Trilogy Monthly Income Trust

This report has been prepared for financial advisers only

Superior

May 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

This Research Report is current as at the date on the report until it is replaced, updated or withdrawn. SQM Research reports are generally valid for a term of approximately 12 months but may be replaced, withdrawn or changed at any time as judged appropriate by SQM Research.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

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Report Date: 1 May 2020

Star Rating *	Description	Definition	Investment Grading
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
Custodian	The Trust Company (Australia) Limited
Fund Information	
Fund Inception Date	1 Feb 2007
Fund Size	$ 420 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%
Number of Loans/Positions	Approximately 85 Loans
Fund Leverage	Not Applicable (Currently)
Turnover	Not Applicable
Top 10 Holdings Weight	Approximately 25%
Investor Information	
Minimum Application	$10,000
Redemption Policy	Four months' notice is generally required for processing withdrawals (in addition to the two months 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
Management Fee	0.96% p.a.
ICR – latest	0.96% p.a. for the last FY
Buy Spread	Not Applicable
Sell Spread	Not Applicable
Performance Fee Rate	Not Applicable

Fund Summary

Description

The **Trilogy Monthly Income Trust (the "Trust")** is an unlisted registered managed investment scheme aimed at investors looking to gain 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 rezoning risk. 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 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 & Key Observations

1. People and Resources

About the Manager

Trilogy Funds Management Limited (Trilogy) can trace its origins back to 1998, and in 2004 interests associated with Rodger Bacon, John Barry and Phil Ryan merged. Rodger Bacon and John Barry were formerly executive directors of Challenger International Limited and David Hogan was executive director of Challenger Property Capital Limited. The team has a strong background in structuring and managing property investments. The investment offerings at Trilogy are mortgages and unlisted property trusts.

The investment strategy of the Trust is to source loans, secured by registered first mortgages geographically spread over Queensland, New South Wales, Victoria and the Australian Capital Territory. Trilogy Funds Management Limited has extensive resources and scale, across its main lending markets in Queensland, NSW and Victoria. The team and FUM has grown over the years reflecting strong growth in the company.

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 appropriate experience in property finance and banking and property development. A reporting line to Mr Arentz of **five** Portfolio Managers - Mr Jack Mihalovic, Mr Andrew Gillespie, Mr Darren Martin, Mr Geoff Coakley and Mr Greg Turner - has been established, each with responsibility for a group of clients within a geographic territory. The Lending Committee has considerable experience.

More details on the Investment Team and the Committee(s) are provided later in the report. SQM Research observes that there has been some staff turnover over the last 2 years, including some relatively senior staff members.

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

2. Investment Process and Philosophy

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

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. Portfolio Characteristics

Liquidity

While FUM has grown to reduce liquidity risk somewhat, the Trust is considered an illiquid investment vehicle.

Leverage

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

4. Performance & Risk

Return Objective & Performance

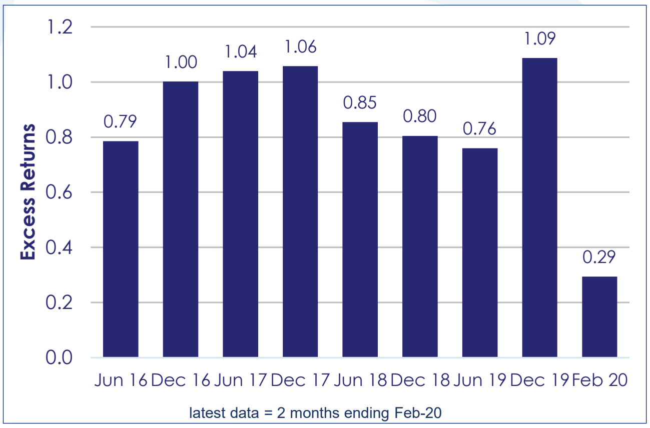
The Trust does not specify a formal performance benchmark (in the PDS).

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% p.a** has been deemed reasonable. ***Therefore, SQM Research has used the Ausbond Bank Bill Index +4% p.a. as the benchmark.***

Over the **twelve-months to Feb-2020,** the Fund returned 7.36% (after fees) compared to 5.35% for the benchmark. This is an outperformance of 2.01%.

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



Length of Track Record

The Trust has a history of almost 12 years. As a result, observations and analysis of the Fund's returns will have some practical 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".

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).

5. Other Features

Fees and Costs	Fund	Peer Avg
Management Fee (% p.a.)	0.96%	1.05%
Expense Recovery (% p.a.)	Nil	-
Performance Fee (%)	0.00%	0.00%
Buy Spread (%)	0.00%	0.00%
Sell Spread (%)	0.00%	0.00%

Management Fee

- Expressed as a percentage rate per annum of the Fund's Net Asset Value ("NAV")
- Calculated 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 (including the Chairman). 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 **39** 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 **32** 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 from the existing structure for the operation of its other funds, with an investment committee, treasury committee, audit committee and PDS due diligence committee.

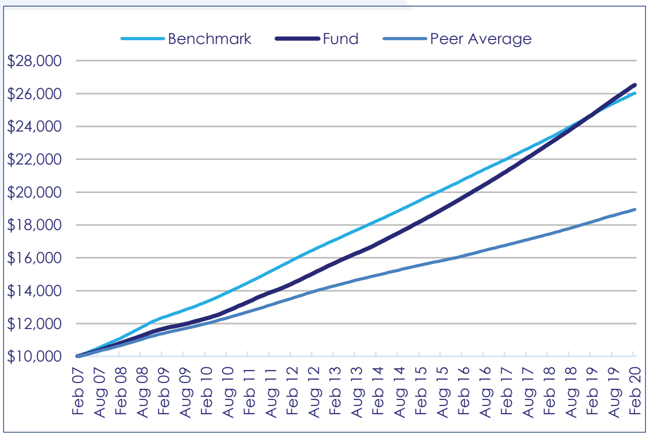
FUM (Funds Under Management) / Capacity

The Fund currently has FUM of $420 million (as at Feb. 2020).

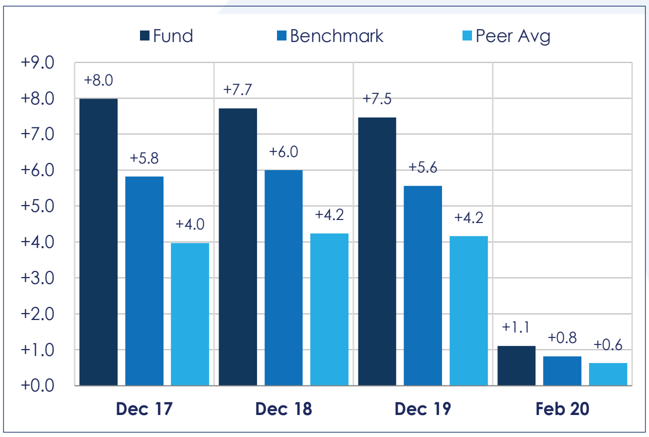
Fund Performance to 29 February 2020 (% p.a.)							
Total Return	**1-Month**	**3-Month**	**6-Month**	**1-Year**	**3-Year**	**5-Year**	**Inception**
Fund [1]	0.53	1.70	3.47	7.36	7.66	7.80	7.79
Benchmark [2]	0.40	1.22	2.47	5.35	5.75	5.93	7.64
Peer Average	0.31	0.95	1.93	4.11	4.15	3.32	4.77
Alpha	0.12	0.48	1.00	2.01	1.91	1.87	0.16

1. Assumes dividend reinvestment. Returns one year and longer are annualised. Return history starts Mar-2007
2. Benchmark: Bloomberg AusBond Bank Bill Index + 4.00%

Growth of $10,000



Annual Returns



Strengths of the Trust

- Trilogy has a track record of over 20 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 feasibility study in addition to the existing valuations 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 averaging LVR is 62.7% (on an 'as if complete' basis), which provides an increased safety buffer to investors.

Weaknesses of the Trust

- 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 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 (with increased lending in NSW and Victoria).

Other Considerations

- The Fund is a Pooled Mortgage Scheme.
- Some of the key Portfolio Metrics of the Fund are:
    - Full-doc loans are 100% of the book and Low-doc loans are 0% of the book
    - 100% of the book is invested in First mortgages
    - Weighted Average LVR is about 62.7%, on an 'as if complete' basis
    - Loan maturity: 100% of the book has a loan maturity of <2 years
    - Interest rate type split is 0% Variable and 100% Fixed, and the Average Interest Rate charged is 10.83%
    - Non-performing loans (NPL) >30 days are about 2.8% of the book (3 loans with the value of $10.2 mn)
    - Residential sub-sector represents a large part of the book, at about 57%, and Vacant Land at 34%.
    - Construction loans represent about 58% of the book
    - Average Loan Size is about $4-4.5 million, and has seen an increase over the last year.
- Risk reporting and loans management processes are strictly adhered to.
- 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, during the last year the RE removed the complication and moved to a simple and more typical single unit structure.
- The Mortgage Funds sector is dependent on certain key macro-economic 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

- There have been some staff changes – Mr David Somervile (Financial Controller) & Ms Nicole Singer (Legal Risk and Compliance Manager) departed the firm. Details later in the report.
- No material changes to the investment process.

Process Description

Universe	
Investable Universe	The Trust aims to provide regular income streams to investors across a range of different market conditions. This will be achieved through its exposure across a range of first mortgages secured over improved and unimproved property. The Trust primarily invests in short-term registered first mortgages. The Trust provides funding for construction, land subdivision and some investment loans across all major property sectors, including Residential, 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. As part of its portfolio diversification strategy, the Trust may invest in other registered managed investment schemes that invest in cash style investments, registered first mortgages, but only where the lending criteria of the Trust is met. At the date of the report, the Trust had no investments in other non-Trilogy managed investment schemes.

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 utilising 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 utilises external information from Valuers, Quantity Surveyors and Property Consultants and Agents. **<u>Investment Process</u>** 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.

Investment Process

Research and Portfolio Construction Process

...continued

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.

Loan Approval - If the application and information appear to be satisfactory once 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. The Lending Committee comprises of Mr David Hogan (Chairman), Mr Roger Bacon (Member), Mr Phillip Ryan (Member), Mr Rohan Butcher (Member) and Mr Justin Smart (Member).

To be approved, loans must have:

- 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 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 predominantly for business purposes.
- Acceptable property risk outlook for sector and locations and consequent repayment strategy

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 settlement. In certain situations, such as pre-paid interest or the progressive draw-down 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 into between the Custodian and the borrower with respect to 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 with respect to, among other things, the calculation of interest and the loan monitoring fee, the method of repayment and the right of early repayment. Trilogy generally requires 80% - 100% of net sale proceeds of any security property sold to be applied against the loan principal.

Investment Process

Research and Portfolio Construction Process

...continued

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.

Valuations

To advance on any loan, the Trust has to ensure that the property has been valued by one of the 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 in which 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 which clearly sets out the primary methodology used and if so requested, a secondary check valuation methodology, by the instructions.
- The report must comment as to whether the mortgaged property represents adequate security for mortgage purposes as appropriate.
- All valuations must be no more than four months old as at 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 valuation firm) conducts more than 1/3 of the total valuation work undertaken for the Trust.
- Include a statement in their valuation reports as to whether the valuation complies with all relevant industry and 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 take into account 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 draw-down 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.

Investment Process

Research and Portfolio Construction Process

...continued

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.

In some instances, where an application is made and Trilogy Funds Management Limited considers it appropriate, loan extensions of up to six months 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 being 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 which flag when breaches occur or 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 draw-down 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.

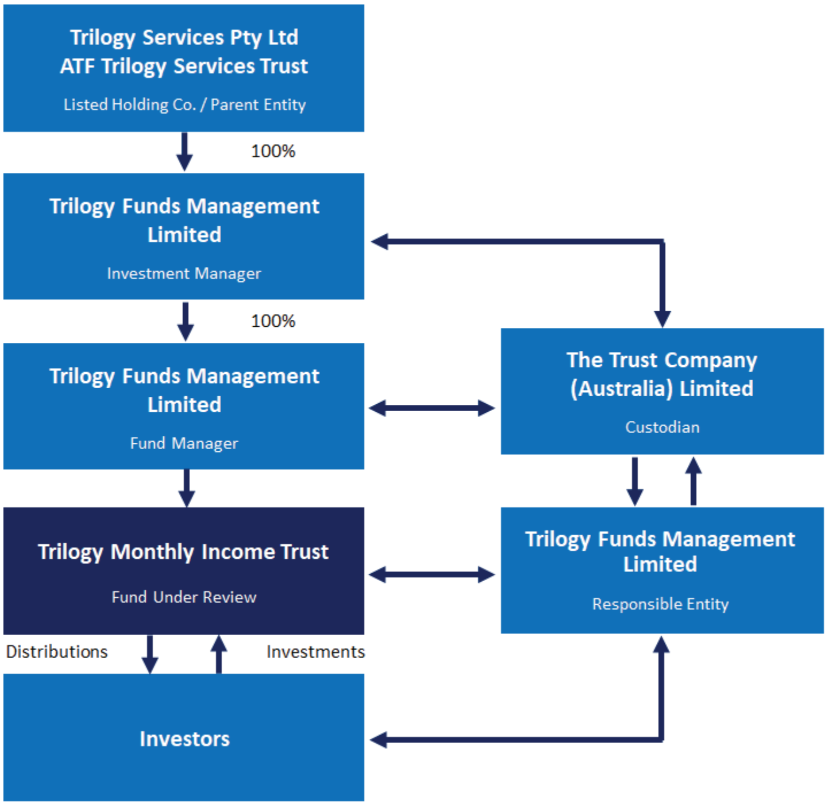
The Treasury Committee comprises of:

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

Investment Process

Research and Portfolio Construction Process **...continued**	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 latest Lending Department individual loan forecasts These forecasts are stressed tested on a regular basis via a sensitivity analysis that is 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 Accountant provides the Committee members with a spreadsheet depicting budgeted and actual loan requirements for loan settlements and draw-downs. Additionally, the Distribution team has put in place a daily report on Trust inflows and outflows.

Key Counterparties



Parent Company

Trilogy Group Holdings Trust is a newly formed holding trust for the Trilogy Funds Group (TFG), a private group formed by ex-Challenger International Limited (Challenger) directors Rodger Bacon and John Barry. The formation of TFG occurred 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. As part of the formation process, TFG acquired boutique property manager MDRN Investments Limited (MDRN) from a Brisbane-based legal firm.

MDRN's history dates back to 1998. MDRN was formed by current Trilogy Group Holdings' Managing Director Philip Ryan to undertake property syndications and syndicated mortgage investments. TFG is head-quartered in Brisbane, with an office also in Sydney.

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 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 (including the Chairman). 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 **39** 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 **32** 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 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 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.

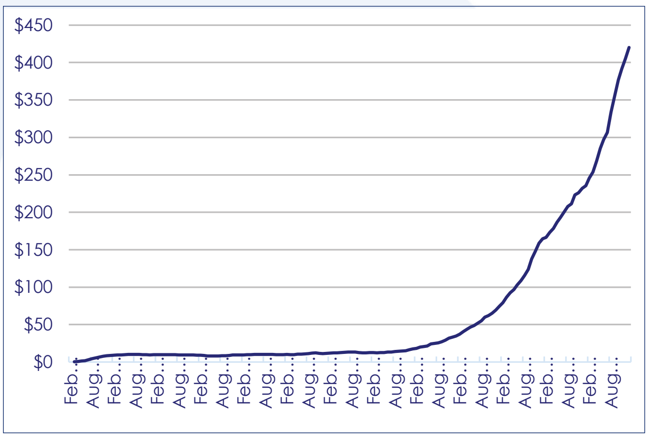
Based on the materials reviewed, SQM Research believes that Trilogy and associated key counter-parties are highly qualified to carry out their assigned responsibilities. Management risk is rated as being low.

Funds Under Management (FUM)

The Fund is approximately $420 million in size **(as at Feb. 2020).**

Date	FUM
Jun-18	$193.1
Sep-18	$211.3
Dec-18	$232.1
Mar-19	$253.7
Jun-19	$297.1
Sep-19	$355.2
Dec-19	$405.0
Jan-20	$419.9

FUM for Fund under Review ($mill)



Distributions

The Fund has discretion in choosing the frequency of 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.

Distributions are a key aspect of the Fund.

Distributions Amount - cents per unit

Distribution Date	Distribution CPU	Unit Price $	Distribution $
May-19	0.65	$1.000	0.65
Jun-19	0.64	$1.000	0.64
Jul-19	0.64	$1.000	0.64
Aug-19	0.64	$1.000	0.64
Sep-19	0.62	$1.000	0.62
Oct-19	0.60	$1.000	0.60
Nov-19	0.59	$1.000	0.59
Dec-19	0.60	$1.000	0.60
Jan-20	0.60	$1.000	0.60

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 or 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 Investment Staff				
Name	**Responsibility/Position**	**Location**	**Years at Firm**	**Years in Industry**
Adam Somerville	Financial Controller	Brisbane	1.0	20.0
John Barry	Executive Director	Sydney	21.0	42.0
Phil Ryan	Managing Director	Brisbane	14.0	33.0
Rodger Bacon	Executive Deputy Chairman	Sydney	21.0	48.0
Justin Smart	Chief Operating Officer	Brisbane	12.0	13.0
David Hogan	Head of Property Assets	Sydney	14.0	46.0
Henry Elgood	Head of Governance & Risk	Brisbane	3.0	3.0
Clinton Arentz	Head of Lending	Brisbane	2.0	26.0
Geoffrey Coakley	Portfolio Manager (NSW)	Sydney	5.0	34.0
Andrew Gillespie	Portfolio Manager (QLD)	Brisbane	3.0	22.0
Jack Mihajlovic	Portfolio Manager (QLD)	Brisbane	3.0	26.0
Darren Martin	Portfolio Manager (QLD)	Melbourne	2.0	26.0
Greg Turner	Assistant Portfolio Manager (QLD)	Brisbane	1.0	6.0
		Average	**7.8**	**26.5**

Investment Team

The Head of Lending is Mr **Clinton Arentz**. A reporting line to Mr Arentz of **five** portfolio managers - Mr Jack Mihalovic, Mr Andrew Gillespie, Mr Darren Martin, Mr Geoff Coakley and Mr Greg Turner - has been established, each with responsibility for a group of clients within a geographic territory.

The investment team is further supported by the broader resources of Trilogy, and the Committees. **Justin Smart** is the Chief Operating 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 and Sydney, 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 travel frequently, especially between Brisbane and Sydney

The Finance, Compliance, Lending, Treasury and Distribution departments hold weekly meetings of all team members to discuss ongoing operations within both their department 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 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
31-Jan-20	Carl Thompson	Portfolio Manager (NSW)	Exploring new opportunities

Additions / Hires			
Date	**Name**	**New Responsibility**	**Previous Position/ Employer**
01-Jul-18	David Somerville	Financial Controller	NA
01-Jul-18	Darren Martin	Portfolio Manager	NA
01-Oct-18	Carl Thompson	Portfolio Manager	NA
30-Sep-19	Greg Turner	Assistant Portfolio Manager	Red & Co
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 entire investment team. The levels 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 21 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

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.

Clinton Arentz: Head of Lending and Property

Mr Arentz has 25 years of direct experience in asset management, property development, and finance. He has provided development delivery services on a large number of commercial, industrial & residential projects in Queensland and the NT. Mr Arentz has deep market knowledge & an extensive contact base in Brisbane, Darwin, Central Queensland and Gold Coast markets from direct project delivery experience, start-up to completion.

Mr Arentz is a high-energy, collaborative team player, an experienced company director, a member of the FINSIA, and currently completing his MBA through Australian Institute of Business.

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 which includes rewarding individual and team performance but 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 cast a vote in the loan approval process.

Trilogy 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 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%	1.05%
Expense Recovery (% p.a.)	Nil	-
Performance Fee (%)	0.00%	0.00%
Indirect Cost Ratio ICR (% p.a.)	0.96%	1.30%
ICR Date: 30-Jun-2019		
Buy Spread (%)	0.00%	0.00%
Sell Spread (%)	0.00%	0.00%
Other Features	**Fund**	**Peer Avg**
Redemptions	* See below	-
Distributions	Monthly	-
Minimum Investment	$10,000	$15,716
1-year Investment: Round Trip Cost	0.96%	1.05%

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

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

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

Management fee is calculated daily and paid monthly.

The Trust has a management expense ratio of 0.96% that consists of an annual management fee of 0.70% plus 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 take into account 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.

Overall Fees

1-year Investment: Round Trip Cost.

If held and redeemed within 12 months, total costs would amount to **0.96%** 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 management fee is 0.96% p.a., which is 9 basis points lower than the peer group average of 1.05% p.a.***

Risk/Return data to 29 February 2020 (% p.a.)							
Total Return	**1-Month**	**3-Month**	**6-Month**	**1-Year**	**3-Year**	**5-Year**	**Inception**
Fund [1]	0.53	1.70	3.47	7.36	7.66	7.80	7.79
Benchmark [2]	0.40	1.22	2.47	5.35	5.75	5.93	7.64
Peer Average	0.31	0.95	1.93	4.11	4.15	3.32	4.77
Alpha	0.12	0.48	1.00	2.01	1.91	1.87	0.16

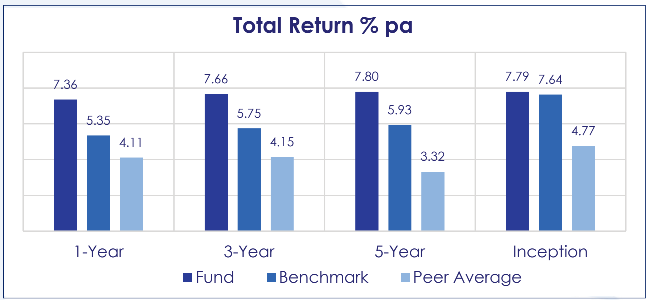
Metrics	1-Year	3-Year	5-Year	Inception
Tracking Error (% p.a.) - Fund	0.09	0.09	0.09	0.53
Tracking Error (% p.a.) - Peer Average	0.08	0.12	0.09	0.24
Information Ratio - Fund	NM	NM	NM	NM
Information Ratio - Peer Average	NM	NM	NM	NM
Sharpe Ratio - Fund	NM	NM	NM	NM
Sharpe Ratio - Peer Average	NM	NM	NM	NM
Volatility - Fund (% p.a.)	0.10	0.09	0.09	0.26
Volatility - Peer Average (% p.a.)	0.07	0.11	0.09	0.40
Volatility - Benchmark (% p.a.)	0.13	0.11	0.12	0.53
Beta based on stated Benchmark	0.59	0.51	0.50	0.13

1. Assumes dividend reinvestment. Returns one year and longer are annualised. Return history starts Mar-2007
2. Benchmark: Bloomberg AusBond Bank Bill Index + 4.00%
3. NM refrs to Not Meaningful

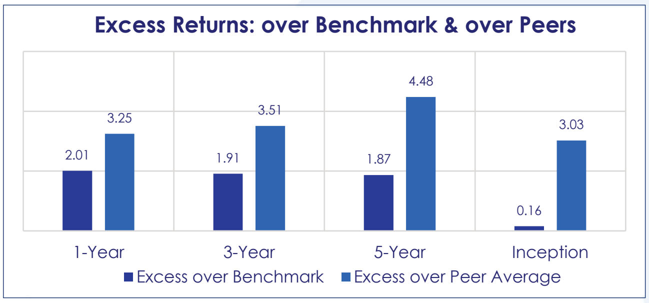
Quantitative Insight[1]

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

Returns



Excess Returns (Alpha)



The Trust has displayed strong performance across all periods against both the benchmark and the peers.

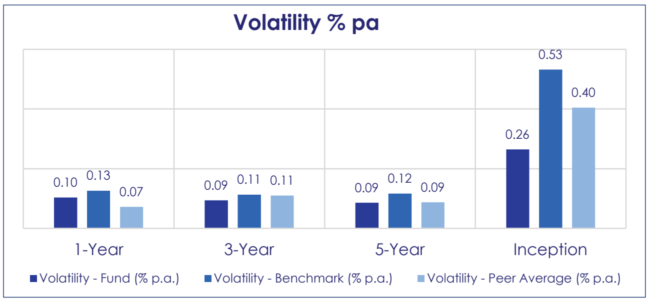
The Trust does not specify a formal performance benchmark (in the PDS).

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 the benchmark.***

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 to the peers, for almost all time periods, but has been lower than the peers 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.

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 outline 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 - target is 0 - 50%
Commercial	
Industrial	
Retail	
Construction / Development	No firm limit - target is 0-70%
Rural	
Vacant Land	
Cash	No firm limit - 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	

The Trust's asset allocation, sector weights and other portfolio metrics are detailed below:

Trilogy Monthly Income Trust - 31 Jan-2020

Key Statistics	Fund
Market Value ($m)	$ 420,585,021
No. Positions	83 loans
Borrower Credit Strength	**Weight**
Strong	0.00%
Acceptable	0.00%
Performing	96.80%
Clear	0.00%
Prime	0.00%
CR2	0.00%
CR1	0.00%
Other	3.20%

Maturity Profile - years	Weight
0-2	100.00%
3-6	0.00%
7-10	0.00%
10+	0.00%
Cash	0.00%

Sector Profile	Weight
Residential - Investment	13.14%
Residential - Owner Occupied	0.00%
Construction	58.16%
Commercial	6.29%
Industrial	0.00%
Vacant Land	33.97%
Rural	0.00%
Office	0.00%
Retail	0.00%
Cash	0.00%

Geography Profile	Weight
NSW	32.40%
QLD	63.78%
VIC	15.38%
WA	0.00%
SA	0.00%
NT	0.00%
TAS	0.00%
ACT	0.00%
Other	0.00%

Loan Type	Weight
Full-doc	100.00%
Low-doc	0.00%
Conforming	96.80%
Non-conforming	3.20%
First Mortgage	100.00%
Second Mortgage	0.00%
Other	0.00%

Loan Purpose	Weight
Bridging facility	0.00%
Equity for development	86.86%
Equity for investment	13.14%
Equity for renovations	0.00%
Equity release	0.00%
Owner Occupied	0.00%
Refinance	0.00%

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