



Trilogy Enhanced Income Fund

(formerly Trilogy Enhanced Cash Trust)

This report has been prepared for financial advisers only



Superior

November 2020

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

Currency of Reports

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Star Rating*

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General Financial Product Advice

This advice will not take into account you, or your clients, objectives, financial situation or needs and will not be provided in respect of any other financial products. Accordingly, it is up to you and your clients to consider whether specific financial products are suitable for your objectives, financial situations or needs.

Report Date: 4 November 2020

Star Rating *	Description	Definition	Investment Grading
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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SQM Rating 
Superior. Suitable for inclusion on most APLs.

Fund Description	
Fund Name	Trilogy Enhanced Income Fund (formerly Enhanced Cash Trust)
APIR code	TGY9789AU
Asset Class	Fixed Income
Management and Service Providers	
Fund Manager	Trilogy Financing Pty Ltd ATF Trilogy Financing Trust
Responsible Entity	Trilogy Funds Management Limited
Custodian	The Trust Company Limited
Fund Information	
Fund Inception Date	Inception in November 2016 / Launch to market in April 2017
Fund Size	\$57 million
Return Objective (as per PDS)	To outperform the benchmark over a 12 month period
Internal Return Objective	Not Applicable
Risk Level (per PDS)	Not mentioned in the PDS
Internal Risk Objective	Not Applicable
Benchmark	RBA Cash Rate + 1.50% (before fees, expenses and taxes)
Number of stocks/positions	Currently 3 Managed Investment Schemes (MISs) and circa 15 bonds held directly under an investment mandate with an external manager
Fund Leverage	Not Applicable
Turnover	Not Applicable
Top 10 Holdings Weight	Not Applicable
Investor Information	
Minimum Application	\$5,000 (and no minimum for additional investment)
Redemption Policy	Aims to pay redemptions within 30 days (Note: longer is allowed under the Constitution and refer to PDS for details)
Distribution Frequency	Monthly
Investment Horizon (per PDS)	PDS does not specify. Suggested short to medium term (3 months to 3 years)
Currency Hedging Policy	Not Applicable
Management Fee	Management Fee is 0.35% p.a. and Total Fees (ICR) is 0.85% p.a. for Direct investors. Total Fees (ICR) is 0.75% p.a. for Platform & Adviser assisted investors.
ICR – latest	ICR is 0.85% p.a. (0.35% Management Fee & 0.50% Indirect Costs)
Buy Spread	Nil
Sell Spread	Nil
Performance Fee Rate	Not Applicable

SUMMARY

Fund Summary

Description

The **Trilogy Enhanced Income Fund (the “Fund”)** aims to provide returns which are above the average returns of traditional Cash Funds/Trusts by investing in a range of investments including cash/fixed interest investments and mortgage securities.

The Fund's investments consist of two components:

- Approximately **65%** allocation to cash and cash-style investments such as a range of short to medium bank term deposits, bills of exchange, promissory notes, bonds, fixed or floating rate debt securities as well as income securities. These may be direct or indirect investments.
- Approximately **35%** allocation to the **Trilogy Monthly Income Trust (TMIT)**, which is a registered pooled Mortgage Fund that makes loans secured by registered first mortgages. The underlying real estate assets include residential, commercial, retail and industrial properties in Australia.

The Fund's current investments include multiple underlying funds (and fund managers) - **3 Managed Investment Schemes** (TMIT, Mutual Income Fund and Ardea Real Outcome Fund) and circa **15 bonds** (almost all Investment Grade Bank Bonds) held directly under an investment mandate with an external manager - FIIG Securities.

The target benchmark for the Fund is the RBA Cash Rate plus 1.50% p.a., assuming reinvestment of distributions but before fees and expenses and taxes, over a rolling 12 months period.

The Fund is structured as an open-ended unlisted registered managed investment scheme.

Fund Rating

The Fund has achieved the following rating:

Star Rating	Description	Definition	Investment Grading
4.00 stars	Superior	Suitable for inclusion on most APLs	High Investment Grade

SQM Research's Review

1. People and Resources

About the Manager

Trilogy was founded in 1998 and holds an Australian Financial Services Licence (261425) that authorises it to operate the Trust. Its principal business is to act as the

responsible entity and manager of various registered schemes, the investments consist of mortgages, direct real property, and financial assets (which include cash assets).

As of June 2020, Trilogy (and its underlying entities) had AUM of about \$560 million, with about \$57 million in this Fund. Trilogy has 48 employees, with offices in Brisbane (Head Office), Sydney and Melbourne.

Investment Team

Trilogy's investment team is highly experienced. The Treasury Committee is the key decision-making body and the voting members are **Mr Philip Ryan, Mr Rodger Bacon, Mr John Barry, Mr Justin Smart and Mr Henry Elgood**. Mr Henry Elgood is the Portfolio Manager of the Fund and also the Head of Governance & Risk. His time is split in roughly a 40% to 60% ratio respectively.

Mr Elgood reports to the Treasury Committee. Changes to investment allocations are determined at the Treasury Committee level. After consultation between the Committee and the portfolio manager, changes to asset allocations are implemented by an Analyst.

Considering the lower complexity in this asset class, the investment process and the size of the team, SQM Research believes that **Key Person risk is 'low'**.

2. Investment Philosophy and Process

Investable Universe

The investable universe consists of two parts: **65%** of the portfolio is allocated to cash and cash-style investments such as a range of short to medium bank term deposits, bills of exchange, promissory notes, bonds, fixed or floating rate debt securities as well as income securities. These may be direct or indirect investments. The remaining **35%** of the Trust's funds are invested into Trilogy's Monthly Income Trust (TMIT) which provides an enhancement to the cash returns. The principal assets of TMIT are loans secured by first registered mortgages.

Process / Philosophy / Style

Trilogy, as the Investment Manager, aims to provide investors with regular monthly income and returns in excess of the returns of traditional cash products (via an investment in a pooled mortgage fund). Allocations of the **65%** cash portion of the Trust between bank securities/term deposits and the approved fund managers are determined by the Treasury Committee along with the investment team / PM.

Analysis undertaken by the team / PM includes in-house market/macro-economic research, and external research, including independent research reports. They



also use literature, analysis and reviews provided by the current/potential investment managers to look at their portfolios and risk/return profiles. The PM meets all their underlying funds/managers at least once a year, in addition to several discussions throughout the period to discuss the investment markets/environment.

Investment ideas/recommendations, research and portfolio construction are driven by the PM, with the oversight of the Treasury Committee. The Idea generation/research process involves the PM reviewing the current underlying managers and the portfolio composition, to assess if i) a manager has consistently underperformed expectations, ii) the performance profile of the manager has deviated significantly from that of the Fund, or another manager, or iii) a sub-asset class exposure could be obtained through a new investment opportunity could benefit the overall fund return and diversification profile.

Investment allocations are made to credit-focused managers with a general duration-agnostic stance. Those funds/managers may have positions within their own portfolios that minimize/maximize interest rate or yield curve exposure, depending on their investment thesis at the time. Within Trilogy's investment mandate with FIIG Securities, they want to keep duration short and investment quality high. Therefore they have restricted their investable universe to ADIs and other major financial institution's FRNs. They have had a predisposition to high quality, investment-grade major bank debt both directly and indirectly.

The portfolio is constructed in such a way that diversification, return profile and liquidity are prioritized. Position-weightings are determined at the Treasury Committee level.

Risk Management

The Fund has developed protocols and policies for managing risks. This is governed by the constitution of the investments, which mandates how the investments will be operated and audited in line with the law. The Treasury Committee defines what an acceptable level of risk is.

The Fund aims to minimise concentration risk by diversifying its investments across managers. It also aims to minimise investment risk by using 'best of breed' funds/managers, focusing not just on performance but also on risk management by those managers.

3. Portfolio Characteristics

Portfolio Turnover

Portfolio turnover is expected to be low given that the investments are in cash, cash type/fixed income investments and the rest in the TMIT.

Liquidity

The Portfolio provides a relatively good level of liquidity as **65%** of the portfolio is allocated to cash, bank deposits and other funds which invest in similar cash-style products. The liquidity profile of the remaining **35%** in TMIT (a pooled Mortgage Fund) is different and carries a higher level of liquidity risk than cash-style products.

Leverage

This Fund does **not** employ direct leverage (through borrowing by the Fund) **or** economic leverage (through the use of derivatives).

4. Performance & Risk

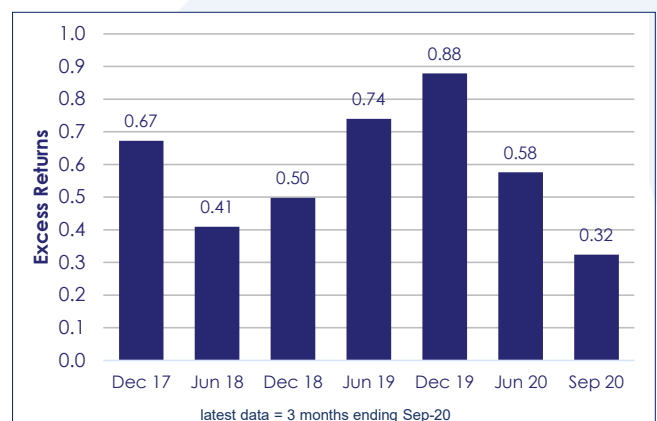
Return Objective & Performance

The return objective stated in the PDS is: The Fund aims "to outperform the benchmark over a 12 month period".

The Fund's benchmark as stated in the PDS is **RBA Cash Rate + 1.50%** (assuming reinvestment of distributions but before fees and expenses and taxes, over a rolling 12 month period).

Over the twelve months to **Sep-2020**, the Fund returned 3.34% (after fees) compared to 1.96% for the benchmark. This is an outperformance of 1.37%.

Fund Excess Returns %: Half-yearly (net of fees)



Length of Track Record

The Trilogy Enhanced Income Fund has a relatively short history of **3.3 years**. Observations and analysis of returns

SUMMARY

will have a modest statistical meaning as a result of the sample size of observations.

Risk Objective

The Fund's PDS **does not** specify the risk level of the Fund.

The Fund's **volatility** (standard deviation of monthly returns) over **the year to Sep-2020** was 0.19% compared to a peer average of 1.97% and 0.07% for the benchmark. The benchmark, being a Cash (or Cash-plus) benchmark, has a very low/negligible volatility. **It should be noted that the risk profile of the TMIT (Mortgages) component is not captured by the traditional volatility measure.**

5. Other Features

Fees and Costs	Fund	Peer Avg
Management Fee (% p.a.)	0.35%	0.44%
Expense Recovery (% p.a.)	0.50%	-
Performance Fee (%)	0.00%	0.00%
Indirect Cost Ratio ICR (% p.a.)	0.85%	0.45%
Buy Spread (%)	0.00%	0.04%
Sell Spread (%)	0.00%	0.04%

Other Features	Fund	Peer Avg
Redemptions	Monthly	-
Distributions	Monthly	-
Minimum Investment	\$5,000	\$21,875
1-year Investment: Round Trip Cost	0.85%	0.52%

The ICR of **0.85% p.a.** is comprised of 0.35% Responsible Entity/Management Fee and 0.50% Indirect Costs (approximately). The ICR is **0.75% p.a.** for Platform & Adviser assisted investors.

Management Fee

- Expressed as a percentage rate per annum of the Fund's Net Asset Value ("NAV")
- Calculated daily and paid monthly
- Including GST and impact of RITC (Reduced Input Tax Credit)

Performance Fee

The Fund does not charge a performance fee.

Governance

Trilogy Funds Management Limited is the **Responsible Entity** and the Trust Manager. Trilogy Funds was founded in 1998, and holds an Australian Financial Services Licence number 261 425 that authorises it to operate the Trust. Its principal business is to act as the responsible

entity and manager of various registered schemes. The investments consist of mortgages, direct real property, and financial assets (which include cash assets).

The **Board of Directors** of the Responsible Entity (Trilogy Funds Management Ltd) consists of **5** directors, **2** of whom are independent. SQM Research prefers the inclusion of independent members on the Board of Directors – it is a meaningful way to enhance governance and oversight. Board members have an average of **40** years of industry experience.

The Responsible Entity's **Compliance Committee** is composed of **3** members, **2** of whom are independent. The Chair **is** independent. SQM Research views independence in an RE oversight body such as the Compliance Committee as a strong and favourable factor in Fund governance. Compliance Committee members have an average of **34** years of industry experience.

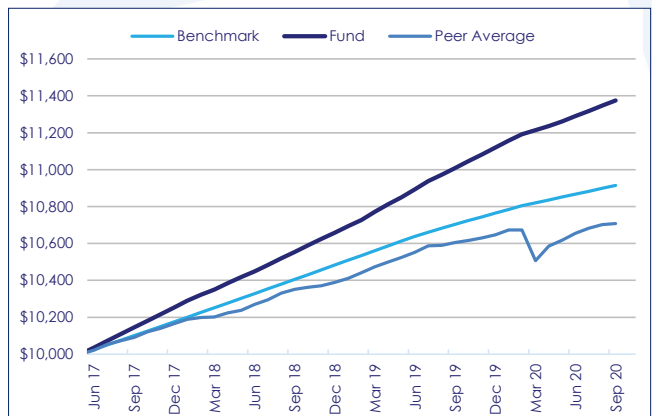
Trilogy Funds Management Ltd (as the RE) has appointed an in-house team to act as the Investment Manager, via the related entity, **Trilogy Financing Pty Ltd**. Trilogy Funds was founded in 1998, and holds an Australian Financial Services Licence number 261 425 that authorises it to operate the Trust.

Trilogy Funds has appointed The **Trust Company Limited** to act as an independent **Custodian** and hold the assets of the Trust. Trilogy Funds has a governance structure for the Trust that leverages from the existing structure for the operation of its other funds, with an investment committee, treasury committee, audit committee and PDS due diligence committee.

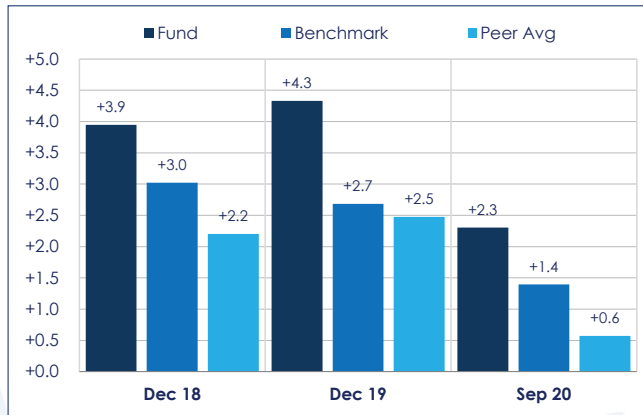
FUM (Funds under Management) / Capacity

The Fund is approximately \$57 million in size, as at **Sept-2020**.

Growth of \$10,000



Annual Returns



Strengths of the Fund

- Trilogy has a track record of over 20 years in the Mortgages and Property Funds Management industry.
- The Fund is managed by an experienced, knowledgeable and professional team that is well-versed in managing registered managed investment schemes/managed funds.
- The Fund has provided higher returns when compared with the benchmark and the peers.
- Underlying investments within the Cash/Cash-like component of the Fund are generally short-term in nature and intended to be liquid.

Weaknesses of the Fund

- The Fund has a higher risk profile compared to most of the vanilla Cash/Fixed Income peers. The allocation to TMIT (a pooled Mortgage Fund), whilst providing an opportunity for higher returns, brings in some level of liquidity risk and credit risk. Compared to the Cash component of the Fund, the liquidity profile of the 35% allocation in TMIT is different.
- Higher Fees compared to the peer group, whilst noting a different mix of underlying investments (via TMIT).

Other Considerations

- The Fund now has a track record of 3.3 years.
- Some of the key Portfolio Metrics of the Fund are:
 - The Fund's current investments include multiple underlying funds (and fund managers) - 3 Managed Investment Schemes (TMIT, Mutual Income Fund and Ardea Real Outcome Fund) and circa 15 bonds (almost all Investment Grade Bank Bonds) held directly under an investment mandate with an external manager - FIIG Securities. Please see the last page for the current Asset Allocation/Positioning.
 - Some of the key Metrics of the underlying TMIT Fund include: about 86 loans; 100% of the book is invested in First mortgages and all are Full-doc loans; all the loans are to businesses/companies (rather than individuals); Weighted Average LVR is about 63%, on an 'as if complete' basis; Loan maturity: almost 100% of the book has a loan maturity of <2 years; Non-performing loans (NPL) are about 2.8% of the book; Residential sub-sector represents a large part of the book, at about 66%, and Vacant Land at about 29%; and Construction loans represent about 58% of the book.
- The Fund has experienced a material level of FUM outflows in the last 2 quarters. Trilogy has advised that these outflows have occurred due to the unusual market conditions (based on the COVID-19 pandemic, from March 2020 onwards) and the level of FUM has now stabilised and expected to improve from here on.

Key Changes since the Last Review

- The Fund has changed its name from **"Trilogy Enhanced Cash Trust"** to **"Trilogy Enhanced Income Fund"**.
- The target allocation to TMIT has increased from 30% earlier to 35% now.
- The Redemptions policy has been changed. The Fund aims to pay redemptions within 30 days of the request.
- The PDS has changed from a short-form PDS to a long-form PDS.
- No changes to the investment process since the previous review.

Process Description

Universe

Investable Universe The investable universe consists of two parts: **65%** allocation to cash and cash-style investments such as a range of short to medium bank term deposits, bills of exchange, promissory notes, bonds, fixed or floating rate debt securities as well as income securities. These may be direct or indirect investments.

The remaining **35%** of the Trust's funds are invested into **Trilogy's Monthly Income Trust (TMIT)** which provides an enhancement to the cash returns. The principal assets of TMIT are loans secured by first registered mortgages.

Investment Process

Research and Portfolio Construction Process

The Investment Manager aims to provide investors with regular monthly income and returns in excess of the returns of traditional cash products, via an investment in a pooled mortgage fund. Allocations of the **65%** cash portion of the Trust between term deposits and these approved fund managers are determined by the Treasury Committee along with the Investment team / PM.

Analysis undertaken by the team / PM includes in-house markets and macroeconomic research undertaken by the PM, along with external research, including independent research reports. They also use literature, analysis and reviews provided by the current/potential investment managers to look at their portfolios and risk/return profiles. The PM meets all their underlying funds/managers at least once a year, in addition to several discussions throughout the period to discuss the investment markets/environment.

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The portfolio is constructed in such a way that diversification, return profile and liquidity are prioritized. Position-weightings are determined at the Treasury Committee level.

Portfolio Turnover

Portfolio turnover is expected to be low given that the investments are in cash, cash type/ fixed income investments, and the rest in the TMIT.

Liquidity

The Portfolio provides a relatively good level of liquidity as **65%** of the investments are allocated to cash, bank deposits and other funds which invest in similar cash-style products. The liquidity profile of the remaining **35%** in TMIT (a pooled mortgage fund) is different, and carries some level of liquidity risk.

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

The Fund has developed protocols and policies for managing risks. This is governed by the constitution of the investments, which mandates how the investments will be operated and audited in line with the law. The Treasury Committee defines what an acceptable level of risk is.

The Fund aims to minimise concentration risk by diversifying its investments across managers. It also aims to minimise investment risk by using 'best of breed' funds/managers, focusing not just on performance but also on risk management by those managers.

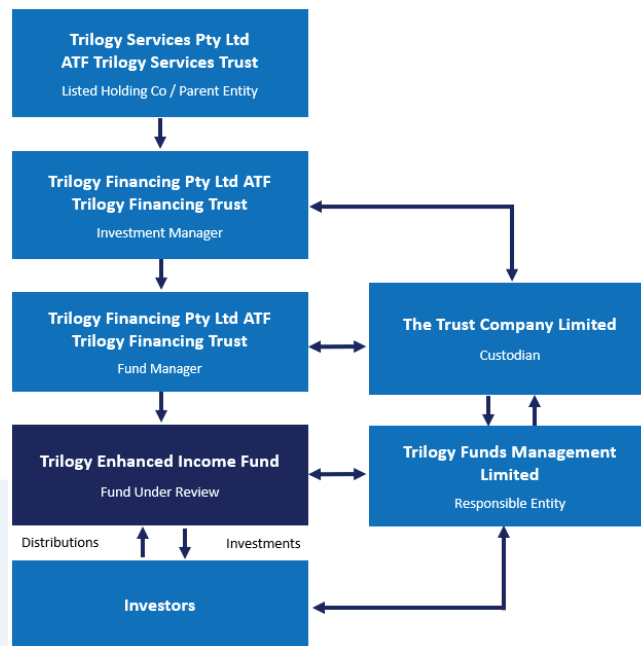
Trading/Implementation**Trading Resources, Procedure and Allocation**

The Analyst is responsible for placing the investments as per the instructions from the Portfolio Manager and the Treasury Committee. Execution involves sending investment instructions to the Trust Company by a certain cut-off time, to have the funds placed at that day's unit price for a certain MIS or capital in the settlement account with FIIG.

Hedging & Derivatives

Not applicable.

Key Counterparties



Parent Company

Trilog Group Holdings Trust, is the holding trust for the Trilog Funds Group (TFG), owned by executives of the company. TFG can trace its origins back to 1998, when a Brisbane law firm of which Philip Ryan was a partner, commenced a funds management business. This led to the formation of TFG in 2004, when Mr Bacon, Mr Barry and Mr Hogan resigned from their senior positions at Challenger following the merger of Challenger and CPH Investment Corporations.

TFG is headquartered in Brisbane, with an office also in Sydney.

Responsible Entity and Trust Manager

Trilog Funds Management Limited is the **Responsible Entity and the Trust Manager**. Trilog Funds was founded in 1998, and holds an Australian Financial Services Licence number 261 425 that authorises it to operate the Trust. Its principal business is to act as the responsible entity and manager of various registered schemes. The investments consist of mortgages, direct real property, and financial assets (which include cash assets).

The **Board of Directors** of the Responsible Entity (Trilog Funds Management Ltd) consists of **5** directors, **2** of whom are independent. SQM Research prefers the inclusion of independent members on the Board of Directors – it is a meaningful way to enhance governance and oversight. Board members have an average of **40** years of industry experience.

The Responsible Entity's **Compliance Committee** is composed of **3** members, **2** of whom are independent. The Chair is independent. SQM Research views independence in an RE oversight body such as the Compliance Committee as a strong and favourable factor in Fund governance. Compliance Committee members have an average of **34** years of industry experience.

Trilog Funds Management Ltd (as the RE) has appointed an in-house team to act as the Investment Manager, via the related entity, **Trilog Financing Pty Ltd**. Trilog Funds was founded in 1998, and holds an Australian Financial Services Licence number 261 425 that authorises it to operate the Trust.

Trilog Funds has appointed **The Trust Company Limited** to act as an independent **Custodian** and hold the assets of the Trust. Trilog Funds has a governance structure for the Trust that leverages from the existing structure for the operation of its other funds, with an investment committee, treasury committee, audit committee and PDS due diligence committee.

Management Risk

Funds management businesses rely on the operational capabilities of key counterparties. A critical element is the ability of the Responsible Entity to monitor operational performance and to meet the regulatory

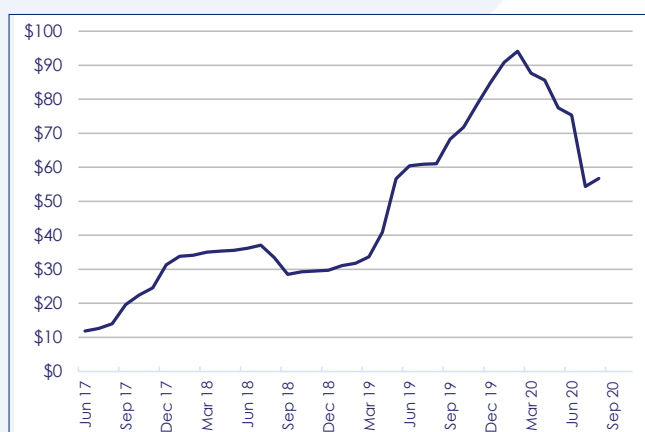
and statutory responsibilities required. For any investment fund, there is a risk that a weak financial position or management performance deterioration of key counterparties could temporarily or permanently compromise their performance and competency. This can adversely affect financial or regulatory outcomes for the Fund or associated entities.

Based on the materials reviewed, SQM Research believes that Trilogy Funds Management Ltd. and associated key counterparties are appropriately qualified to carry out their assigned responsibilities. Management risk is rated as low.

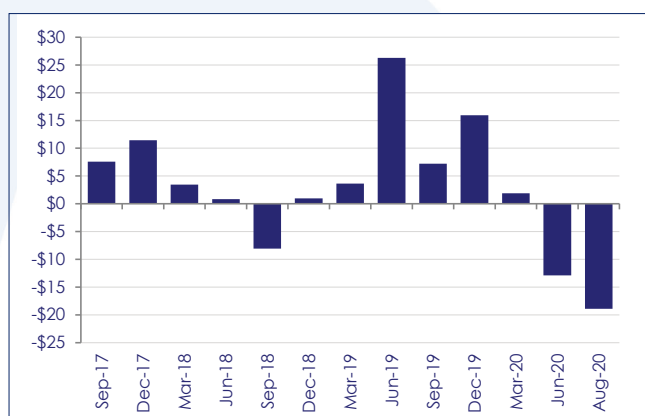
Funds under Management (FUM)

The Fund is approximately \$57 million in size, as at **Sept-2020**.

FUM for Fund under Review (\$million)



Quarterly Net Flows (\$million)



Distributions

Distributions occur on a **monthly** 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 Amount - cents per unit

Distribution Date	Distribution CPU	Unit Price* \$	Distribution %
Dec-19	0.33	\$1.00	0.33
Jan-20	0.35	\$1.00	0.35
Feb-20	0.31	\$1.00	0.31
Mar-20	0.19	\$1.00	0.19
Apr-20	0.20	\$1.00	0.20
May-20	0.23	\$1.00	0.23
Jun-20	0.26	\$1.00	0.26
Jul-20	0.26	\$1.00	0.26
Aug-20	0.26	\$1.00	0.26

* Unit Prices shown are the monthly average of daily unit prices

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 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 Funds taxable income for that year.

If the total distributions a Fund pays out exceeds 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 a Fund will make a distribution in any distribution period.

Key Management Staff				
Name	Responsibility/Position	Location	Years at Firm	Years in Industry
Henry Elgood	Portfolio Manager	Brisbane	4.0	4.0
John Barry	Executive Director	Sydney	22.0	41.0
Phil Ryan	Managing Director	Brisbane	14.0	33.0
Rodger Bacon	Executive Deputy Chairman	Sydney	22.0	48.0
Justin Smart	COO & CFO	Brisbane	13.0	13.0
Average			15.0	27.8

Investment Team

Trilogy's investment team is highly experienced. The Treasury Committee is the key decision-making body and the voting members are **Mr Philip Ryan, Mr Rodger Bacon, Mr John Barry, Mr Justin Smart and Mr Henry Elgood**. Mr Henry Elgood is the Portfolio Manager of the Fund and also the Head of Governance & Risk. His time is split in roughly a 40% to 60% ratio respectively.

Mr Elgood reports to the Treasury Committee. Changes to investment allocations are determined at the Treasury Committee level. After consultation between

the Committee and the portfolio manager, changes to asset allocations are implemented by an Analyst.

The firm has hired a new investment analyst – Mr Mitchell Molloy, who has taken over the duties of Ms Hiedi Yu (she will be on maternity leave).

Considering the lower complexity in this asset class, the investment process and the size of the team, SQM Research believes that **Key Person risk is 'low'**.

Meeting Schedule

The table below shows regular meetings that form an essential part of the overall process.

Meeting	Purpose	Frequency	Participants
Treasury Meeting	Portfolio allocation/update on existing holds/recommendations by PM as to change to allocations	Weekly	- Treasury Committee - Portfolio Manager
Executive Risk Meeting	Review of key risk items across the business in each department, including investment risks associated with the Fund	Monthly	- Managing Director - Chief Operating Officer - Heads of Departments (circa 7)

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. 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

The staff changes over the last **3 years** are mentioned in the tables below. The departure of 2 Financial Controllers in 2 years is unusual and noteworthy.

Departures			
Date	Name	Responsibility	Reason for Departure
01-Jun-18	Josh Crotty	Financial Controller	Exploring new opportunities
May-19	Nicole Singer	Legal, Compliance and Risk Manager	Restructure
30-Nov-19	David Somerville	Financial Controller	Exploring new opportunities

Additions / Hires			
Date	Name	New Responsibility	Previous Position / Employer
01-Jul-18	David Somerville	Financial Controller	NA
30-Nov-19	Adam Somerville	Financial Controller	IFAA Super

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.

Key Investment Staff

Rodger Bacon: Executive Deputy Chairman

Mr Bacon is an experienced financial services executive with a successful career, spanning over 40 years, establishing and growing high performing businesses. Before commencing at Trilogy, he was an Executive Director at Challenger and worked on the establishment of ASX listed companies, development of a property portfolio worth more than \$2.7 billion, and was instrumental in establishing and growing Challenger Annuities to capture 30% of annuities sales in Australia. Today, Mr Bacon is responsible for the overall management and oversight of Trilogy's strategic goals.

Philip Ryan: Managing Director

Mr Ryan is the Managing Director of Trilogy and the Fund Manager for Trilogy's Trusts. He has been a solicitor for more than 30 years and was a partner in a Brisbane law firm for 19 years. His experience in the financial services industry dates back to 1986 in both financial planning and funds management. As Founding Director in 1998 of the funds management entity that has evolved into Trilogy, Mr Ryan's focus is on the mortgage and property sectors which he sees as primary drivers for producing attractive income to investors.

John Barry: Executive Director

Mr Barry is a strategic thinker with nearly 40 years of experience guiding the strategic production operations of several of Australia's leading financial services providers. Previously, he headed up ABN AMRO's reverse mortgage and social infrastructure divisions and was also Head of Property for Challenger where he was instrumental in its growth as a broad based financial services company. Today, Mr Barry is responsible for product strategy at Trilogy and identifying opportunities to provide new investment solutions to investors.

Justin Smart: Chief Operating Officer & Chief Financial Officer

Mr Smart has been the Chief Operating Officer for Trilogy and Director of Relm since 2007. He is also a Certified Practising Accountant. Prior to joining Trilogy Funds, Mr Smart held various senior management roles within the financial services sector. He worked with Aussie Home Loans and QBE Insurance. He also acted as the Financial Controller for the Australian Commonwealth

Government's HIH Insurance Relief Scheme and was the Financial Controller for Charles Taylor Consulting's (UK listed Mutual Insurance Manager) Australian operations.

Mr Smart commenced his career with a multinational Chartered Accounting firm, specialising in audit. He was seconded across various Australian offices as well as their New York office. His expertise encompasses technology, strategic planning and program delivery, and reviewing existing systems and processes to improve operational efficiencies. This combined with his experience across audit, insurance, home loans and funds management gives him a unique understanding of driving efficiencies within the industry.

Henry Elgood: Portfolio Manager and Head of Governance & Risk

Mr Elgood leverages his experience in the financial services industry and as a director across a number of private companies, to oversee the risk management and governance function across Trilogy's entities. Mr Elgood plays a key role in ensuring Trilogy is in compliance with current regulatory standards and aware of any legislative and regulatory change, both domestically and internationally.

In addition to his role as Head of Governance and Risk, Mr Elgood is the Portfolio Manager for Trilogy Enhanced Income Fund. He is responsible for daily asset allocation, ensuring the portfolio aligns with the current investment strategy, while reporting to the Board on performance-based metrics.

Remuneration and Incentives

Trilogy's remuneration structure is based on a fixed base salary, with certain staff paid bonuses for performance on a balanced scorecard approach, or as grandfathered under the FOFA legislation. Additionally, a staff incentive plan is in place.

Trilogy Funds encourages long-term staff development through regular training and development, including interdepartmental training that is designed to give staff members a broad overview of the business and exposure to wider career opportunities within the business. Training is supplemented by annual staff reviews to ensure ongoing monitoring and assessment.

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.)	0.35%	0.44%
Expense Recovery (% p.a.)	0.50%	-
Performance Fee (%)	0.00%	0.00%
Indirect Cost Ratio ICR (% p.a.)	0.85%	0.45%
Buy Spread (%)	0.00%	0.04%
Sell Spread (%)	0.00%	0.04%
Other Features	Fund	Peer Avg
Redemptions	Monthly	-
Distributions	Monthly	-
Minimum Investment	\$5,000	\$21,875
1-year Investment: Round Trip Cost	0.85%	0.52%

The ICR of **0.85% p.a.** is comprised of 0.35% Responsible Entity/Management Fee and 0.50% Indirect Costs (approximately). The ICR is **0.75% p.a.** for Platform & Adviser assisted investors.

Buy/Sell Spread

This spread represents the difference between the application price and the withdrawal price of the Fund, a reflection of transaction costs relating to the underlying assets.

Ongoing Fees

The management fee includes GST and is net of any applicable Reduced Input Tax Credits (RITC).

The management fee is calculated daily and paid to the Manager monthly.

Performance Fees

The Fund does not charge a performance fee.

Overall Fees

1-year Investment: Round Trip Cost.

If held and redeemed within 12 months, total costs would amount to **0.85%** of investment in the Fund.

This figure includes the management fee, expense recovery (when disclosed) and the buy/sell spread. It does **not** consider rebates or negotiations or any potential **performance fee**.

SQM Research observes that:

- The Fund's total fee (ICR) is 0.85% p.a., which is 40 basis points higher than the peer group average of 0.45% p.a.
- The management fee is 0.35% p.a., which is 9 basis points lower than the peer group average of 0.44% p.a.

Risk / Return Data to 30 September 2020 (% p.a.)							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund ¹	0.25	0.76	1.44	3.34	3.89	n/a	3.94
Benchmark ²	0.14	0.44	0.87	1.96	2.62	n/a	2.66
Peer Average	0.05	0.49	1.92	0.93	1.98	n/a	2.06
Alpha	0.11	0.32	0.57	1.37	1.27	n/a	1.28

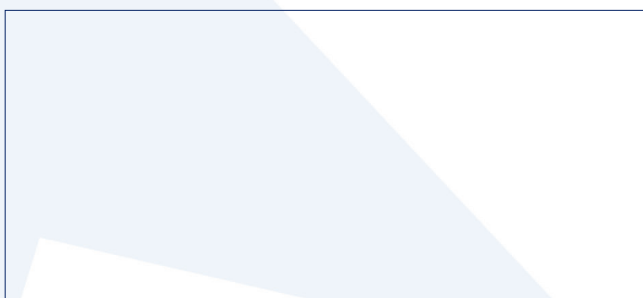
Metrics	1-Year	3-Year	5-Year	Inception
Tracking Error (% p.a.) - Fund	0.13	0.13	n/a	0.13
Tracking Error (% p.a.) - Peer Average	1.96	1.16	n/a	1.11
Information Ratio - Fund	10.62	9.63	n/a	10.19
Information Ratio - Peer Average	-2.80	-3.29	n/a	-1.00
Sharpe Ratio - Fund	14.21	13.73	n/a	14.14
Sharpe Ratio - Peer Average	0.31	0.43	n/a	0.51
Volatility - Fund (% p.a.)	0.19	0.18	n/a	0.18
Volatility - Peer Average (% p.a.)	1.97	1.19	n/a	1.13
Volatility - Benchmark (% p.a.)	0.07	0.14	n/a	0.14
Beta based on stated Benchmark	2.40	0.87	n/a	0.89

1. Dividends reinvested. Returns beyond one year are annualised. Return history starts Jun-2017
 2. Benchmark: RBA Cash Rate plus 1.50%

Quantitative Insight¹

Note: Unless stated, all return and risk data reported in this section are **after-fees** and for periods **ending Sep-2020**.

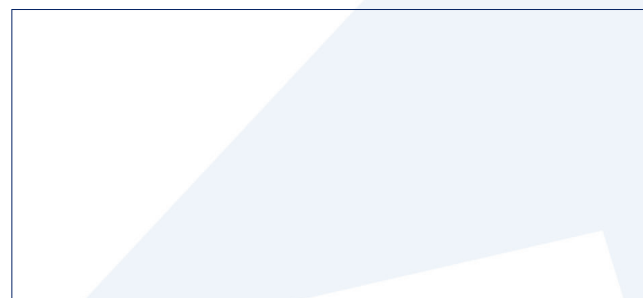
Returns



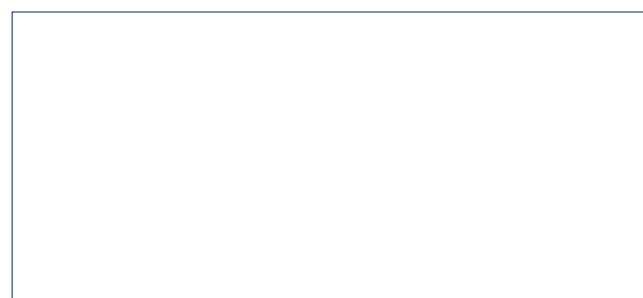
The Fund has displayed good performance when compared with the benchmark and the peers. Of relevance to this observation is the fact that the Fund has a **35%** exposure to TMIT, which results in a higher risk-higher return profile compared to the vanilla Cash / Fixed Income peers.

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

Excess Returns (Alpha)



Risk



The Fund's **volatility** (standard deviation of monthly returns) has tended to be slightly higher than the benchmark and lower than the peers. The benchmark, being a Cash (or Cash-plus) benchmark, has a very low/negligible volatility.

As noted above, the Fund has a 35% exposure to TMIT, which results in a higher risk-higher return profile compared to the vanilla Cash / Fixed Income peers. It should be noted that the risk profile of the TMIT (Mortgages) component is not captured by the traditional volatility measure.

The **risk outcomes** as described above regarding volatility and tracking error are in line with the PDS statements about risk and are in line with SQM's expectations for this Fund.

The table below outline limits on the Fund's asset allocation and other risk parameters: -

Fund Constraints	Permitted Range or Limit
Constraint or Risk Limit 1	Approximately 35% allocation to the Trilogy Monthly Income Trust
Constraint or Risk Limit 2	Approximately 65% allocation to cash and cash-style investments

Details of the Fund's historical portfolio allocations and other metrics are detailed below:

Fund Allocations

Nov-2016 to Jun-2020

Fixed Income Sector	Average Weight	Max Weight	Min Weight	as at Jun-20
Sovereign / Government	2.5%	10.0%	0.0%	10.0%
Investment Grade Corp	66.1%	70.0%	55.0%	55.0%
High Yield Corporate	0.0%	0.0%	0.0%	0.0%
Loans	0.0%	0.0%	0.0%	0.0%
Emerging Markets	0.0%	0.0%	0.0%	0.0%
Hybrids / Preferreds	0.0%	0.0%	0.0%	0.0%
MBS	0.0%	0.0%	0.0%	0.0%
Structured ex-MBS	0.0%	0.0%	0.0%	0.0%
Cash	0.0%	0.0%	0.0%	0.0%
Other	31.4%	35.0%	30.0%	35.0%

Duration & Maturity	Average Weight	Max Weight	Min Weight	as at Jun-20
Rate Duration	-	0.0%	0.0%	<0.5 year
Credit Duration	-	0.0%	0.0%	<3 years
% Cash	-	0.0%	0.0%	<5%
% 0-1yrs Maturity	31.5%	35.0%	30.0%	35.0%
% 1-3yrs Maturity	68.5%	70.0%	65.0%	65.0%

Rating Profile	Weight
AAA	Circa 65%
AA	0.00%
A	0.00%
BBB	0.00%
BB	0.00%
B	0.00%
CCC	0.00%
Unrated	Circa 35%

Maturity Profile	Weight
Cash	8.34%
0-1 Yr	16.46%
1-3 Yrs	59.38%
3-5 Yrs	15.81%
5-10 Yrs	0.00%
10 Yrs +	0.00%

Top 5 Issues by Ranked Weight (% of Fund)

Name	Weight
Trilogy Monthly Income Trust	35.91%
Mutual Income Fund (MIF)	23.47%
Ardea Real Outcome Fund	13.82%
Commonwealth Bank of Australia	1.65%
Australia and New Zealand Banking Group Ltd	1.29%
% 3-5yrs Maturity	27.5%
% 5-10yrs Maturity	28.4%
% over 10yrs Maturity	11.0%

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