SQM RESEARCH

Trilogy Monthly Income Trust

This report has been prepared for financial advisers only

Superior

April 2023

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

This Research Report is current as at the date on the report until it is replaced, updated or withdrawn. SQM Research reports are generally valid for a term of approximately 12 months but may be replaced, withdrawn or changed at any time as judged appropriate by SQM Research.

Star Rating*

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

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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: 17 April 2023

Star Rating*	Description	Definition	
4½ stars and above	Outstanding	**Highly suitable for inclusion on APLs** *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.*	High Investment grade
4¼ stars	Superior	**Suitable for inclusion on most APLs** *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.*	High Investment grade
4 stars	Superior	**Suitable for inclusion on most APLs** *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.*	High Investment grade
3¾ stars	Favourable	**Consider for APL inclusion** *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.*	Approved
3½ stars	Acceptable	**Consider for APL inclusion** *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.*	Low Investment grade
3¼ stars	Caution Required	**Not suitable for most APLs** *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.*	Unapproved
3 stars	Strong Caution Required	**Not suitable for most APLs** *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.*	Unapproved
Below 3 stars	Avoid or redeem	**Not suitable for most APL inclusion**	Unapproved
Event-driven Rating		**Definition**	
Hold		*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.*	
Withdrawn		*Rating no longer applies. Significant issues have arisen since the last report date. Investors should consider avoiding or redeeming units in the fund.*	

* 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.

CONTENTS

SQM Rating ★★★★½

Superior. Suitable for inclusion on most APLs.

Fund Description	
Fund Name	Trilogy Monthly Income Trust
APIR code	TGY0003AU
Asset Class	Mortgage Trusts (Pooled)
Management and Service Providers	
Fund Manager	Trilogy Funds Management Limited
Responsible Entity	Trilogy Funds Management Limited
Fund Information	
Fund Inception Date	1 Feb 2007
Fund Size	$660 million
Return Objective (as per PDS)	Not Specified in the PDS
Internal Return Objective	Not Applicable
Risk Level (per PDS)	Not Specified in the PDS. SQM Research: Low to Medium
Internal Risk Objective	Not Applicable
Benchmark	Not Applicable. SQM Research has used Bank Bill Index + 4% as a 'Reference Index'.
Number of Loans/Positions	Approximately 150-160 Loans
Fund Leverage	Not Applicable (Currently)
Turnover	Not Applicable
Top 10 Holdings Weight	Approximately 20-22%
Investor Information	
Management Fee	0.96% p.a.
Total Cost Ratio (TCR)	0.96% p.a.
Buy Spread	Not Applicable
Sell Spread	Not Applicable
Performance Fee Rate	Not Applicable
Minimum Application	$10,000
Redemption Policy	Four months' notice is generally required for processing withdrawals (in addition to the two-month minimum holding period for initial investments)
Distribution Frequency	Paid monthly in arrears at a variable rate
Investment Horizon (per PDS)	Not Applicable
Currency Hedging Policy	Not Applicable

Fund Summary

Description

The **Trilogy Monthly Income Trust (the "Trust")** is an unlisted registered managed investment scheme aimed at investors seeking exposure to a portfolio of mortgage loans. The Trust is a **Pooled Mortgage Scheme,** and all underlying loans are registered **first mortgages** over a selection of improved and unimproved properties. The Trust is exposed to a portfolio of construction and land subdivision funding across the major property sectors, primarily residential, but including some commercial, industrial, and retail.

The Trust's exposure to construction and land subdivision funding puts the Trust higher up the risk spectrum relative to peer group mortgage funds with no exposure to construction and land subdivision funding. The Manager has advised that they do not take re-zoning risks. Mortgage loan terms are for a maximum of two years. The loans are usually written for **12 months** and then rolled over with approval from the Lending Committee. The Trust's investment objective is to provide investors with a secure investment and regular income via monthly distributions.

Fund Rating

The Fund (Trust) has achieved the following rating:

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

Previous Rating: 4.00 stars (Issued March 2022).

SQM Research's Review & Key Observations

1. People and Resources

About the Fund 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 ***February 2023***, Trilogy (and its underlying entities) had an AUM of about **$1.1 billion**. The Firm has about **60-65** employees, with offices in Brisbane (Head Office), Sydney and Melbourne.

Investment Team

The Trust (Fund) is managed by an experienced, knowledgeable, and professional team that is well-versed in managing registered managed investment schemes and has particular expertise in cash flow and liquidity management in the context of mortgage/managed funds. Several key staff members are from the banking sector.

Head of Lending – Mr **Clinton Arentz** has significant experience in property finance, banking, and property development. A reporting line to Mr Arentz of **6 Portfolio Managers** has been established, each with responsibility for a group of clients within a geographic territory. The **Lending Committee** has considerable experience and has an external independent Chair.

More details on the Investment Team and the Committee(s) are provided later in the report.

*Considering the investment/lending process and the size of the team, **SQM Research is of the opinion that the Key Person risk is 'low'.***

2. Investment Philosophy and Process

Investable Universe

The Trust provides funding for construction, land subdivision and some investment loans across all the main property sectors, principally Residential, but also including Commercial, Retail and Industrial. Mortgage loans are only made or acquired where a first mortgage security is held, with a maximum LVR of **70%** of the property value on the basis of the latest **'as if complete' valuation**. Where interest is not included in the loan principal, borrowers should demonstrate their ability to meet loan commitments.

Process / Philosophy / Style

As the Investment Manager, Trilogy aims to have an investment process that is stringent, compliance-driven and strictly adhered to from end to end. The Trust provides funding for construction, land subdivision and some investment loans across all major property sectors, principally Residential, but also including Commercial, Retail and Industrial.

Risk Management

The lending process is managed by experienced and qualified personnel, conducting extensive checks and balances to manage risk properly.

3. Performance & Risk

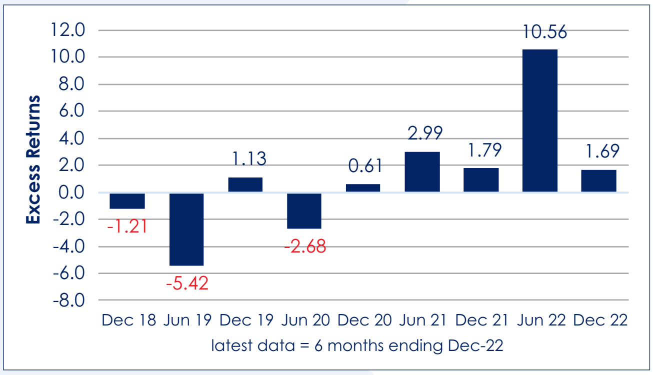
Return Objective

The Trust **does not** specify a formal performance benchmark (in the PDS).

In the past, the Trust has used the Ausbond Bank Bill Index +2% p.a. as the benchmark and later moved to a target range of 7% to 8% from January 2015. This was done to adequately reflect the risk profile of the Trust.

SQM Research notes that there should be a performance hurdle in addition to the Bank Bill Index in order to reflect the risk-return profile of the Trust, which is riskier than traditional bank bill markets. An outperformance hurdle of **4%-5%** pa has been deemed reasonable. ***Therefore, SQM Research has used the Ausbond Bank Bill Index +4% p.a. as a 'Reference Index' for performance comparison purposes only.***

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



Length of Track Record

The Trust has a history of **15.8** years. As a result, observations and analysis of the Fund's returns will have very substantial statistical value.

Risk Objective

The Fund's PDS does not state the risk level of the Fund. *SQM Research considers the risk level of the Fund to be "Low to Medium".*

As a general comment on the sector, the true overall risk level in Mortgage Funds is determined by a range of risks, including (but not limited to): default/capital loss, liquidity, concentration, and interest rates risk. Advisers/ Investors should read the 'Risks' section of the PDS to understand those risks.

SQM Research holds the view that the low volatility of returns often displayed by Mortgage Funds should not be interpreted as implying that these Funds have a low level of risk. Low volatility of returns (in this sector) is an artificial construct caused by an absence of frequent mark-to-market valuation of a Mortgage Fund's assets and the accrual nature of these products.

Therefore, Fund metrics such as Volatility, Tracking Error, Information Ratio, and Sharpe Ratio add little statistical value (within the Mortgage Funds sector).

Performance

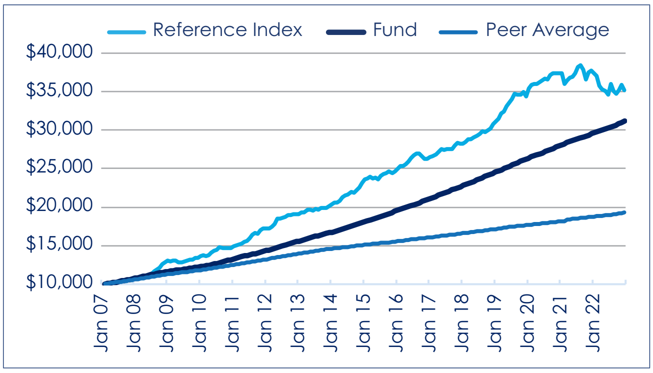
Fund Performance to 31 December 2022 (% p.a.)							
Total Return	**1-Month**	**3-Month**	**6-Month**	**1-Year**	**3-Year**	**5-Year**	**Inception**
Fund	0.57	1.68	3.13	5.64	5.95	6.60	7.45
Reference Index	-2.03	1.19	1.44	-6.81	0.69	4.46	8.27
Peer Average	0.27	0.93	1.75	3.04	3.48	3.52	4.49
Alpha	2.61	0.49	1.69	12.45	5.26	2.14	-0.82

With dividends reinvested. Returns beyond one year are annualised. Return history starts Mar-2007

Reference Index: Bloomberg AusBond Bank 0+Y TR AUD + 4.00%

Note: There may be very minor differences in the returns data based on the rounding of numbers and the start date used.

Growth of $10,000



Strengths of the Trust

- Trilogy has a long track record of about 25 years in the Mortgages and Property Trusts industry.
- The Trust (Fund) is managed by an experienced, knowledgeable, and professional team that is well-versed in managing registered managed investment schemes, and has particular expertise in cash flow and liquidity management in the context of mortgage/managed funds. Several key staff members are from the banking sector.
- The Investment process includes a lending feasibility study in addition to the existing valuation analysis on properties.
- FUM growth has been very strong. Liquidity has also improved with the growing FUM.
- An established and growing network of deal flow.
- Even though the Trust's maximum LVR threshold is 70%, its weighted average LVR is lower (and measured on an 'as if complete' basis), which provides an increased safety buffer to investors.
- The Trust's performance has been good.

Weaknesses of the Trust

- The Trust provides funding for construction and land subdivision, so that puts it at the higher end of the Mortgage Funds risk spectrum. That said, it should be noted that the Trust does not assume re-zoning risk and lends on DA-approved sub-divisions.
- Geographical diversification is slightly lower than the peer group, although there have been improvements on that front.

Other Considerations

- The Fund is a Pooled Mortgage Scheme.

- Some of the **Key Portfolio Metrics** of the Trust (Fund) as of **December 2022** are:
  - 100% of the book is invested in First Mortgages
  - 100% of the loan book is business loans (via Special Purpose Vehicles for building/construction), and 0% of the book is loans to individuals
  - Full-doc loans are 100% of the book, and Low-doc loans are 0% of the book
  - Weighted Average LVR is about 62%, on an 'as if complete' basis
  - Loan maturity: 100% of the performing loans in the loan book have a loan maturity of <2 years
  - Interest rate type split is 0% Variable & 100% Fixed
  - The Average Interest Rate charged is 8.22% (has increased over the last year)
  - Non-performing loans (NPL) or Arrears > 30 days are about 2.1% of the book (3 loans with a value of $13.2 mn)
  - The residential sub-sector represents a large part of the book, at about 65%, and Vacant Land at 28%.
  - Construction loans represent about 65% of the book
  - The Average Loan Size is about $4 million and is broadly steady compared to last year.
- Risk reporting and loan management processes are robust.
- Historically the Trust adopted a somewhat complex structure through the separation of units into allocated and cash units. This was appropriate while the fund was small but was less so for the current fund size. Consequently, the RE removed the complication and moved to a simple and more typical single-unit structure.
- A redemption notice period of four months is required. The Manager has advised that in practice, the redemption period has, as a result of higher liquidity, at times been shorter than four months.
- The Mortgage Funds sector is dependent on certain key macroeconomic variables like economic growth (GDP), unemployment, and interest rates. Any significant deterioration in these variables can impact the property market and the borrower's ability to repay a loan.

Key Changes Since the Last Review

- No material changes to the investment process or the team since the last review.

Process Description

Investment Process	
Research and Portfolio Construction Process	**General criteria** Funding will only be provided for first registered mortgages with full documentation. The loan security structure may be further supplemented by relevant guarantees, company charges and agreements as appropriate. Loans are provided on either a fixed or floating rate basis. The Trust has a strict policy of no related party lending. **Research Agenda** Trilogy conducts research in-house and utilises external sources. Externally, Trilogy subscribes to Veda Advantage (Veda) – a service allowing Trilogy to obtain information about the credit history of potential borrowers and other parties to the loan. The following information is reported by Veda (on individuals): • Default accounts. • Winding up or bankruptcy petitions. • Directorships of past failed companies; and • Prior credit applications (limited to the reporting detail of the institutions involved). The Investment team uses external information from Valuers, Quantity Surveyors and Property Consultants and Agents. **Investment Process** The investment process consists of three distinct stages - loan origination, loan approval and portfolio construction. **Loan Origination** Loan applications will be received from a variety of different sources, including existing borrowers, via direct contact with developers and from within the existing broker network. Wherever a mortgage broker is used, the borrower's identity must be confirmed, and a meeting must be held with the borrower. **Loan Approval** The lending process can be summarised in four steps. *Initial Assessment* – If the application complies with the lending policy and guidelines, Trilogy will request that the borrower submit a one to two-page description and feasibility (cash flow). The initial feasibility will be itemised and checked. If the contingency is acceptable, Trilogy will forward an indicative letter of offer. This will take up to a week to produce and will include an indication of fees and rates and of the conditions that will need to be satisfied. *Due Diligence* – If the indicative letter is accepted, then the borrower will be required to submit a fee to prepare a report for the Lending Committee. Once the fee is received, the Lending Department will develop a loan submission for review by the Lending Committee. The preparation of the loan submission will involve gathering information from some external consultants, including a valuation and conducting credit checks.

Investment Process	
Research and Portfolio Construction Process ***...continued***	*Loan Approval* – If the application and information appear to be satisfactory when the external consultant's reports have been received, they will be forwarded to the **Lending Committee**. The Lending Committee may either approve or amend the application, including loan pricing, security, conditions precedent and post-settlement terms, after which a formal letter of offer will be issued to the applicant. The Lending Committee's vote to proceed must be unanimous in respect of all Committee members who attend the meeting to consider the loan. To be approved, loans must have the following: • A demonstrable ability to service the interest commitment for the full term of the loan (except in the case of construction loans, whereby the interest component is retained by Trilogy). • Adequate and policy-compliant security, with the value established by an independent valuer; where a loan is for Land Subdivision or construction purposes, the value will be calculated on both an existing and as-complete basis. • Appropriate and policy-compliant purpose of the facility, including confirmation that the loan is for business purposes. • Acceptable property risk outlook for sector and locations and consequent repayment strategy For an acceptable and policy-compliant borrowing entity, it is a requirement that Trilogy identifies the borrower and its legal structure. *Settlement* – Once the offer is accepted, legal documents will be drafted and signed to complete the settlement. In certain situations, such as pre-paid interest or the progressive drawdown of construction funding, the Custodian will be required to hold funds in Trust on behalf of the borrower. In the event that construction funds are retained, payment is only made on certification by a qualified independent expert, such as a valuer or Quantity Surveyor, under instructions from Trilogy. A Loan Agreement will be entered between the Custodian and the borrower for each mortgage investment. This agreement stipulates the terms on which the particular loan constitutes the mortgage investment is to be made. It contains specific terms for, among other things, the calculation of interest and the loan monitoring fee, the method of repayment and the right of early repayment. Trilogy requires 80%–100% of net sale proceeds of any security property sold to be applied against the loan principal. **Portfolio Construction** The Trust's Portfolio Management team considers the structure and nature of the Trust's loan portfolio and all aspects of risk when allocating funds to mortgages. This includes analysing the sector and geographical exposures, liquidity requirements, maturity profiles and current LVRs. The Lending Committee also considers the impact of any new loan proposal on the liquidity of the Trust. This requires the loan to be reviewed within the treasury model.

Investment Process

Research and Portfolio Construction Process

...continued

Valuations

To advance on any loan, the Trust must ensure that the property has been valued by one of Trilogy's independent and licensed valuers. The valuers will be selected from the Trust's panel of valuers. Valuation firms must undergo an accreditation process prior to formal inclusion on the Trilogy Panel. Valuers' performance is formally reviewed by Trilogy on an annual basis. Any loan application supported by a non-panel valuer must be approved by Trilogy's Lending Committee. The valuation required by Trilogy to meet the following criteria:

- Where possible, the valuer must be registered in the state or territory where the security property is situated.
- Trilogy prefers to instruct the valuer. However, if not, the valuation must be addressed or assigned to Trilogy for mortgage purposes under Trilogy's standard instructions.
- The panel valuer must be independent of the borrower and Trilogy.
- The valuer must be instructed to prepare the valuation report in a format that clearly sets out the primary methodology used and, if requested, a secondary check valuation methodology by the instructions.
- The report must comment on whether the mortgaged property represents adequate security for mortgage purposes as appropriate.
- All valuations must be no more than four months old as of the date of approval of the loan.
- Valuations for construction projects should state a replacement value in the valuation for the purpose of Trilogy determining the amount of insurance required.
- No one individual valuer (as opposed to a valuation firm) conducts more than 1/3 of the total valuation work undertaken for the Trust.
- Include a statement in their valuation reports about whether the valuation complies with all relevant industry codes.
- Where a loan is for land subdivision or construction purposes, the valuer assesses the property on both an **'as-is'** and **'as-if complete'** basis. All other property loans are valued on an 'as-is' basis.

In determining whether there needs to be a revaluation when a loan is extended, the Trilogy Lending Committee will consider a number of factors, including the borrower's loan history, the amount of the loan outstanding, and the duration of the extension and market conditions.

Risk Management

The performance of all loans is carefully monitored by Trilogy to ensure adherence to ongoing reporting requirements and specific loan covenants. The progress of all loans is monitored via the drawdown process and through regular contact with the borrower. This is a heavily managed process to safeguard that all projects are being run efficiently and in accordance with the development program.

To measure the credit risk of the portfolio, each existing loan is monitored by the Lending Committee on a weekly basis, with the cash flow forecasts reviewed and adjusted to reflect the status of each loan accurately. Trilogy uses a spreadsheet-based system (incorporating industry standards) to rate and classify existing loans on the basis of credit risk, assessing the borrower's ability and willingness to repay the loan. The ratings are assessed internally on a seven-point system, with each loan assigned a grade that determines how actively it will be managed.

Investment Process

Research and Portfolio Construction Process

...continued

In some instances, where an application is made, and Trilogy Funds Management Limited considers it appropriate, loan extensions may be granted to the borrower to repay the loan facility.

A registry and loan management information system, RELM, was sourced towards the end of 2014 and is progressively being implemented. RELM has automated the existing business and workflow process, including registry, loan management and CRM. The information system is used throughout the loan cycle to improve operating efficiency, provide a transparent loan origination process, incorporate a self-service portal for investors and advisers and enhance risk management and portfolio monitoring.

To further support investors and improve customer service, a new phone system with call centre capacity and capability has been implemented.

Trilogy Funds Management Limited manages its own arrears process, which includes default management and negotiations with arrears controls and loan workouts. This is conducted by the Workout Committee.

If an interest payment exceeds the due date by more than seven days, Trilogy will contact the borrower to request immediate payment. Any loan more than 30 days in arrears (unless otherwise determined by the Lending Committee or the Board) will be placed in the hands of Trilogy's solicitors to commence recovery procedures. At that point, the loan is handed over to the Workout Committee to manage and coordinate the recovery process if determined by the Lending Committee.

The new registry and loan management system will help enhance arrears management by setting triggers that flag when breaches occur or are about to occur. This improves internal controls and loan monitoring.

The Treasury Committee, which meets weekly, and the Board are responsible for managing liquidity and liquidity risks and meet weekly. The Committee is responsible for monitoring funding requirements for loan approvals and ongoing drawdown commitments for the Trust, monitoring redemptions of the Trust and monitoring inflows into the Trust. The Committee will report directly to the Chairman and the Board of Directors and will provide a summary report.

The **Treasury Committee** comprises of:

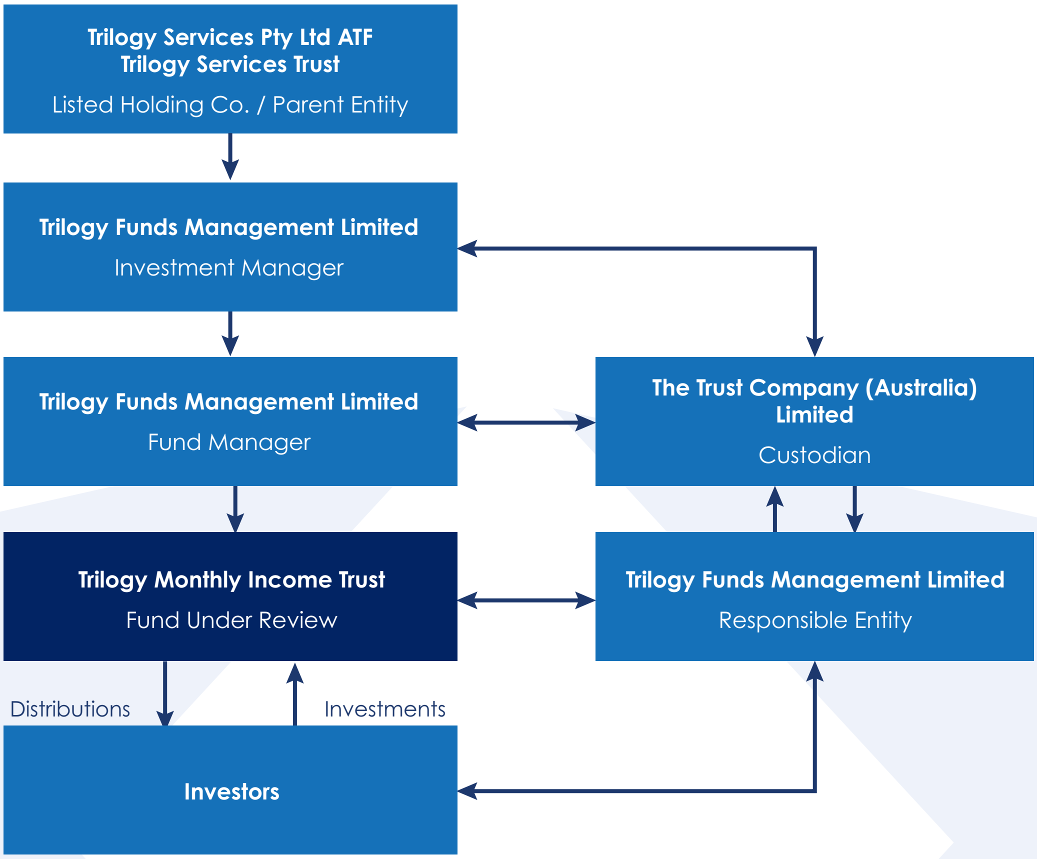
- Philip Ryan (Member)
- John Barry (Member & Chair)
- Justin Smart (Member)
- Rodger Bacon (Member)
- Henry Elgood (Member)

The investment team produces a report on a regular basis detailing the cash requirements for the Trust over the next three-month period for the use of the Treasury Committee. This includes:

- Forecast of investor redemptions
- Forecast of inflow of funds, based on management estimates; and
- Forecast of drawdowns, based on the latest Lending Department individual loan forecasts

Investment Process	
Research and Portfolio Construction Process ***...continued***	These forecasts are stress-tested regularly via a sensitivity analysis provided to the Treasury Committee. The Committee interfaces with the lending team and the distribution team by requiring reports and issuing directives as necessary following the report. On a weekly basis, the Lending Operations team provides the Committee members with a spreadsheet depicting budgeted and actual loan requirements for loan settlements and drawdowns. Additionally, the Distribution team has put in place a daily report on Trust inflows and outflows. **Portfolio Characteristics** **Liquidity** While FUM has grown and consequently reduces liquidity risk modestly, the Trust is considered an illiquid investment vehicle. **Leverage** This Fund does <u>not</u> (currently) employ direct leverage (through borrowing by the Fund) **or** economic leverage (through the use of derivatives).

Key Counterparties



Parent Company

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 ***February 2023***, Trilogy (and its underlying entities) had an AUM of about **$1.1 billion**. The Firm has about **60-65** employees, with offices in Brisbane (Head Office), Sydney and Melbourne.

Fund Manager / Responsible Entity

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 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).

The **Board of Directors** of the Responsible Entity (Trilogy Funds Management Ltd) consists of **5** directors, **2** of whom are independent *(including the Chair)*. 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 **42** 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 **35** years of industry experience.

Trilogy Funds has appointed The **Trust Company (Australia) 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 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

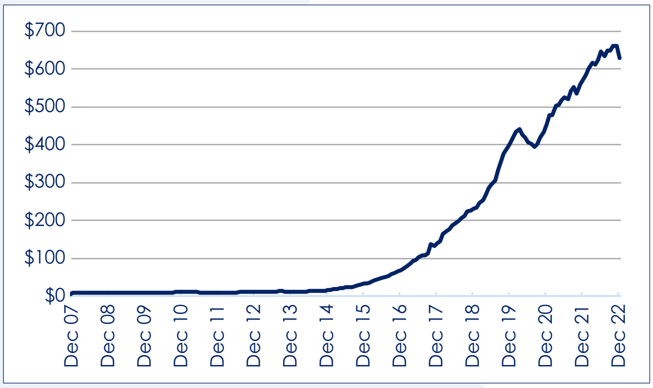
Funds management businesses rely on the operational capabilities of key counterparties. A critical element is the corporate ability of the Responsible Entity to monitor operational performance and to meet the regulatory and statutory responsibilities required. For any investment fund, there is a risk 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 and associated key counterparties are highly qualified to carry out their assigned responsibilities. Management risk is rated as being low.

Funds under Management (FUM)

The Fund is approximately **$670 million** in size (*as of* ***Dec. 2022***).

FUM for Fund under Review ($mill)



Distributions

Distributions occur monthly, subject to the availability of distributable income. As a general comment, 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.

Distributions are a key aspect of this Fund.

Name	Responsibility / Position	Location	Years at Firm	Years in Industry
Clinton Arentz	Executive Director – Lending and Property Assets	Brisbane	5.0	30.0
Henry Elgood	Executive Director – Institutional; and Chief Risk Officer	Brisbane	7.0	9.0
Rafferty Parer	Investment Analyst	Brisbane	2.2	4.5
Aidan Brassil	Investment Analyst	Brisbane	1.6	1.3
Jack Mihajlovic	Senior Portfolio Manager	Brisbane	5.5	30.0
Greg Turner	Senior Portfolio Manager	Brisbane	3.5	9.0
Scott Morgan	Senior Portfolio Manager	Sydney	2.0	20.0
Matthew Silvester	Senior Portfolio Manager	Sydney	3.0	35.0
Genevieve Naughton	Portfolio Manager	Sydney	1.2	8.0
Ralph Cullen	Senior Portfolio Manager	Melbourne	0.5	28.0
Craig Jamieson	Senior Portfolio Manager	Melbourne	0.3	6.0
David Hogan	External Chairman of Lending Committee	Sydney	16.0	48.0
Philip Ryan	Managing Director	Brisbane	24.0	35.0
Justin Smart	Executive Director	Brisbane	16.0	24.0
Rodger Bacon	Executive Deputy Chairman	Sydney	24.0	44.0
Ross Perkins	External Member of Lending Committee	Brisbane	0.0	35.0
John Barry	Executive Director	Sydney	24.0	48.0
Rohan Butcher	Non-Executive Director	Brisbane	14.0	30.0
		Average	**8.3**	**24.7**

Investment Team

Head of Lending – Mr **Clinton Arentz** has significant experience in property finance, banking, and property development. A reporting line to Mr Arentz of **6 Portfolio Managers** has been established, each with responsibility for a group of clients within a geographic territory. The **Lending Committee** has considerable experience.

The investment team is further supported by the broader resources of Trilogy and the Committees. **Justin Smart** is the Chief Operating Officer & Chief Financial Officer and is responsible for the accounting and operations teams, whilst a Compliance Committee handles the compliance functions.

The Trust's team is located in Brisbane, Sydney and Melbourne, with the majority of operational staff based in the administration hub in Brisbane. To provide ongoing efficiency, both the operational departments and the committees overseeing operations maintain a regular schedule of structured teleconference meetings. There is ongoing informal contact via phone and email. The level of communication is enhanced by the Company's small size and the encouragement of interaction between the various departments. Staff members and Directors frequently travel, especially between Brisbane and Sydney

The Finance, Compliance, Lending, Treasury and Distribution departments hold weekly meetings with all team members to discuss ongoing operations within both their departments and the Company as a whole. Additionally, the senior staff members from each department meet at the weekly Executive Committee meeting to report on current operations within their divisions. This provides an efficient way of enhancing each team's awareness of the Trust's overall operations.

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 3-4 years** are mentioned in the tables below.

As noted in the previous year's report, the departure of 3 Financial Controllers in 3 years (2018-2020) was highly unusual and noteworthy. Whilst this may not be directly related to the Fund's investment management/decision-making, this was an issue of concern raised with Trilogy.

Departures			
Date	**Name**	**Responsibility**	**Reason for Departure**
May 2019	Nicole Singer	Legal, Compliance and Risk Manager	Restructure
Nov 2019	David Somerville	Financial Controller	Exploring new opportunities
Jan 2020	Carl Thompson	Portfolio Manager (NSW)	Exploring new opportunities
July 2020	Geoffrey Coakley	Portfolio Manager (NSW)	Retired
Dec 2020	Adam Somerville	Financial Controller	Other Opportunities
Dec 2020	Heidi Yu	Investment Analyst	Personal Reasons
Apr 2021	Peter Gillings	Portfolio Manager (NSW)	Retired
Mar 2021	David Hogan	Head of Property Assets	Retired
Oct 2021	Mitchell Molloy	Investment Analyst	Exploring new opportunities
May 2022	Sonia Harding	Assistant Portfolio Manager (QLD)	Other opportunities
June 2022	Robert Scott	Property Asset Manager	Other opportunities
Aug 2022	Miguel Dennis	Portfolio Manager (VIC)	Other opportunities
Nov 2022	Andrew Gillespie	Senior Portfolio Manager (QLD)	Other opportunities
Nov 2022	Darren Martin	Senior Portfolio Manager (NSW)	Other opportunities
Nov 2022	Alison Lancaster	Head of Investor Relations and Distribution	Other opportunities

Additions / Hires			
Date	**Name**	**New Responsibility**	**Previous Position / Employer**
Sep-19	Greg Turner	Assistant Portfolio Manager	Red & Co
Nov-19	Adam Somerville	Financial Controller	IFAA Super
Mar-20	Peter Gillings	Portfolio Manager (NSW)	NA
Mar-20	Matthew Silvester	Portfolio Manager (NSW)	NA
Mar-20	Mitchell Molloy	Investment Analyst	Student
Dec-20	Tyler Appleby	Financial Controller	Finance Manager
Oct-21	Rafferty Parer	Investment Analyst	Student
Mar-21	Miguel Dennis	Portfolio Manager (VIC)	NA
Mar-21	Scott Morgan	Senior Portfolio Manager (NSW)	360 Capital
May-21	Sonia Harding	Assistant Portfolio Manager (QLD)	NA
Jan 2022	Mason Clarke	Lawyer – Compliance & Risk	Queensland Health
Feb 2022	Genevieve Naughton	Portfolio Manager (NSW)	360 Capital
June 2022	David Bulbrook	Property Asset Manager	Goodman Group Limited
Feb 2022	Ross Perkins	Executive – Property & Lending	m3 Property
Oct 2022	Ralph Cullen	Senior Portfolio Manager (NSW)	Portside Credit Partners
Jan 2023	Craig Jamieson	Senior Portfolio Manager (VIC)	Monark Property Planning
Oct 2022	Aaron Lee	Head of Marketing	RideSmart
Mar 2022	Hugh Greenwood	Assistant Portfolio Manager	Hillside New Media

SQM Research observes that the levels of investment experience and company tenure are strong across the senior management team. The company tenure of the Portfolio Management team is limited. In SQM's view, the size and nature of the Fund-related investment staff turnover, whilst higher than average, are not materially related to investment/lending decision making, and therefore are not an issue of concern (apart from what is noted above regarding the Financial Controllers).

Remuneration and Incentives

Trilogy's remuneration structure is based on a fixed base salary. No commissions or direct performance bonuses are paid to executives. However, the business, on a company-wide basis, conducts a balanced scorecard system that includes rewarding individual and team performance but is balanced by a wide range of qualitative measures of achievement. Several executives have acquired minority equity in the holding Trust for Trilogy Services Trust.

Members of the Distribution team receive a portion of their overall remuneration (using the Balanced Scorecard) as a performance bonus. It is important to note that none of the Distribution staff members can vote in the loan approval process.

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

SQM Research believes access to firm equity independent actions of lending staff members align effectively with the Trust in terms of incentives and compliant practices.

Fees and Costs	Fund	Peer Avg
Management Fee (% p.a.)	0.96%	1.25%
Expense Recovery (% p.a.)	–	–
Performance Fee (%)	0.00%	0.00%
Total Cost Ratio (TCR) (% p.a.)	0.96%	1.36%
Buy Spread (%)	0.00%	0.00%
Sell Spread (%)	0.00%	0.00%

Redemptions: Four months' notice is required for processing withdrawals (in addition to the two-month minimum holding period for initial investments)

Management Fees

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

The Trust has a management expense ratio of **0.96%** that consists of an annual management fee of **0.70%** plus a management cost recovery of **0.26%**. The expense recoveries include the normal recovery expenses relating to the operation of the Trust, although it does not consider abnormal account expenses, which may be payable from assets of the Trust. The annual management fee and expense recoveries are applied to the Trust's total gross value of mortgage investments and cash held in the Trust.

Other Fees

Trilogy Funds Management Limited or a related party can retain fees that are charged to the borrower. Included in these fees are loan application fees, loan administration fees, early repayment fees, performance-based fees, loan extension fees and security release fees.

The Trust may levy a 2.00% charge (plus GST) on the value of units being transferred to another party.

Performance Fees

The Fund does not charge a performance fee

SQM Research observes that:

- ***The Fund's Management Fee is 29 basis points lower than the peer group average.***
- ***The TCR is 40 basis points lower than the peer group average.***

Risk/Return Data to 31 December 2022							
Total Return	**1-Month**	**3-Month**	**6-Month**	**1-Year**	**3-Year**	**5-Year**	**Inception**
Fund	0.57	1.68	3.13	5.64	5.95	6.60	7.45
Reference Index	-2.03	1.19	1.44	-6.81	0.69	4.46	8.27
Peer Average	0.27	0.93	1.75	3.04	3.48	3.52	4.49
Alpha	2.61	0.49	1.69	12.45	5.26	2.14	-0.82
Metrics				**1-Year**	**3-Year**	**5-Year**	**Inception**
Tracking Error (% p.a.) - Fund				7.01	6.01	5.14	4.05
Tracking Error (% p.a.) - Peer Average				7.04	5.90	4.92	4.08
Volatility - Fund (% p.a.)				0.24	0.20	0.27	0.32
Volatility - Peer Average (% p.a.)				0.21	0.69	0.59	0.44
Volatility - Reference Index (% p.a.)				7.08	6.05	5.23	4.12

Distributions reinvested. Returns beyond one year are annualised. Return history starts Mar-2007

Reference Index: Bloomberg AusBond Bank 0+Y TR AUD + 4.00%

Note: There may be very minor differences in the returns data based on the rounding of numbers and the start date used.

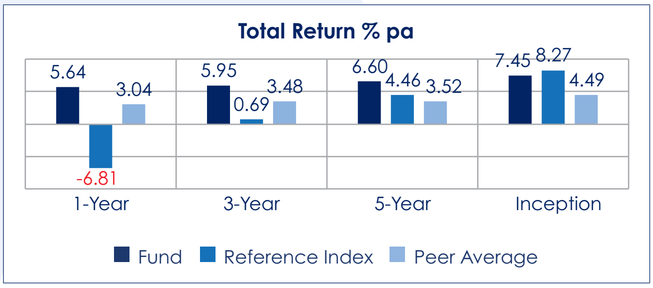
Note: The Trust does not specify a formal performance benchmark (in the PDS). In the past, the Trust has used the Ausbond Bank Bill Index +2% p.a. as the benchmark and later moved to a target range of 7% to 8% from January 2015. This was done to adequately reflect the risk profile of the Trust.

SQM Research notes that there should be a performance hurdle in addition to the Bank Bill Index in order to reflect the risk-return profile of the Trust, which is riskier than traditional bank bill markets. An outperformance hurdle of **4%-5%** pa has been deemed reasonable. ***Therefore, SQM Research has used the Ausbond Bank Bill Index +4% p.a. as a 'Reference Index' for performance comparison purposes only.***

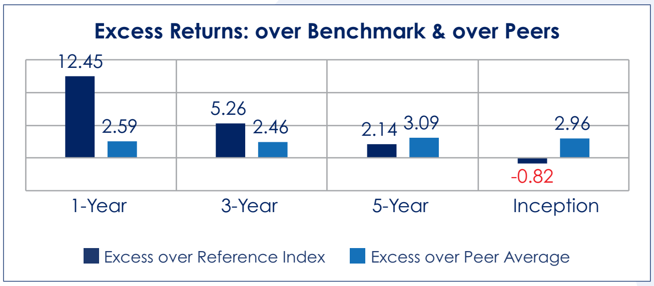
Quantitative Insight[1]

Note: Unless otherwise stated, all return and risk data reported in this section are **after-fees** and for **periods ending Dec-2022**

Returns



Excess Returns (Alpha)

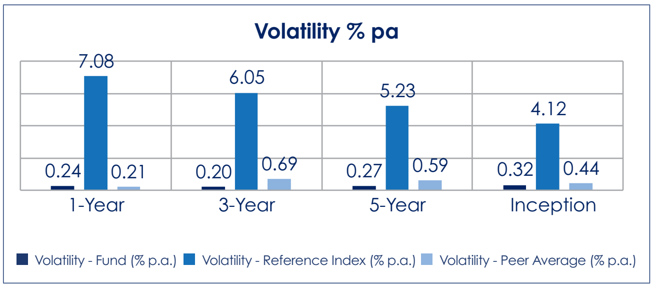


The Trust has displayed good/strong performance across almost all periods against the Reference Index and the Peers.

SQM Research notes *that the Trust's performance (on an absolute returns basis), like most other Mortgage Funds, has been very resilient during the* ***COVID-19 pandemic*** *(since March 2020). The Mortgage/Property construction & development sector did see some challenges during that period, but the Australian Government's stimulus and the loan repayment deferrals by the Banks/Non-Banks helped the sector to remain resilient during this challenging period. Also, the performance has been very resilient since the volatility (across asset classes) caused by* ***Russia's invasion of Ukraine*** *in February 2022.*

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

Risk



The Fund's **volatility** (standard deviation of monthly returns) has tended to be *similar or lower* than the peers for all time periods, including on a since inception basis.

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

As a general comment on the sector, the true overall risk level in Mortgage Funds is determined by a range of risks, including (but not limited to): default/capital loss, liquidity, concentration, and interest rates risk. Advisers/ Investors should read the 'Risks' section of the PDS to understand those risks.

SQM Research holds the view that the low volatility of returns often displayed by Mortgage Funds should not be interpreted as implying that these Funds have a low level of risk. Low volatility of returns (in this sector) is an artificial construct caused by an absence of frequent mark-to-market valuation of a Mortgage Fund's assets and the accrual nature of these products.

Therefore, Fund metrics such as Volatility, Tracking Error, Information Ratio, and Sharpe Ratio add little statistical value (within the Mortgage Funds sector).

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

Fund Constraints and Risk Limits	Permitted Range or Limit
Property Type	
Residential	No firm limit - the target is 0 - 50%
Commercial	-
Industrial	-
Retail	-
Construction / Development	No firm limit - the target is 0-70%
Rural	-
Vacant Land	-
Cash	No firm limit - the target is 5 - 20%
Interest-bearing securities	-
State/Region	
NSW	Target is 10-50%
QLD	Target is 20-50%
VIC	Target is 10-40%
WA	-
Other	-

Drawdown

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

Alpha

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

Alpha = Fund Return – Benchmark Return

A General Note on Distributions for Managed Funds

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

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

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

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

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

Total Cost Ratio (TCR)

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

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

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