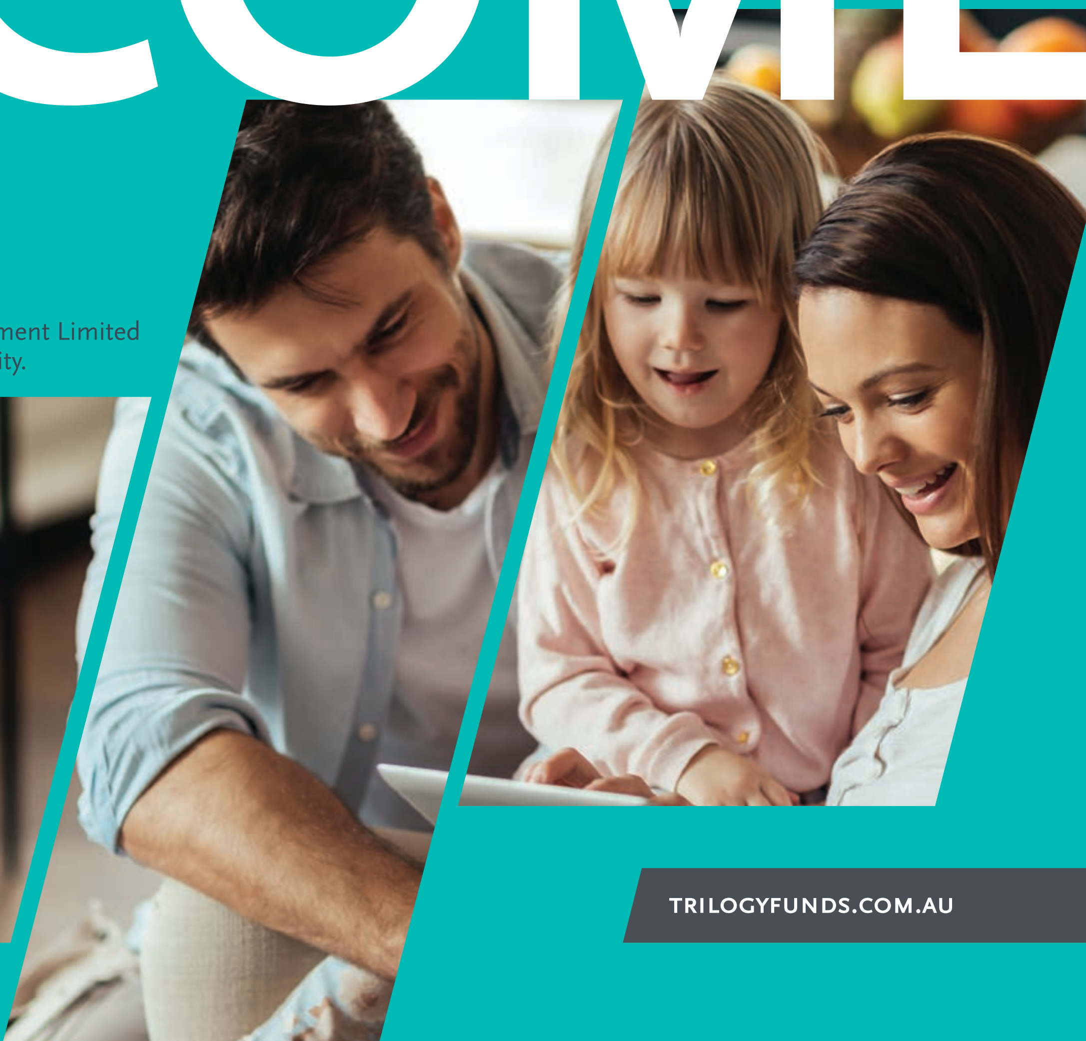
TRILOGY

Trilogy Monthly Income Trust

ANNUAL FINANCIAL REPORT
30 JUNE 2020

INCOME



ARSN 121 846 722

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TRILOGY

30 October 2020

MESSAGE FROM THE EXECUTIVE DEPUTY CHAIRMAN

As we all know FY 2020 was a particularly difficult one for all investors.

Despite market disruption, due to COVID-19, we were able to maintain our focus on preserving investors' capital and managing risk and continued to pay monthly distributions.

As market sentiment has improved, we have seen an increased number of investors adding to their existing Trilogy investments during the period.

We have worked closely with all our borrowers to proactively oversee our loan portfolio and manage risk on behalf of thousands of investors. Our property portfolio has delivered strong loan repayments, positively influencing the performance of the Trilogy Monthly Income Trust (Trust).

Our Lending team has reported good loan enquiry levels to fund new construction projects along Australia's eastern seaboard. At the same time, our lending portfolio regularly undergoes a comprehensive review process by our Lending Committee members.

We thank you for your continued support of the Trust and we remain committed to helping you achieve your financial goals. If you have any questions, please contact a member of our Investor Relations team on 1800 230 099 or email investorrelations@trilogyfunds.com.au.

Yours sincerely,

Rodger Bacon
Executive Deputy Chairman
Trilogy Funds Management Limited

Trilogy Monthly Income Trust
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Directors' report
30 June 2020

The Directors of Trilogy Funds Management Limited, the Responsible Entity of the Trilogy Monthly Income Trust (Scheme), present their report together with the financial statements of the Scheme for the year ended 30 June 2020.

Responsible Entity

The Responsible Entity is incorporated and domiciled in Australia. The registered office and principal place of business of the Responsible Entity and the Scheme is Level 23, 10 Eagle Street, Brisbane, QLD, 4000.

Directors

The names of the directors in office at any time during, or since the end of the financial year are:

Name and qualifications	***Age***	***Experience and special responsibilities***
Robert M Willcocks Independent Non-Executive Chairman BA, LL.B, LL.M	71	Member of the Audit Committee Former partner with Mallesons Stephen Jaques (now King & Wood Mallesons) Mr Willcocks has been a non-executive director (sometimes Chairman) of a number of listed companies and is currently a director of one such company Chairman - Responsible Entity since 9 October 2009
Rodger I Bacon Executive Deputy Chairman BCom(Merit), AICD, SFFin	74	Member of the Audit Committee Former executive director of Challenger International Limited Mr Bacon is a former director of several companies including, Financial Services Institute of Australasia.
John C Barry Executive Director BA, FCA	68	Chairman of the Audit Committee Former executive director of Challenger International Limited Mr Barry is a director of several companies, including former Chairman of Westpac RE Limited
Philip A Ryan Executive Director and Company Secretary LL.B, Grad Dip Leg Prac, FTIA, FFIN	59	Member of the Compliance Committee Mr Ryan is a solicitor and member of the Queensland Law Society Inc. Former partner of a Brisbane law firm Mr Ryan is a director of several companies Director – Responsible Entity since 13 October 1997
Rohan C Butcher Non-Executive Director Grad Dip PM, BASc(QS), Registered Builder, Licensed Real Estate Agent	51	Member of the Audit Committee Member of the Lending Committee Consultant to several major companies providing development management services Director – Responsible Entity since 29 July 2008

Principal activities

The Scheme is a registered managed investment scheme domiciled in Australia. During the year the Scheme invested in loans secured by registered first mortgages over real property in Eastern Seaboard states and territories, with funds also held in financial institutions for liquidity purposes. The investment strategy of the Scheme is to invest in loans secured by registered first mortgages and cash-style investments, in accordance with the Scheme's Product Disclosure Statement (PDS). The Scheme did not have any employees during the year.

Impact of COVID-19 and review of operations and results

The COVID-19 pandemic has had a significant impact on global economic conditions. This has seen a slowing in property development and lending activity in Australia. However, many sectors in the economy have been re-opening, particularly in states and territories outside of Victoria. At a portfolio level, the Scheme has little to no exposure to areas of the economy that will be most affected e.g. tourism, education, hospitality and some retail. The cash-style investments incurred a significant increase in credit spreads such that they did not contribute to distributions from March 2020, with a corresponding decrease in the valuation of those assets. No net loss was attributed to the Scheme as at 30 June 2020 as a result of financial support being provided by an entity associated with the Responsible Entity. Since March 2020 there has been a continued compression in credit spreads and increase in valuations across the cash-style investments within the portfolio.

Throughout this pandemic, the construction industry has fared better than many other industries. For all loans in the Scheme's portfolio, our Portfolio Managers work closely with borrowers throughout the loan term to help identify and minimise any potential issues. By creating a close working relationship and using our contacts and information from across the sector, we help our borrowers work through any unexpected impacts on their projects, thereby minimising potential risks. The government maintains its support of the construction industry throughout the lock-down period, with construction remaining operational throughout this time in most parts of the country, and continuing to be a key element of economic recovery post COVID-19.

With additional restrictions being in place in Victoria, we are specifically monitoring potential impacts on these projects, which make up about 18 of the loan portfolio. Our loans in Victoria are predominantly small-scale projects (three storeys or less) with construction able to continue. While there is some slowdown in on-site activity expected, all our borrowers have confirmed that their projects are continuing at this time. However, we continue to review assumptions underlying our loan forecasts with a focus on maintaining construction work throughout this period. In the period since the year ending 30 June 2020, there has been continued investor appetite to invest in the Scheme. New loan have been provided, with additional applications also being received, which will be considered through our comprehensive review process on an ongoing basis.

Financial overview

The Scheme produced an average net return for the year ended 30 June 2020 of 6.9%. (2019: 7.69%). Net investor inflows of 109,907,348 saw net assets attributable to unitholders increase to $405,984,521 (2019: $296,545,481). The movement in net assets includes any movement in the provision for expected credit losses (ECL) against the loans, which is calculated in the ECL model (see Note 9).

The net profit before finance costs for the year ended 30 June 2020 was $27,310,050. (2019: $18,405,594).

In accordance with AASB 9 Financial Instruments, impairment provisions are calculated based on an ECL model. For the 30 June 2020 financial year, the known impacts of COVID-19 have been taken into account in the standard base ECL assessment undertaken on a loan-by-loan basis. A COVID-19 overlay has been added to the base ECL provision calculated. The overlay is in recognition that the base ECL model may not allow for all increases in credit risk associated with COVID-19. This results in an additional provision of $291,192, bringing the total ECL provision as at 30 June 2020 to $1,003,063 (2019: $535,256). The $467,807 increase in provision for the 12 months to 30 June 2020 is reflected as an impairment loss in the statement of profit or loss and other comprehensive income. In addition to these ECL provisions, specific provisions are calculated using discounted cash flows prepared for loans which the Lending Committee believed showed impairment triggers, which are discounted at the current interest rate as per the loan agreement. The value of this specific provision as at 30 June 2020 was nil (2019: nil), as financial support has been provided by an entity associated with the Responsible Entity. These provisions are further detailed in Note 9.

Impact of COVID-19 and review of operations and results (continued)

Distributions to unitholders

The return to unitholders of the Scheme was as follows (refer Note 5):

	2020	2019
	$	$
Distributions paid during the year (for current year)	**25,453,084**	16,747,677
Distributions payable at year end	**2,324,773**	1,834,750
	27,777,857	18,582,427
Average net return to unitholders p.a.	**6.90%**	7.69%

The basis for valuation of the Scheme's major asset – mortgage loans is disclosed in Note 9 to the financial statements.

Units on issue

The Scheme had 406,987,584 units on issue as at 30 June 2020 (2019: 297,080,737).

Indirect cost ratio (ICR)

The ICR is the ratio of the Scheme's management costs over the Scheme's average net assets for the year, expressed as a percentage.

Management costs include management fees and other expenses or reimbursements deducted in relation to the Scheme, but do not include transactional and operational costs. Management costs are deducted from distributions to unitholders. The ICR for the Scheme for the year ended 30 June 2020 is 0.72% p.a. (2019: 0.67% p.a.).

Interests of the Responsible Entity

The following fees were paid to the Responsible Entity and its associates out of the Scheme property during the financial year (refer Note 14(c)).

	2020	2019
	$	$
Fees paid directly by the Scheme		
Responsible Entity management fees	**3,778,804**	2,014,009
Responsible Entity management fees rebated	**(966,861)**	(401,148)
	2,811,943	1,612,861
Loan management fees	**16,618,060**	10,542,192
	19,430,003	12,155,053
Other fees and expenses		
Expenses incurred by the Responsible Entity and not reimbursed by the Scheme	**935,521**	814,866

The Responsible Entity (including its associates) does not hold any units in the Scheme as at 30 June 2020 (2019: nil).

Significant changes in the state of affairs

In the opinion of the Responsible Entity there were no significant changes in the state of affairs of the Scheme that occurred during the financial year.

Events subsequent to the end of the reporting year

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Responsible Entity, to affect significantly the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme, in future financial years.

Likely developments and expected results of operations

The Scheme will continue to pursue its principal activities in the next financial year in order to achieve the target return for unitholders.

Environmental regulation

The operations of the Scheme are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Scheme.

Options

No options were:

(i) Granted over unissued units in the Scheme during or since the end of the financial year; or
(ii) Granted to the Responsible Entity.

No unissued units in the Scheme were under option as at the date on which this report is made.

No units were issued in the Scheme during or since the end of the financial year as a result of the exercise of an option over unissued units in the Scheme.

Indemnification of officers or auditor

Indemnification

Under the Scheme constitution the Responsible Entity is required to indemnify all current and former officers of the Responsible Entity (but not including auditors) out of the property of the Responsible Entity

(a) any liability for costs and expenses which may be incurred by that person in defending civil or criminal proceedings in which judgement is given in that person’s favour, or in which the person is acquitted, or in the connection with an application in relation to any such proceedings in which the court grants relief to the person under the Corporations Act 2001; and
(b) a liability incurred by the person, as an officer of the Responsible Entity or of a related body corporate, to another person (other than the Responsible Entity or a related body corporate) unless the liability arises out of conduct involving a lack of good faith.

Insurance premiums

During the financial year, the Responsible Entity paid an insurance premium in respect of a contract insuring each of the officers of the Responsible Entity. The amount of the premium is, under the terms of the insurance contract, confidential. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Responsible Entity or related body corporates. This insurance premium does not cover the auditors. The Scheme has not indemnified any auditor of the Scheme.

Proceedings on behalf of the Responsible Entity

No person has applied for leave of Court to bring proceedings on behalf of the Responsible Entity in relation to Scheme, or intervene in any proceedings to which the Responsible Entity in relation to the Scheme is a party, for the purpose of taking responsibility on behalf of the Responsible Entity for all or any part of those proceedings. The Responsible Entity was not a party to any such proceedings during the year.

Auditor’s independence declaration

A copy of the auditor’s independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 6.

This report is made in accordance with a resolution of the Directors of the Responsible Entity.

Philip A Ryan
Managing Director

28 October 2020
Brisbane

Rodger I Bacon
Executive Deputy Chairman

28 October 2020
Brisbane

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DECLARATION OF INDEPENDENCE BY P A GALLAGHER TO THE DIRECTORS OF TRILOGY FUNDS MANAGEMENT LIMITED FOR TRILOGY MONTHLY INCOME TRUST

As lead auditor for the audit of Trilogy Monthly Income Trust for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

P A Gallagher
Director

BDO Audit Pty Ltd

Brisbane, 28 October 2020

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Trilogy Monthly Income Trust
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2020

	Note	2020 $	2019 $
Revenue and other income			
Interest revenue - mortgage loans	4	**25,655,206**	16,332,931
Distribution revenue - investments	4	**1,912,349**	1,194,327
Borrower fees:			
• Application and extension fees	4	**8,065,319**	4,711,146
• Exit and release fees	4	**514,717**	273,010
• Progress draw fees	4	**166,613**	93,175
• Administration and monitoring fees	4	**10,778,675**	7,965,585
Borrower fees received		**19,525,324**	13,042,916
Other income		**728,182**	-
		47,821,061	30,570,174
Expenses			
Responsible Entity management fees	14(c)	**(2,811,943)**	(1,612,861)
Mortgage investment management fees	14(c)	**(16,618,062)**	(10,542,192)
Net gain /(loss) on change in fair value of financial assets	10(a)	**(613,199)**	167,306
Impairment loss expense		**(467,807)**	(176,833)
		(20,511,011)	(12,164,580)
Profit for the year		**27,310,050**	18,405,594
Profit for the year attributable to unitholders		**27,310,050**	18,405,594
Other comprehensive income			
Other comprehensive income		**-**	-
Total comprehensive income for the year		**27,310,050**	18,405,594

Trilogy Monthly Income Trust
Statement of financial position
As at 30 June 2020

	Note	2020 $	2019 $
Assets			
Cash and cash equivalents	7	**5,989,611**	19,168,167
Trade and other receivables	8	**3,796,312**	3,050,509
Mortgage loans	9	**343,997,591**	242,843,859
Financial assets	10	**58,472,042**	37,821,539
Total assets		**412,255,556**	302,884,074
Liabilities			
Trade and other payables	11	**3,946,262**	4,503,843
Distributions payable	5	**2,324,773**	1,834,750
Total liabilities		**6,271,035**	6,338,593
Net assets		**405,984,521**	296,545,481

Trilogy Monthly Income Trust
Statement of changes in equity
For the year ended 30 June 2020

	Note	Contributed equity $	Accumulated losses $	Total equity $
Balance at 1 July 2018		**193,113,266**	**-**	**193,113,266**
Impact of AASB 9 adoption			(358,423)	(358,423)
Comprehensive income:				
Profit for the year		-	18,405,594	18,405,594
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	18,405,594	18,405,594
Transactions with unitholders in their capacity as owners:				
Applications		138,323,577	-	138,323,577
Redemptions		(37,698,168)	-	(37,698,168)
Units issued upon reinvestment of distributions		3,342,062	-	3,342,062
Distributions paid/payable	5	-	(18,582,427)	(18,582,427)
Balance at 30 June 2019		**297,080,737**	**(535,256)**	**296,545,481**
Balance at 1 July 2019		**297,080,737**	**(535,256)**	**296,545,481**
Comprehensive income:				
Profit for the year		**-**	**27,310,050**	**27,310,050**
Other comprehensive income for the year		**-**	**-**	**-**
Total comprehensive income for the year		**-**	**27,310,050**	**27,310,050**
Transactions with unitholders in their capacity as owners:				
Applications		**215,631,887**	**-**	**215,631,887**
Redemptions		**(111,895,123)**	**-**	**(111,895,123)**
Units issued upon reinvestment of distributions		**6,201,502**	**-**	**6,201,502**
Adviser fees paid from capital		**(31,419)**		**(31,419)**
Distributions paid/payable	5	**-**	**(27,777,857)**	**(27,777,857)**
Balance at 30 June 2020		**406,987,584**	**(1,003,063)**	**405,984,521**

Trilogy Monthly Income Trust
Statement of cash flows
For the year ended 30 June 2020

	Note	2020 $	2019 $
Cash flows from operating activities			
Interest received - mortgage loans		**25,655,206**	16,703,595
Interest received - investments		**2,011,783**	1,187,926
Borrower fees received		**19,525,324**	12,650,464
Fees paid to the Responsible Entity		**(20,061,998)**	(11,047,102)
Net GST received/(paid)		**38,489**	(44,039)
Net cash provided by operating activities	13	**27,168,804**	19,450,844
Cash flows from investing activities			
Mortgage loan funds advanced		**(311,283,808)**	(220,973,876)
Mortgage loan funds repaid		**209,632,433**	134,263,635
Investments in MIS and debt instruments		**(181,165,000)**	(60,899,049)
Disposals of MIS and debt instruments		**159,901,298**	55,503,155
Net cash used in investing activities		**(122,915,077)**	(92,106,135)
Cash flows from financing activities			
Payments for redemption of units		**(124,218,956)**	(37,695,428)
Distributions paid to unitholders		**(27,287,834)**	(17,987,128)
Receipts from issue of units		**234,174,807**	141,665,804
Payment of borrowing costs		**-**	-
Payment of receipts received in error		**(100,300)**	(120,958)
Net cash provided by financing activities		**82,567,717**	85,862,290
Net (decrease)/increase in cash and cash equivalents		**(13,178,556)**	13,206,999
Cash at beginning of the reporting period		**19,168,167**	5,961,168
Cash and cash equivalents at end of year	7	**5,989,611**	19,168,167

Note 1 Reporting entity

Trilogy Monthly Income Trust (Scheme) is a registered managed investment scheme (MIS) under the Corporations Act 2001 (Act). The financial statements of the Scheme are for the year ended 30 June 2020. As stipulated by the Scheme's constitution, the life of the Scheme is limited to a period of not more than 80 years from the anniversary of the commencement of the Scheme. At this time, the Scheme is to realise the assets and distribute all surplus funds to unitholders. The Scheme is a for-profit entity.

On 5 May 2016, a new tax regime applying to Managed Investment Trusts (MIT's) was established under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016* . The Attribution Managed Investment Trust (AMIT) regime allows MIT's that meet certain requirements to make an irrevocable choice to be an AMIT. In order to allow the Funds to elect into the AMIT tax regime, the Fund's constitution has been amended and the other conditions to adopt the AMIT tax regime have been met effective 1 July 2017. The Responsible entity is therefore no longer contractually obligated to pay distributions. Consequently the units in the fund have been re-classified from a financial liability to equity on 1 July 2017, see note 12 for further information.

Note 2 Basis of preparation

(a) Statement of compliance

The financial statements are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards including Australian Accounting Interpretations adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The financial statements of the Scheme comply with International Financial Reporting Standards and interpretations in their entirety.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified where applicable, by the measurement at fair value of financial assets and financial liabilities. Assets and liabilities have been presented in decreasing order of liquidity, providing more reliable and more relevant information, due to the nature of activities of the Scheme.

The financial statements were approved by the Board of Directors of Trilogy Funds Management Limited (Responsible Entity) on 28 October 2020.

COVID-19 impact

COVID-19 has significantly impacted equity, debt, commodity markets and the overall global economy. The Scheme has considered the impact of COVID-19 and other market volatility in preparing its financial statements.

Given the rapidly evolving nature of COVID-19 and the subsequent economic impact, changes to the estimates and outcomes applied in the measurement of the Scheme's assets and liabilities may arise in the future. Other than adjusting events that provide evidence of provisions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

As a consequence of COVID-19 and in preparing financial statements, management:

- Considered the financial impact on the Scheme and areas of the financial statements affected to determine the disclosures required, and evaluated if any additional areas of were required to be considered beyond what has been disclosed existed;
- Updated forward-looking information when measuring expected credit losses to assess any significant increase in credit risk, and for the impairment analysis of financial and non-financial asset classes and disclosures;
- Assessed the measurement of assets and liabilities and determined the impact thereon as a result of market inputs and variables impacted by COVID-19;
- Evaluated information available after the reporting date but before the issuance of the financial statements (e.g. decisions regarding COVID-19) and updated the disclosures in the financial statements;
- Reviewed external market communications to identify other COVID-19 related impacts; and
- Reviewed public forecasts and experience from previous downturns.

Note 2 Basis of preparation (continued)

(b) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Scheme's functional currency.

(c) Key assumptions and sources of estimation

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised are disclosed in:

- Note 8: Impairment losses (interest receivable);
- Note 9: Impairment losses (mortgage loans); and
- Note 15(a): Financial risk management (credit risk).

Note 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. The Scheme has not early adopted any accounting standard.

(a) Financial instruments

(i) Classification

1. The Scheme classifies its investments based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. A financial asset is measured at amortised cost if it meets the following conditions;

- It is held within a business model whose objective is to hold assets and collect contractual cash flows;
- Its contractual term give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding'; and
- It is not designated at FVTPL

A majority of the Scheme's assets, within the scope of AASB 9 Financial Instruments, are loans secured by first mortgages. These loans and receivables are held at amortised cost.

The majority of Scheme's portfolio of financial assets are loans secured by first Mortgages and they are held to contractual cashflows at a specified date therefore the loans meet the solely payments of principal and interest on interest requirement and are measured at amortised cost. Loans managed and its performance is evaluated on amortised cost basis in accordance with the Scheme's documented investment strategy.

Equity securities, investments in unlisted managed investment Scheme and derivatives are measured at fair value through profit or loss.

Note 3 Significant accounting policies (continued)
(a) Financial instruments (continued)

For debt securities, the contractual cash flows are solely payments of principal and interest, however they are neither held for collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Scheme's business model's objective. Consequently, the debt securities are measured at fair value through profit or loss.

(ii) Recognition
The Scheme recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

Financial assets are recognised using trade date accounting. From this date any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

(iii) Measurement
Financial instruments are measured initially at fair value plus transaction costs except where the instrument is classed at fair value through profit or loss in which the transaction costs are expensed immediately. Transaction costs on financial assets and financial liabilities are amortised over the life of the asset or liability using the effective interest method.

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the profit or loss.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest rate.

(iv) Impairment
The Scheme measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit loss (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument purchased or originated credit impaired financial asset. If the credit risk on a financial instrument has not increased significantly since initial recognition the Scheme is required to measure the loss allowance for that financial instrument at an amount equal to 12-month ECL.

The Scheme has applied a three-stage model based on the change in credit risk since initial recognition to determine the loss allowance of its loan receivables.

Stage 1: 12-month ECL -
On initial recognition, ECL is collectively assessed and measured by classes of loan receivables, with the same level of credit risk as a product of the PD (Probability of default) within the next 12 months and the LGDs (loss given default), with consideration to forward looking economic indicators. Loss allowance for loan receivables are deducted from the gross carrying amount of the loan receivables.

Stage 2: Lifetime ECL -
When the Scheme determines that there has been a significant increase in credit risks since initial recognition but not considered to be credit impaired, the Scheme recognised a lifetime ECL calculated as a product of the PD for the remaining lifetime of the Financial asset, with consideration to forward looking economic indicators, Similar to stage 1 loss allowances for loan receivables are deducted from gross carrying amount of the loan receivables.

Note 3 Significant accounting policies (continued)

(a) Financial instruments (continued)

(iv) Impairment (continued)

Stage 3 Lifetime ECL - credit impaired -
At each reporting date, the Scheme assess whether loan receivables are credit impaired. A financial asset is credit impaired when one or more events that have a determination impact on the estimated future cash flows of the financial asset have occurred. For loan receivables that have been assessed as credit impaired, a lifetime ECL is recognised as a collective or specific provision, and interest revenue is calculated by applying the effective interest rate to the amortised cost instead of the carrying amount.

(v) Derecognition
The Scheme derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with AASB 9 *Financial instruments.*

The Scheme uses the weighted average method to determine realised gains and losses on derecognition of financial assets.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

(iv) Specific instruments - cash and cash equivalents
Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

(b) Revenue and income recognition

(i) Interest revenue - mortgage loans
Revenue is recognised as the interest accrues (using the effective interest rate method) to the gross carrying amount of the financial asset except for impaired financial assets. All revenue is stated net of the amount of goods and services tax (GST).

(ii) Changes in the fair value of investments
Net gains or losses on investments are fair valued through profit or loss and calculated as the difference between the fair value at sale, or at year end, and the fair value at the previous valuation point. This includes both realised and unrealised gains and losses, but does not include interest or dividend revenue.

(iii) Amortisation of application fees
In accordance with *AASB 9 Financial Instruments,* the Scheme recognises the revenue derived from loan applications over the term of the loan period or, in the case of extension or variation application fees, the remaining term of the extended loan period.

(iv) Administration and monitoring fees
The Scheme charges a set percentage for each loan as agreed at the time of entering into the loan agreement as administration and monitoring fees. These fees are set on drawn loan amount or the limit of the loan facility.

(c) Expenses
All expenses, including management fees, are recognised in the statement of profit or loss and other comprehensive income on an accruals basis.

Note 3 Significant accounting policies (continued)

(d) Taxation
Under current legislation the Scheme is not subject to income tax as its taxable income including assessable realised capital gains is distributed in full to the unitholders. The Scheme fully distributes its distributable income, calculated in accordance with the Scheme's constitution and applicable taxation legislation, to the unitholders who are presently entitled to the income under the constitution.

Realised capital losses are not distributed to unitholders but are retained in the Scheme to be offset against any future realised capital gains. If realised capital gains exceeds realised capital losses the excess is distributed to the unitholders.

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised that portion of the gain that is subject to capital gains tax will be distributed so that the Scheme is not subject to capital gains tax.

(e) Unit prices
The unit price is based on unit price accounting outlined in the Scheme's Constitution and Product Disclosure Statement (PDS).

Units are classified as equity when they satisfy the following criteria under AASB 132 *Financial Instruments: Presentation:*
(i) the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Fund's liquidation.
(ii) the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical.
(iii) the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Fund, and it is not a contract settled in the Fund's own equity instruments; and
(iv) the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss.

Effective from 1 July 2017, the Scheme's issued units balance have been classed as equity in the statement of financial position as they satisfied all the above criteria.

(f) Distributions to unitholders
Distributions to unitholders on units issued are recognised in the Statement of changes in equity as distributions paid/payable. Distributions unpaid at the end of the financial year are recognised in the Statement of financial position as a financial liability. Distributions paid to unitholders are included in cash flows from financing activities in the Statement of cash flows.

(g) Applications and redemptions
Applications received for units in the Scheme are recorded net of any entry fees payable prior to the issue of units in the Scheme. Redemptions from the Scheme are recorded gross of any exit fees payable after the cancellation of units redeemed.

The application and redemption prices are determined as the net asset value of the Scheme per the Constitution adjusted for the estimated transaction costs, divided by the number of units on issue on the date of the application or redemption.

(h) Terms and conditions of units on issue
The Scheme has assets consisting of mortgages and cash. Initially unitholders funds are placed in a short term investment account for which those unitholders are issued Cash units. These Cash units attract returns from a Short-Term Investment Account (STIA), before being allocated to the loan pool, graduating to Allocated units and earning the full rate of return from the assets of the Trust.

Note 3 Significant accounting policies (continued)
(h) Terms and conditions of units on issue (continued)

Once a suitable investment opportunity is found, the unitholders funds are removed from the short term investment account and their Cash units are converted into Allocated units, whereby their funds are lent to approved borrowers. Allocated units are entitled to income distributions from earnings of the Scheme where there is distributable income.

Each unit confers upon the unitholder an equal interest in the Scheme and is of equal value. A unit does not confer an interest in any particular asset or investment of the Scheme. Unitholders have various rights under the Constitution and the Corporations Act 2001, including the right to:

- have their units redeemed;
- receive income and capital distributions where the Scheme has distributable income;
- attend and vote at meetings of unitholders; and
- participate in the termination and winding up of the Scheme.

(i) Finance costs
Interest expense includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the interest-bearing financial liability and its amount at maturity calculated on an effective interest rate basis.

(j) Trade and other receivables
Receivables are recorded at amortised cost less impairment and may include amounts for distributions and interest. Distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment. Amounts are generally received within 30 days of being recorded as receivables.

(k) Goods and services tax
Management fees and other expenses are recognised net of the amount of GST recoverable from the Australian Taxation Office (ATO) as a reduced input tax credit (RITC).

Payables are stated with the amount of GST included.

The GST recoverable from the ATO is included in trade and other receivables, while GST payable to the ATO is included in trade and other payables, both of which are presented in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis.

(l) Trade and other payables
Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Scheme during the reporting period, which remains unpaid. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

(m) Comparative figures
When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current year.

Note 4 Revenue from operations

	2020	2019
	$	$
Interest from mortgage loans		
TMIT	**25,655,206**	16,332,931
	25,655,206	16,332,931
Distribution from investments		
Cash and term deposits	**105,413**	270,578
MIS*	**1,245,998**	848,764
Directly held debt instruments	**560,938**	74,985
*MIS represents investments held in unlisted managed investment schemes.	**1,912,349**	1,194,327
Borrower fees received		
Application and extension fees	**8,065,319**	4,711,146
Exit and release fees	**514,717**	273,010
Progress draw fees	**166,613**	93,175
Administration and monitoring fees	**10,778,675**	7,965,585
	19,525,324	13,042,916

Note 5 Distributions to unitholders

	2020		2019	
	$	**Cents/unit**	$	Cents/unit
Ordinary units				
Distribution paid during the year	**25,453,084**	**6.93**	16,747,677	7.70
Distribution payable at year end	**2,324,773**	**6.52**	1,834,750	7.50
	27,777,857	**6.90**	18,582,427	7.69
Total distributions to unitholders	**27,777,857**		18,582,427	

Note 6 Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor of the Scheme, BDO Audit Pty Ltd (i):

	2020	2019
	$	$
Audit and other assurance services		
• Audit and review of the financial statements	**61,000**	26,000
• Audit of the compliance plan	**11,000**	8,000
Total remuneration for audit and other services	**72,000**	34,000

(i) Auditor's remuneration is paid by The Trustee for the Trilogy Financing Trust, a related entity to the Responsible Entity, not by the Scheme (refer Note 14).

Note 7 Cash and cash equivalents

	Note	2020 $	2019 $
Cash and cash equivalents		**5,989,611**	19,168,167
Investments in MIS and direct holdings		**58,472,042**	37,821,539
Liquidity of the Scheme (i)		**15.64%**	18.82%

(i) Cash liquidity is calculated by dividing cash and cash equivalents, including investments in MIS and direct holdings by the total assets of the Scheme (refer Note 10).

Note 8 Trade and other receivables

	Note	2020 $	2019 $
Distributions receivable - MIS		**85,597**	133,248
Deferred loan management fees (i)		**2,742,483**	2,292,982
Borrower fee rebates		**220,099**	514,586
Other receivables		**57,837**	31,996
GST receivable		**18,805**	77,697
Receivable from related entities		**671,491**	-
		3,796,312	3,050,509

(i) All of this amount is less than 12 months

(a) Impairments

The Scheme assesses on a forward-looking basis the expected credit loss associated with its financial instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables the scheme applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Management has determined that assessment of expected credit loss associated with trade receivables is not material.

(b) Collateral pledged

No collateral is held over trade and other receivables.

Note 9 Mortgage loans

	2020 $	2019 $
Held directly		
Pooled mortgage loans	**345,000,654**	243,379,115
Less: Allowance for impairment losses	**(1,003,063)**	(535,256)
	343,997,591	242,843,859

The Scheme holds a pool of registered first mortgage loans, with funds being provided for the purchase, development, construction or re-financing of Australian property.

Note 9 Mortgage loans (continued)

Impairments

(i) Impairment provision
Using the explicit "probability of default" approach the Scheme applies the following formula to all loans:

- Loan balance x probability of default (%) x loss given default (%)

Internal Stage		Probability of default (History)	Probability of default (Future)	Probability of default (All)	Loss given default	Exposure at Default	ECL Provision
		A	B	C	D	E	E*C*D
Platinum	Stage 1	0.50%	0.50%	1.00%	10.00%	Approved value of loan per category	
Gold	Stage 1	0.75%	0.75%	1.50%	10.00%		
Silver	Stage 2	1.00%	1.00%	2.00%	10.00%		
Bronze	Stage 3	2.50%	2.50%	5.00%	10.00%		

Expected credit loss factors
AASB 9 Financial Instruments requires the expected credit loss (ECL) model to determine whether the reported loan balances are impaired. Loan portfolio managers assess the credit quality of each loan by way of a scoring system out of 122 points based on key factors that effect the risk of a loan, listed as follows:

- LVR (the higher of approved vs drawn);
- Type of Instrument;
- Risk of builder failure;
- Stage of completion;
- Stage of sell-down;
- Strength of borrower;
- Length of loan;
- Market conditions; and
- Default Status.

The following total scores determine which category the loan is placed:

Category	Stage	Score
Platinum	1	15 or less
Gold	1	between 16 and 29
Silver	2	between 30 and 40
Bronze	3	41, plus

Quality classification definitions
- 'Platinum' exposures demonstrates a very strong capacity to meet financial commitments, with negligible probability of default.
- 'Gold' exposures demonstrates a good capacity to meet financial commitments, with negligible to low default risk.
- 'Silver' exposures require closer monitoring but have an expected capacity to meet financial commitments, with moderate default risk.
- 'Bronze' exposures have been assessed as impaired.

In determining the probability of default, all loans over the past 5 years were reviewed. Management considers that adopting a probability of default rate of 5% (split evenly between historical and future) based on loan approved values to be a conservative estimate. The value of loans in default (based on approved value) for the year ended 30 June 2020 represents 2.85% p.a. of the loan portfolio (2019: 2.27% p.a.).

Trilogy Monthly Income Trust
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Note 9 Mortgage loans (continued)
(i) Impairment provision (continued)

Management applied its experience and judgement in determining the probability of a Platinum, Gold or Silver loan going into default, and the an expected credit loss resulting from poor performances in the loans.

	Stage	Number of loans	Weighted average approved LVR	Loans approved balance $	Loans drawn balance $	ECL - collective provision $	ECL - specific provision $
2020							
Platinum	Stage 1	5	56%	**29,015,081**	**23,426,821**	**43,148**	**-**
Gold	Stage 1	62	63%	**387,866,067**	**268,584,188**	**812,738**	**-**
Silver	Stage 2	14	66%	**43,278,504**	**38,802,208**	**126,151**	**-**
Bronze	Stage 3	5	66%	**13,485,290**	**14,195,737**	**21,026**	**-**
		86		**473,644,942**	**345,008,954**	**1,003,063**	**-**
2019							
Platinum	Stage 1	12	60%	**61,821,715**	**48,063,066**	**61,620**	**-**
Gold	Stage 1	30	62%	**180,844,529**	**134,788,128**	**271,267**	**-**
Silver	Stage 2	17	64%	**90,378,240**	**45,991,607**	**180,756**	**-**
Bronze	Stage 3	5	67%	**14,384,299**	**14,536,314**	**21,613**	**-**
		64		**347,428,783**	**243,379,115**	**535,256**	**-**

Transfers between categories

	2020		**2019**		**Movement**
	Loans	Amount	Loans	Amount	
Platinum	6	20,689,812	**3**	19,823,488	866,324
Gold	9	68,127,543	**17**	32,165,995	35,961,548
Silver	12	12,431,871	**7**	50,113,375	(37,681,504)
Bronze	2	4,920,352	**2**	4,066,720	853,632
	29	**106,169,578**	**29**	**106,169,578**	**-**

ECL - Collective provision (COVID-19 impact)

With the onset of the COVID-19 pandemic being declared in March 2020, there has been a notable slow-down in activity of new loans being provided by the Scheme. The loans which were in place, however, have largely remained stable, with only two new loans going into default in the period since March 2020. When the Lending Committee grants a six month extension on a loan, thorough consideration is given as to whether this changes the risk profile of the loan. Although there have been a number of loans which have been extended in this time frame, particularly due to the initial slow down, careful consideration is given to each loan’s circumstances before granting an extension.

When assessing each loan, using the factors detailed above, the Portfolio Managers have considerd all external factors as to the best of their ability, based on knowledge available at the reporting date. In particular, the Portfolio Managers have carefully considered the strength of each security taking into account factors caused by the COVID-19 pandemic. Such indicators and factors considered include comparable sales, current Government incentives, financial strength of the borrower, COVID-19 restrictions in place as relevant to each security and local market conditions.

Note 9 Mortgage loans (continued)
(i) Impairment provision (continued)

COVID-19 provision overlay

A COVID-19 overlay has been added to the base ECL provision calculated. The overlay is in recognition that the base ECL model may not allow for all increases in credit risk associated with COVID-19. This overlay is calculated in two components:

(1) General COVID-19 overlay

A general allowance for the ongoing adverse impact of COVID-19, which may not have been included when assessing the individual loans for the base ECL provision. A COVID-19 overlay has been added to the base ECL provision calculated, based on consideration of the Scheme's quality of loans, geographical location, and Government restrictions. The Responsible Entity has provisioned for a $240,620 general COVID-19 overlay, representing an increase of 33.8% over the base ECL collective provision calculated of $711,871. The overlay provision is weighted more towards loans in Victoria where there are more shorter-term uncertainties.

(2) Loan extension risk COVID-19 overlay

When a loan is extended, risks are taken into account at the specific point in time the extension is granted. The Lending Committee will review and approve extensions to loan terms where doing so is considered prudent and beneficial for the Scheme. A multitude of factors are considered when granting an extension, including the security's strength within the current market environment at that particular point in time. While this process would inherintly take into account the effects of COVID-19 on the strength of the security, the Responsible Entity acknowledges that there may be additional unknown risks which may not be presently known and therefore not considered in granting extensions. Therefore, for each loan which has been extended since 1 January 2020, an additional 15% overlay provision has been applied in addition to the base ECL provision. This results in an additional provision of $50,572.

The combined effect of the overlay provisions (i) and (ii) is an extra $291,192 in a collective provision being added to the regular calculation of a collective provision in the existing ECL model. This raises the collective provision balance to $1,003,063 as at 30 June, 2020, representing a provision of 0.29% of the loan portfolio balance at 30 June 2020.

State	overlay %	Base ECL provision $	general COVID overlay $	Loan extension overlay $	Total COVID overlay $	Total collective provision $
QLD	30%	388,426	116,528	30,063	146,591	535,017
NSW	30%	188,152	56,445	10,092	66,537	254,689
VIC	50%	135,293	67,647	10,417	78,064	213,357
		711,871	240,620	50,572	291,192	1,003,063

(ii) Specific provision

Discounted cash flows were prepared for loans which the Lending Committee believed showed impairment triggers, which are discounted at the current interest rate as per the loan agreement. The discounted net returns from the sale of all security is compared against the balance advanced on the loan as at the reporting date in order to determine impairments. The value of the specific provision as at 30 June 2020 was nil (2019: nil), as financial support has been provided by an entity associated with the Responsible Entity.

Note 9 Mortgage loans (continued)

(iii) Loan-to-value ratio

The following tables identify credit exposures from loans by using ranges of loan-to-value ratio (LVR). LVR is calculated as the ratio of the approved amount of the loan against the value of the security on either an "as is" or "as if complete" basis as determined by an external valuer. The valuation of the security excludes any costs associated with its disposal.

	2020	2019
	$	$
Current LVR		
50% and less	**27,831,385**	11,319,032
50-60%	**19,776,247**	47,384,128
60-65%	**177,779,513**	95,464,854
65-70%	**106,292,792**	84,869,792
Above 70%	**13,329,017**	4,341,309
	345,008,954	243,379,115

	2020	2019
	$	$
Expected credit loss on loans		
50% and less	**65,498**	65,703
50-60%	**70,595**	44,184
60-65%	**544,794**	276,509
65-70%	**304,119**	67,493
Above 70%	**18,056**	81,367
	1,003,063	535,256

	2020	2019
	$	$
Specific Provision - Lifetime Expected Credit Losses (ECL)	**-**	-
Collective Provision - Lifetime ECL	**14,500**	21,613
Collective Provision - 12 months ECL	**697,371**	513,643
Collective Provision - COVID-19 general overlay	**240,620**	-
Collective Provision - COVID-19 loan extension risk overlay	**50,572**	-
	1,003,063	535,256

Note 10 Financial assets

	2020	2019
	$	$
Fair value through profit or loss		
Investments in unlisted managed investment schemes (MIS)	**33,959,912**	24,883,559
Investments in direct holdings	**24,512,130**	12,937,980
	58,472,042	37,821,539

The Scheme holds a direct investment amount Trilogy Enhanced Income Fund (TEIF, formally Trilogy Enhanced Cash), an unlisted Managed Investment Scheme, which in turn maintains an investment of approximately 65% of its' net assets in cash and cash style products, with the balance invested in the Scheme.

The Scheme's investment in TEIF is carried at cost, which is also equivalent to fair value.

Note 10 Financial assets (continued)

The Scheme continues to hold investments in Mutual Limited's (MIF) A fund, an unlisted cash management investment scheme. All units held in the Smarter Money's Active Cash (SMAC) fund were redeemed as at 30 June 2020. New investments are held in the Ardea Real Outcome Fund and the Aquasia Enhanced Credit Fund. The Scheme also continues to have an investment portfolio managed by FIIG Securities Limited (FIIG). As in the prior financial year, the investment mandate to FIIG only permits holdings of bank floating rate notes in major and non-major banks.

(a) Movement in financial assets

	2020	2019
	$	$
Balance at beginning of year	**37,821,539**	32,231,531
Investments in TEIF	**1,700,000**	(6,000,000)
Investments in MIF	**10,640,000**	-
Investments in SMAC	**(4,987,465)**	(1,500,000)
Investment in Ardea	**325,000**	-
Investment in Aquasia	**1,836,167**	-
Investments in debt instruments	**11,750,000**	12,922,702
Fair value gain/(loss) on investments	**(613,199)**	167,306
Balance at end of year	**58,472,042**	37,821,539

(b) Recognised fair value measurements

	2020	2019
	$	$
Investments in unlisted managed investment schemes - level 2	**33,959,912**	24,883,559
Investments in unlisted MIS - corporate bonds	**24,512,130**	12,937,980
	58,472,042	37,821,539

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair value of the Scheme's investment in unlisted managed investment schemes. To provide an indication about the reliability of the inputs used in determining fair value, the Scheme has classified its investments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
2020				
Investments in unlisted MIS	**-**	**33,959,912**	**-**	**33,959,912**
Investments in unlisted MIS - corporate bonds	**-**	**24,512,130**	-	**24,512,130**
	-	**58,472,042**	**-**	**58,472,042**
2019				
Investments in unlisted MIS	**-**	**24,883,559**	**-**	**24,883,559**
Investments in unlisted MIS - corporate bonds	**-**	**12,937,980**	-	**12,937,980**
	-	**37,821,539**	**-**	**37,821,539**

There were no transfers between levels 1, 2 or 3 during the year.

Note 10 Financial assets (continued)
(b) Recognised fair value measurements (continued)

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level in the fair value measurement hierarchy as follows:

Level 1: the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: a valuation technique is used using inputs other than quoted prices within level 1 that are observable for the financial instrument, either directly (i.e. as prices), or indirectly (i.e. derived from prices); and
Level 3: a valuation technique is used using inputs that are not observable based on observable market data (unobservable inputs).

(ii) Valuation techniques used to determine level 2 fair values
The fair value of financial instruments not traded in an active market (investments in unlisted managed investment schemes) is determined using published net asset value. The fair value of investments in unlisted managed investment schemes is equal to net asset value of the unit in the unlisted managed scheme.

Note 11 Trade and other payables

	2020	2019
	$	$
Loan management fees	**885,355**	1,649,106
Deferred application fee asset	**2,742,483**	2,292,982
Responsible Entity management fees and costs	**250,843**	427,940
Other payables	**67,581**	133,815
	3,946,262	4,503,843

Note 12 Net assets attributable to unitholders (Non IFRS disclosure)

Movements in the number of units and net assets attributable to unitholders during the year were as follows:

	2020		2019	
	Ordinary units	**Contributed capital**	Ordinary units	Contributed capital
	No	**$**	No	$
Balance - 1 July	**297,080,737**	**296,545,481**	193,113,266	192,754,843
Units issued	**216,433,086**	**216,433,086**	138,323,577	138,323,577
Units issued upon reinvestment of distributions	**5,400,748**	**5,400,748**	3,342,062	3,342,062
Units redeemed	**(111,926,987)**	**(111,926,987)**	(37,698,168)	(37,698,168)
Distributions paid and payable	**-**	**(27,777,857)**	-	(18,582,427)
Profit/(loss) for the year	**-**	**27,310,050**	-	18,405,594
Balance - 30 June 2020	**406,987,584**	**405,984,521**	297,080,737	296,545,481

	2020	2019
	$	$
Net asset value per unit		
Net assets attributable to unitholders	**405,984,521**	296,545,481
Add ECL collective provision (i)	**1,003,063**	535,256
Adjusted net assets attributable to unitholders	**406,987,584**	297,080,737
Net asset value per unit as at 30 June	**$1.00**	$1.00

(i) It is the policy of the Responsible Entity to add back the ECL collective provision to the net asset value of the Scheme as the provision does not relate to a specific impairment provision on the loan portfolio.

Note 13 Reconciliation of cash flows from operating activities

	2020 $	2019 $
Profit for the year attributable to unitholders	**27,310,050**	18,405,594
Adjustments for:		
Impairment	**467,807**	176,833
Net change in fair value of financial instruments	**614,695**	(164,951)
Changes in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	**(745,803)**	(506,423)
(Decrease)/increase in trade and other payables	**(477,945)**	1,539,791
Net cash provided by operating activities	**27,168,804**	19,450,844

Note 14 Related party transactions

(a) Responsible Entity

The Responsible Entity of the Trilogy Monthly Income Trust is Trilogy Funds Management Limited ABN 59 080 383 679.

(b) Key management personnel

The Scheme does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Scheme. The Executive Directors of the Responsible Entity are key personnel of that entity and their names are Rodger I Bacon, John C Barry and Philip A Ryan. The Responsible Entity also has two Non-Executive Directors being Robert M Willcocks and Rohan C Butcher.

The Responsible Entity is entitled to a management fee which is determined on a daily basis, calculated on the total value of Ordinary units on issue in the Scheme.

No compensation is paid to the Directors of the Responsible Entity or to the key management personnel of the Responsible Entity by the Scheme.

(c) Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

i. Transactions recorded in the statement of profit or loss and other comprehensive income

	2020 $	2019 $
Fees paid directly by the Scheme		
Responsible Entity management fees (i)	**3,778,804**	2,014,009
Responsible Entity management fees rebated	**(966,861)**	(401,148)
	2,811,943	1,612,861
Loan management fees (ii)(iii)	**16,618,060**	10,542,192
	19,430,003	12,155,053

Note 14 Related party transactions (continued)

(c) Transactions with related parties (continued)

ii. Transactions not recorded in the statement of profit or loss and other comprehensive income

	2020	2019
	$	$
Fees not paid directly by the Scheme (iv)		
Audit and other assurance services (refer Note 6)	**72,000**	34,000
Bank fees	**481**	1,576
Brokerage fees	**-**	27,683
Compliance fees	**2,430**	5,374
Custodian fees	**117,041**	80,491
Legal fees	**60,032**	20,215
Marketing costs	**619,025**	567,862
Registry fees	**34,860**	54,915
Research fees	**23,000**	18,000
Taxation fees	**6,652**	4,750
	935,521	**814,866**

iii. Balances recorded in the statement of financial position

	2020	2019
	$	$
Receivables		
Trade and other receivables (i)(ii)	**891,590**	514,586
Payables		
Trade and other payables (i)	**1,136,198**	2,077,049

(i) The Responsible Entity is entitled to a management fee of 0.94% p.a. (plus GST less RITC). These fees are calculated on the total gross value of Ordinary units held by the Scheme. The Responsible Entity has waived a portion of its management fee during the year.

(ii) The Responsible Entity or a related party to it is entitled to receive various fees on mortgage investments made by the Scheme including application, exit and release fees as stipulated in the borrower's loan agreement. These fees are subsequently recovered from the borrowers by the Scheme. The Responsible Entity has waived a portion of its borrower fees during the year.

(iii) The Responsible Entity or a related party to it is entitled to receive a recurring fee of up to 3.075% p.a. of the loan amount from the Scheme for management and oversight of the loans for their duration. These fees are subsequently recovered from the borrowers by the Scheme.

(iv) Costs are paid for by the Responsible Entity, or a related party to it, on behalf of the Scheme.

(d) Related party investments held by the Scheme

	Fair value of investments		Interest held		Distributions	
	2020	2019	**2020**	2019	**2020**	2019
	$	$	**%**	%	**$**	$
TEIF	**15,050,000**	13,350,000	**19.98%**	21.43	**523,071**	517,893

(i) As at 30 June 2020, $39,107 of distributions are receivable from TEIF (2019: $53,803).

Note 14 Related party transactions (continued)

(e) Units in the Scheme held by other related parties

Details of holdings in the Scheme by the Responsible Entity, other schemes operated by the Responsible Entity and entities associated with Directors of the Responsible Entity are as follows:

	Unitholding $	Interest held %	Units issued No.	Units redeemed No.	Distributions paid and/or payable $
2020					
TEIF	**25,520,930**	**6.2707**	**19,415,377**	**13,192,000**	**1,988,196**
TWIF	**3,000,000**	**0.7371**	**3,000,000**	**-**	**4,306**
Rojacan Pty Ltd	**82,500**	**0.0203**	**-**	**-**	**6,506**
Aimwin Pty Ltd Super Fund	**10,000**	**0.0025**	**-**	**-**	**789**
	28,613,430	**7.0306**	**22,415,377**	**13,192,000**	**1,999,797**
2019					
TEIF	19,297,553	4.7484	11,370,201	3,595,000	1,004,385
TWIF	-	-	-	-	-
Rojacan Pty Ltd	82,500	0.0203	-	-	6,342
Aimwin Pty Ltd Super Fund	10,000	0.0025	-	-	769
	19,390,053	4.7712	11,370,201	3,595,000	1,011,496

(f) Key management personnel loan disclosures

The Scheme has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

(g) Other transactions within the Scheme

Apart from those details disclosed in note (b) above, no Director has entered into a material contract with the Scheme from inception to the end of the financial year and there were no material contracts involving Directors' interests subsisting at year end.

Note 15 Financial risk management

Overview

The Scheme's assets principally consist of investments in cash and in loans secured by registered mortgages over real property. It holds these investment assets at the discretion of the Responsible Entity in accordance with the Scheme's constitution and PDS.

Specific financial risk exposures and management

The main risks the Scheme is exposed to through its financial instruments are credit risk, liquidity risk and market risk relating to interest rate risk.

The nature and extent of the financial instruments employed by the Scheme are discussed below. This note presents information about the Scheme's exposure to each of the above risks, the Scheme's objectives, policies and processes for measuring and managing risk.

The Board of Directors of the Responsible Entity has overall responsibility for the establishment and oversight of the Scheme's risk management framework.

Note 15 Financial risk management (continued)

The Board is responsible for developing and monitoring the Scheme's risk management policies. The Responsible Entity's risk management policies are established to identify and analyse the risks faced by the Scheme, including those risks managed by the Responsible Entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Scheme's activities.

The Responsible Entity's Compliance Committee and its Audit, Compliance and Risk Management Committee oversees how management monitors compliance with the Scheme's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Scheme.

Changes to the regulatory environment relating to financial services, taxation and other regimes may adversely affect investors in the Scheme. Government policies can affect the Scheme in a number of ways that could be detrimental or beneficial to investors. Similarly, changes in the health or social environment can impact the Scheme and cause short term or long term market disruption to investments made by the Scheme that would be detrimental to investors. At this time, it is difficult to ascertain the full impact COVID-19 may have on the performance of the Scheme as it is rapidly changing. There can be no guarantee that investor confidence in credit or mortgage investments will not change in a manner adverse to investors in the Scheme. The general economic, health, social and political climates in which the Scheme operates or other like events are outside the control of Responsible Entity. Note 9 includes further detail of how these risks are provisioned as at 30 June 2020.

(a) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Scheme and cause a loss. The Responsible Entity manages the exposure to credit risk on an ongoing basis.

The carrying amount of the Scheme's financial assets represents the maximum credit exposure. A reduction in the value of an investment may be from a political, social, economic, or a health event such as COVID-19 during which credit markets experienced and may continue to experience a degree of dislocation. The Scheme's maximum exposure to credit risk at the reporting date is as follows:

	Note	2020	2019
		$	$
Financial assets			
Cash and cash equivalents	7	**5,989,611**	19,168,167
Trade and other receivables	8	**3,796,312**	3,050,509
Mortgage loans	9	**343,997,591**	242,843,859
Investments in unlisted MIS	10	**33,959,912**	24,883,559
Investments in debt instruments	10	**24,512,130**	12,937,980
Total financial assets		**412,255,556**	302,884,074

All cash held by the Scheme is invested with major Australian financial institutions.

Mortgage assets

The Scheme's mortgage assets consist of construction and development loans which require a high degree of experience in their assessment and management. The Responsible Entity has a specialised management team which focuses on each proposed loan and the credentials of the borrower and associated entities. The Responsible Entity primarily relies on an external valuation of the underlying security property for its loans.

This risk is minimised by prudent assessment of loans and valuations of each security property by independent approved valuers from the Responsible Entity's panel of valuers.

Note 15 Financial risk management (continued)
(a) Credit risk (continued)

Pursuant to the Scheme's investment strategy, loans to borrowers are limited to a maximum loan amount of $20 million (2019: $15 million) per loan.

The ageing of trade receivables at the reporting date are all current with no amounts impaired (refer Note 8).

The Scheme's exposure to credit risk for mortgage loans at the reporting date by geographical location, is as follows (including impairments):

	2020			2019		
Location	**Loans No.**	**Drawn balance $**	**Total %**	Loans No.	Drawn balance $	Total %
QLD	**51**	**190,022,523**	**55.08**	44	138,547,429	56.93
NSW	**19**	**92,432,488**	**26.79**	18	100,443,918	41.27
VIC	**16**	**62,553,943**	**18.13**	2	4,387,769	1.80
	86	**345,008,954**	**100.00**	64	243,379,116	100.00

The Scheme's exposure to credit risk for mortgage loans at the reporting date by loan type, is as follows:

	2020			2019		
Loan type	**Loans No.**	**Drawn balance $**	**Total %**	Loans No.	Drawn balance $	Total %
CRD (i)	**4**	**31,875,814**	**9.24**	3	8,571,707	3.52
CRL (ii)	**1**	**2,712,109**	**0.79**	4	7,113,203	2.92
LDR (iii)	**54**	**202,486,843**	**58.68**	37	157,824,404	64.85
RDD (iv)	**25**	**95,311,426**	**27.63**	18	60,754,827	24.96
ICD (v)	**2**	**12,622,763**	**3.66**	2	9,114,975	3.75
	86	**345,008,954**	**100.00**	64	243,379,116	100.00

(i) CRD = Completed Residential Dwellings
(ii) CRL = Completed Residential Land
(iii) LDR = Land Development Residential
(iv) RDD = Residential Dwellings Development
(v) ICD = Industrial Commercial Development

Liquidity risk arises from the possibility that the Scheme might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Scheme manages this risk through the following mechanisms:

- Preparing forward-looking cash flow analysis in relation to its operational, investing and financing activities;
- Monitoring undrawn credit facilities;
- Maintaining a reputable credit profile;
- Managing credit risk related to financial assets;
- Only investing surplus cash with major financial institutions; and
- Comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The following table summaries the undrawn loan commitments which represent the balance of loans approved and not in default but not fully drawn, as well as the maturity profile of loans approved.

Note 15 Financial risk management (continued)
(a) Credit risk (continued)

	2020			2019		
		Undrawn			Undrawn	
	Loans	**balance**	**Total**	Loans	balance	Total
Maturity profile	**No.**	**$**	**%**	No.	$	%
< 3 months	**51**	**33,535,969**	**26.07**	34	7,932,990	7.62
4 to 6 months	**15**	**23,249,789**	**18.07**	13	40,224,005	38.66
7 to 11 months	**17**	**58,215,137**	**45.26**	13	44,987,276	43.24
> 1 year	**3**	**13,635,092**	**10.60**	4	10,905,398	10.48
	86	**128,635,987**	**100.00**	64	104,049,669	100.00

No maturity analysis of contractual cash flows has been presented as all obligations are predominantly due within twelve months and therefore are not discounted.

Given that the predominate underlying assets of the Scheme are real property mortgages which are relatively illiquid, risk management guidelines adopted by the Responsible Entity, as detailed in the note, are designed to minimise liquidity and cash flow risk.

The timing of cash flows presented in the table below to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities.

	Carrying amount	**Contractual cash flows**	**< 6 months**	**6-12 months**	**On call (i)**
	$	**$**	**$**	**$**	**$**
2020					
Financial liabilities					
Distributions payable	**2,324,773**	**2,324,773**	**2,324,773**	**-**	**-**
Unitholder funds	**406,987,584**	**406,987,584**	**-**	**-**	**406,987,584**
Trade and other payables	**3,946,262**	**3,946,262**	**3,946,262**	**-**	**-**
	413,258,619	**413,258,619**	**6,271,035**	**-**	**406,987,584**
2019					
Financial liabilities					
Distributions payable	1,834,750	1,834,750	1,834,750	-	-
Unitholder funds	297,080,737	297,080,737	-	-	297,080,737
Trade and other payables	4,503,843	4,503,843	4,503,843	-	-
	303,419,330	303,419,330	6,338,593	-	297,080,737

(i) Subject to terms and conditions of the Scheme's PDS.

Note 15 Financial risk management (continued)

(b) Capital management

The Scheme's capital management strategy seeks to maximise unitholder value through optimising the level and use of capital resources and the mix of debt funding.

The Scheme's capital management objectives aim to:

- Ensure that the Scheme complies with capital and distribution requirements of its Constitutions and PDS;
- Ensure sufficient capital resources to support the Scheme's operational requirements;
- Continue to support the scheme's credit worthiness; and
- Safeguard the Scheme's ability to continue as a going concern.

In a stable economic environment the Scheme is generally able to alter its capital mix by adjusting distributions paid to unitholders.

The Responsible Entity considers a target liquidity range of between 5.00% and 15.00% (2019: 5.00% - 15.00%) to be sufficient to fund any redemption requests from unitholders. The cash liquidity of the Scheme has been disclosed at Note 7.

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Scheme’s income or the value of its holdings of financial instruments. Market risk embodies the potential for both loss and gains. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

i. Interest rate risk

The majority of the Scheme's financial assets are interest-bearing. Interest bearing financial assets and interest bearing financial liabilities are subject to both fixed and variable interest rates. The Scheme is subject to limited exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

The Scheme’s interest rate risk is managed on a daily basis by management in accordance with policies and procedures in place.

Interest rate sensitivity analysis

An increase or decrease of 100 basis points in interest rates as at the reporting date would have no effect on the net assets attributable to unitholders and operating results. This is due to the fact that interest revenue earned on the Scheme's financial assets is paid to unitholders as a monthly distribution (net of fees paid to the Responsible Entity) and consequently any increase or decrease in interest rates would be inversely reflected in the value of distributions paid by the Scheme.

ii. Property value risk

All of the Scheme's financial assets (with the exception of cash and cash equivalents and receivables) are secured by registered mortgages over real property in Australia. As a result, the Scheme is subject to property value risk in the prevailing levels of market property values. Property value risk is managed on a regular basis by the Responsible Entity in accordance with policies and procedures in place, including but not limited to:

- The adoption of maximum loan to valuation ratios of 70.00% for new loans (2019: 70.00%); and
- Regular valuations of security properties by registered valuers.

Note 15 Financial risk management (continued)
(c) Market risk (continued)
ii. Property value risk

Property value sensitivity analysis
Due to the relatively short term nature of the loans originated by the Responsible Entity on behalf of the Scheme, the Scheme is not overtly exposed to fluctuations in property values.

iii. Other market risk
The Scheme is not exposed to other material market risks on its financial assets and liabilities.

(d) COVID-19 pandemic
The Scheme has factored in the possible loss in value of the loans due to unknown factors arising from the COVID-19 pandemic in the ECL model, disclosed in Note 9(a).

(e) Fair value estimation
The fair values of financial assets and liabilities approximate their carrying value. No financial assets or liabilities are readily traded on organised markets in standardised form.

The aggregate fair values and carrying amounts of financial assets and liabilities are disclosed in the statement of financial position and in the notes to the financial statements.

Note 16 Custodian of the Scheme

The Scheme's custodian is The Trust Company (Australia) Limited. The custodian holds title to the assets of the Scheme in its name on behalf of the Scheme. The net value of assets held by the custodian at cost as at 30 June 2020 totals $405,984,521 (2019: $296,545,481).

The custodian is entitled to an annual administration fee of 3bps of total assets with a minimum of $15,000 (2019: 3bps of total assets, minimum $15,000) (plus GST). These fees are paid by the Responsible Entity.

The relationship between the custodian and Responsible Entity is set out in the Custodial Agreement.

Note 17 Litigation and contingent liabilities

There are no contingent liabilities or contingent assets at 30 June 2020 (2019: nil).

Note 18 Events subsequent to reporting date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Responsible Entity, to affect significantly the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme, in future financial years.

Trilogy Monthly Income Trust
Directors' declaration

In the opinion of the Directors of Trilogy Funds Management Limited (Responsible Entity), the Responsible Entity of Trilogy Monthly Income Trust (Scheme):

(a) The financial statements and notes, as set out on pages 7 to 32 are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Scheme's financial position as at 30 June 2020 and of its performance, for the financial year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) the financial report also complies with International Financial Reporting Standards and interpretations as disclosed in Note 2; and

(c) There are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors of the Responsible Entity.

Philip A Ryan	Rodger I Bacon
Managing Director	Executive Deputy Chairman
28 October 2020	28 October 2020
Brisbane	Brisbane

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INDEPENDENT AUDITOR'S REPORT

To the unitholders of Trilogy Monthly Income Trust

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Trilogy Monthly Income Trust (the Registered Scheme), which comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of Trilogy Monthly Income Trust, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Company's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors of Trilogy Funds Management Limited, as Responsible Entity of Trilogy Monthly Income Trust, are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the Directors report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of Trilogy Funds Management Limited, as responsible entity of Trilogy Monthly Income Trust, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf

This description forms part of our auditor's report.

BDO Audit Pty Ltd

P A Gallagher
Director

Brisbane, 28 October 2020

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