

TRILOGY MONTHLY INCOME TRUST

APIR: TGY0003AU

Date: 13 November 2019



Investment Rating Report

Investment Rating: **STRONG**
Product Complexity: **YELLOW - Complex Product**

Fund Details

Investment Manager: Trilogy Funds Management, ABN 16 615 429 386

Investment Structure: Australian Unit Trust

Wholesale/Retail: Retail & Wholesale

Category: Mortgage Trust

Investment Style: Active management of mortgages over Australian property.

Inception: February 2007

Management Fee: 0.96% retail

Platform & Adviser Assisted: 0.46%

Responsible Entity: Trilogy Funds Management Ltd ABN 59080383679, AFSL 261425

Investment Objective: The Trust seeks to provide investors with a regular monthly income stream by investing in portfolio of loans, secured by first mortgages, over Australian property, primarily on the Eastern seaboard. The present strategy is to lend for the purposes of property development, construction, and refinancing completed stock.

Review Summary

The Trilogy Monthly Income Trust (the Trust) is a pooled mortgage trust which was established in February 2007. The underlying investments are loans secured by first mortgages over property development, construction, and refinancing of completed stock.

Since inception in 2007, the Trilogy Monthly Income Trust has paid a distribution every month, has honoured all withdrawal requests, and maintained a stable unit price of \$1.00.

Trilogy Funds Management Limited (Trilogy Funds) had its origins in 1998 when a Brisbane Law Firm, of which Philip Ryan was a partner, commenced an investment company managing mortgages and property assets. This company was acquired in 2004 by interests associated with the present management when Rodger Bacon and John Barry left their positions at Challenger Financial in 2004, where they were Executive Directors of either Challenger or its subsidiaries.

The team at Trilogy is very experienced, with management having been in this sector before and throughout the GFC. They have built a diversified, risk-averse portfolio of mortgages, which continues to drive strong stable returns.

Performance & Return (30 September 2019)

NET RETURNS (annualised) as at 30 September 2019

| | Return |
|---------|--------|
| 1 month | 7.3%% |
| 1 year | 7.62% |
| 5 year | 7.88% |

Source: Trilogy
Benchmark: Not Applicable

Investment Rating & Product Complexity Indicator

A **STRONG** rating indicates a very strong level of confidence that the Trust can deliver a risk-adjusted return in line with its investment objectives. The Investment Manager for this strategy employs a rigorous process.

Designation as a **COMPLEX** product indicates that the underlying assets require specialist investment skills to acquire and to monitor. In addition, a large proportion of the investments in this Trust are effectively illiquid and investors should have a good understanding of the term and characteristics of the distributions from this type of fund.

Fund Details

| | |
|--|---|
| Fund Name | Trilogy Monthly Income Trust |
| Dominant Strategy | Investment in mortgage secured property loans, including construction loans |
| Investment Structure | Australian Unit Trust |
| Investment Manager | Trilogy Funds Management Ltd |
| Responsible Entity | Trilogy Funds Management Ltd |
| | |
| KEY FEATURES | DESCRIPTION |
| Fund Inception | February 2007 |
| Domicile | Australia |
| Legal Form | Registered Managed Investment Scheme |
| Geographic Mandate | Australia |
| Open | Yes |
| Lock-up | Two months for initial investments. In addition, a four-month notice period is required for redemptions, although they may be processed more quickly at Trilogy's discretion. |
| Management Costs: Direct | 0.96% of total FUM |
| Management Costs: Platform and Adviser Assisted | 0.46% of total FUM |
| Performance Fee | Nil |
| Target Return | Trilogy does not specify a Benchmark for this Trust. |
| Distributions | Distributions are paid monthly in arrears. |
| Loan Investment FUM | \$355.2 million as at 30 September 2019. |
| Minimum Subscription | A\$10,000 |
| Subsequent Subscription | \$1,000 |
| Withdrawals | Withdrawals require a four-month notice period, although they may be processed more quickly at Trilogy's discretion. This is in addition to the two-month lock-up following initial investment. |
| Liquidity | A delay in processing withdrawals may occur where the withdrawal requests exceed the cash reserves of the Trust. In certain circumstances, Trilogy may be entitled to suspend withdrawals due to a lack of liquidity. |
| Entry Fee | Nil |
| Exit Fee | Nil |
| Fund Term | Recommended for at least a three-year investment period. |
| PRIMARY CONTACT | |
| Name and Title | Alison Lancaster – Head of Investor Relations & Distribution |
| Email Address | a.lancaster@trilogyfunds.com.au |
| Telephone Number | 07 3039 2828 |
| Address | Level 23, 10 Eagle Street, Brisbane Queensland 4001 |
| Website | TrilogyFunds.com.au |

Investment Profile

HISTORY/BACKGROUND

Trilogy Funds Management Limited had its origins in 1998 when a Brisbane Law Firm, of which Philip Ryan was a partner, commenced an investment company managing mortgages and property assets. This company was acquired in 2004 by interests associated with the present management when Rodger Bacon and John Barry left their positions at Challenger Financial in 2004, where they were Executive Directors of either Challenger or its subsidiaries.

The Trilogy Monthly Income Trust is a pooled mortgage trust that was established in February 2007. The underlying investments are loans secured by first mortgages over property development, construction, and refinancing of completed stock. Since inception in 2007, the Trilogy Monthly Income Trust has paid a distribution every month, has honoured all withdrawal requests, and maintained a stable unit price of \$1.00.

The five years post the GFC (Global Financial Crisis) were difficult for pooled mortgage funds, with almost all pooled mortgage funds closing and/or in distress. During this time, Trilogy - at the request of investors - managed the sale of assets from an external fund, the City Pacific First Mortgage Fund. It also acted as Responsible Entity (RE) for another external pooled mortgage-related fund.

An additional outcome of the post-GFC mortgage fund upheaval has been much greater scrutiny from the regulator. Mortgage funds now require continuous disclosure of all relevant parameters, including related party transactions, levels of gearing, liquidity, portfolio diversification, and valuation policies.

The environment for private (non-bank) lending has improved significantly in the last few years, with banks facing their own regulatory pressure and with the property sector recovery from post-GFC levels.

OBJECTIVE

The Trust seeks to provide investors with a regular monthly income stream by investing in portfolio of loans over Australian property, primarily on the Eastern seaboard. All loans in the portfolio are secured by first mortgages. The present strategy is to lend for the purposes of property development, construction, and refinancing completed stock.

FUNDS UNDER MANAGEMENT

The Trilogy Monthly Income Trust had funds under management of circa \$335.2m, as at 30 September 2019. In total, Trilogy manages over \$550 million across the mortgage trust, an enhanced cash fund, and property syndicates.

INVESTMENT UNIVERSE

The Trilogy Monthly Income Trust invests in loans of up to \$15m over property within the eastern seaboard of Australia, located within capital cities, regional cities and significant towns and areas. The type of property may be residential, commercial, development, retail, or industrial. Trilogy has typically advanced loans to small subdivisions and townhouse/unit developments/house projects located in SE Queensland, Sydney and Melbourne suburbs and regional coastal areas located within two hours of a capital city.

While all loans must be secured with registered first mortgages with a maximum loan to value (as complete) ratio of 70%, this security is supplemented with relevant guarantees, general security, and other security if deemed relevant by Trilogy.

The Trust may also invest in cash-style assets and investments in other unlisted managed investment schemes for management of liquidity.

Trilogy does not lend to related parties.

Investment Philosophy

Trilogy's investment philosophy is to provide a **stable** monthly income stream through investment in a diverse portfolio of relatively short-term property loans secured by registered first mortgages. The diversification is important to Trilogy as a key risk mitigation tool. To achieve this, they have capped the size of their loans at \$15million in March 2018 and have built a portfolio of 71 loans (as at October 2019).

Trilogy believes that this type of lending is increasingly reliant on private investment, as the major banks step back following the increase in regulation post the GFC. They further believe that identification of geographic regions that are more stable and growing is a key underlying step in the process of identifying suitable loans.

Trilogy also believes that an open-ended mortgage trust, although subject to illiquidity, can be managed in such a way as to satisfy withdrawal requests of investors.

Investment Strategy

The investment strategy for the Trilogy Monthly Income Trust is to provide a portfolio with a stable unit price of \$1.00 through good risk/return performance and significant diversification. The loans in the portfolio will have a maximum loan to value ratio of 70% in order to provide strong downside protection. The Manager is targeting loan size of a maximum of \$15m in order to provide sufficient diversification. In order to increase liquidity, loan terms are capped at a maximum of two years.

The key strategic parameters for provision of diversification and mitigation of risk are:

| | | |
|--|--|---|
| Borrowers Valuers | <ul style="list-style-type: none"> Borrowers and guarantors must be credit-worthy and satisfy the requirements under the Anti-Money Laundering and Counter-Terrorism Act. Exposure to borrowers is closely monitored, with exposure to any single borrower monitored. The Trust appoints an independent valuer and the valuation must be reviewed before funding. The Trust will not lend to any related parties of Trilogy Funds. | |
| Portfolio/Loan Profile | <ul style="list-style-type: none"> The manager is targeting a diverse range of borrowers with no single loan to be greater than \$15m. Use of co-investment in order to improve Fund diversification. Maximum loan term of two years. | |
| Property Location | <p>Lending is for property on the eastern seaboard of Australia. The property must be located in a capital city, a regional city, or a significant town within two hours of a capital city.</p> <p>Targets</p> <ul style="list-style-type: none"> Queensland 20% - 50% New South Wales 10% - 50% Victoria 10% - 40% ACT 10% - 20% | |
| Property Sector as % of Portfolio | <p>The Guidelines are:</p> <ul style="list-style-type: none"> Construction and Development Residential 20% - 70% Commercial 0% - 30% | <ul style="list-style-type: none"> Land (typically a sub-division) 20% - 50% Investment Loans Residential 0% - 50% Commercial 0% - 20% |
| Liquidity | <p>Formal target liquidity of from 5% to 20%. Liquidity is monitored on a 12-month projection basis with stress-tested models.</p> | |
| Loan to Value Ratio | <p>All loans approved for inclusion in the portfolio must be under a maximum loan to value (LVR) of 70%, with the valuation being no older than four months.</p> <ul style="list-style-type: none"> For a property development or construction Loan (development Loan) – up to LVR of 70% of the 'as if complete' valuation. For other Loans – up to LVR of 70% of the 'as is' valuation. | |

Investment Process

The investment team consists of six portfolio managers who are engaged in analysis of potential loans for inclusion in the portfolio. Once a loan is deemed to be appropriate for the Trust strategy, the loan application must go through many stages of due diligence and meet the appropriate conditions before it is approved through the Lending Committee.

The investment team makes use of consultants in its due diligence and ongoing monitoring. In particular:

- All external valuations must be performed by a qualified valuer on Trilogy’s approved panel. The valuer must be independent of both Trilogy and the borrower.
- Quantity surveyors are used in both the due diligence and ongoing stages of the loan.

Process Steps



Ongoing Monitoring

Loans are monitored through ARM, the portfolio management system which monitors progression until repayment. For construction projects, a Quantity Surveyor is used to make periodic (usually monthly) reports and sign off on periodic drawdowns. Drawdowns also need to be signed off by the Portfolio Manager and two other signatories, including a member of the executive team.

Monitoring reports are reviewed by the Lending Committee on a weekly basis to ensure timely payment of interest (and principal) and adherence to ongoing reporting requirements and loan covenants. Defaults such as a delay in having insurance in place or non-adherence to a loan covenant are generally managed by the Portfolio Manager together with the appropriate consultant. When payments are in arrears for seven days, this is managed by the Portfolio Manager with the assistance of Trilogy’s solicitor. If arrears is more than 30 days, or as decided by the Lending Committee, management of the loan is given to a “Work-Out Committee”, which has been established by and reports to the Board.

Portfolio Construction

The suitability of loans for the portfolio is addressed at each stage of the process. The geographical spread, which has historically favoured SE Queensland, is being further diversified with increased resources for NSW. The impact of a new loan on portfolio liquidity is also considered.

Liquidity Management

Liquidity management is a key input to portfolio construction. While this Trust is considered to be a non-liquid investment, liquidity and the ability to honour redemptions is an important part of the strategy. Target liquidity for the Trust is 5% -20%.

The policy of the Trust is to balance the maturity of the assets and the maturity of liabilities. A 12-month rolling projected cash flow report is produced and stress tested by the Treasury Committee. The report is tabled for the Executive Committee regularly and presented to the Board formally every three months.

Liquidity management is further supported by the redemption criteria for the Trust which requires a four-month notice period for redemptions.

Investment Team

The Investment Team is headed by Clinton Arentz who joined Trilogy just over two years ago. Clinton has over 20 years' experience gained through project management of medium density residential, commercial and industrial new development. Clinton Arentz manages a team of six Portfolio Managers who have the collective responsibility for the loans from originating, through due diligence, and ongoing management. The team is supported by the Lending Committee, all of whom are very experienced.

Lending Committee

| Experience | |
|----------------------|--|
| David Hogan | David Hogan is a co-founder of Trilogy in 2004. David has experience in risk management, capital structuring, ending, acquisitions, and property syndications. Prior to joining Trilogy, he was an Executive Director of Challenger, playing a significant role in the development of its international property portfolio. |
| Rodger Bacon | Rodger Bacon is a co-founder of Trilogy and is now Executive Deputy-Chairman. Prior to forming Trilogy, Rodger served as an Executive Director at Challenger International where assisted in the establishment of Challenger Annuities and the development of a property portfolio worth more than \$2.6b. Rodger also worked for 15 years at Schroder Merchant Banking group where he gained experience in all aspects of funds management. He is a Senior Fellow of FINSIA, the Financial Services Institute of Australasia. |
| Philip Ryan | Philip Ryan is a founder and the Managing Director of Trilogy and was instrumental in the formation of the company. He is also a member of Trilogy's Compliance Committee and Investment Committee and acts as General Counsel for Trilogy. Philip has been a solicitor of the Supreme Court of Queensland and of the High Court of Australia for 30 years, specialising in corporate and commercial law. He was a partner in a Brisbane law firm for 20 years and was a founding director of the funds management entity which evolved into Trilogy. In addition to qualifications in law, Philip has qualifications in mortgage lending (Diploma of Mortgage Lending), financial services and investment and is a Fellow of the Financial Services Institute of Australasia. |
| Rohan Butcher | Rohan Butcher is a Non-Executive Director of Trilogy and a member of the Lending Committee. Rohan has more than 20 years' experience in construction and property having worked in quantity surveying, estimating, project administration, development management, planning and project management across both construction and development projects. He has been involved in a number of major projects within the residential, retail, and commercial property sectors, while undertaking a variety of senior appointments with major public and private companies. Rohan is a member of Master Builders Queensland. |

| Experience | |
|---------------------|--|
| Justin Smart | Justin 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, Justin 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. Justin commenced his career with a multinational Chartered Accounting firm, specialising in audit. 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 Justin a unique understanding of driving efficiencies within the industry. |

Portfolio Managers

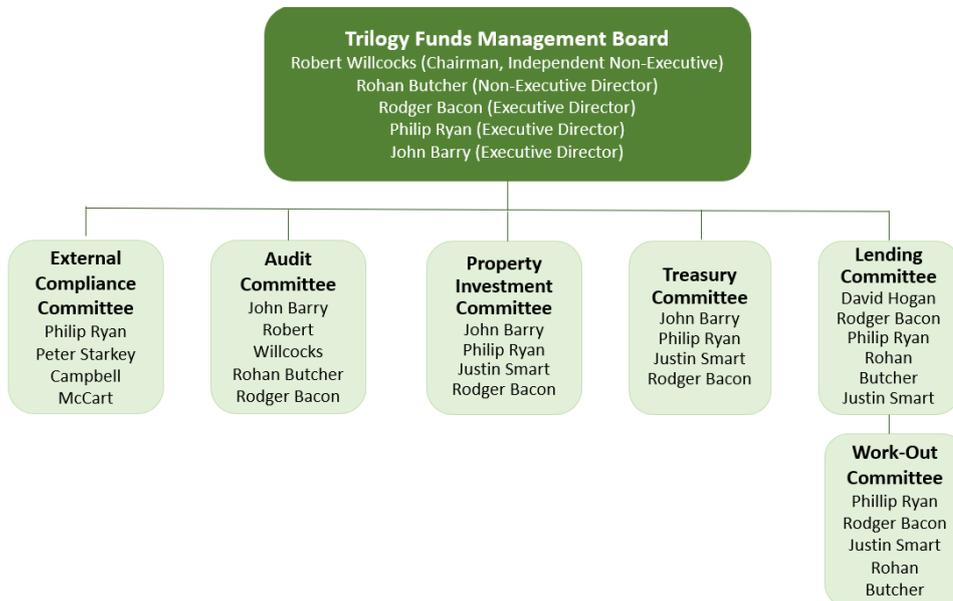
The Portfolio Managers are predominantly located in Brisbane. That being said, members of the team and the Lending Committee commute regularly between Sydney and Brisbane and there is regular communication through teleconferencing.

| | Location | Years with Company/Industry |
|---------------------------------|-----------|-----------------------------|
| Andrew Gillespie, Snr PM | Brisbane | 3/22 |
| Jack Mihajlovic | Brisbane | 3/26 |
| Darren Martin, Snr PM | Melbourne | 2/26 |
| Geoff Coakley | Sydney | 5/34 |
| Carl Thompson | Sydney | 1/16 |
| Greg Turner | Brisbane | 1/6 |

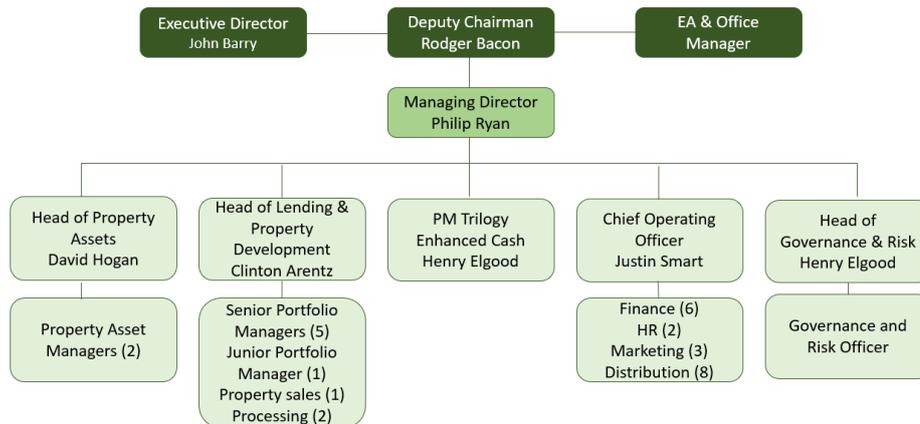
Business Management

The key executives of Trilogy Funds Management are involved at all levels of management and compliance. There are six functional committees reporting to the Board. There is monthly management reporting to the Board. The Treasury Committee, Property Investment Committee, and the Lending Committee meet weekly. The Executive Risk Committee meets monthly and monthly updates are provided to the Board by the Head of Governance & Risk.

Board and Committees



Operations and Investment



The compliance function is overseen by the Managing Director and Head of Governance and Risk. In total, there are 30 staff in the Brisbane office, 12 in Sydney, and one staff member in Melbourne.

Performance

NET RETURNS (annualised) as at 30 September 2019

| | Return |
|----------------|--------|
| 1 month | 7.3%% |
| 1 year | 7.62% |
| 5 year | 7.88% |

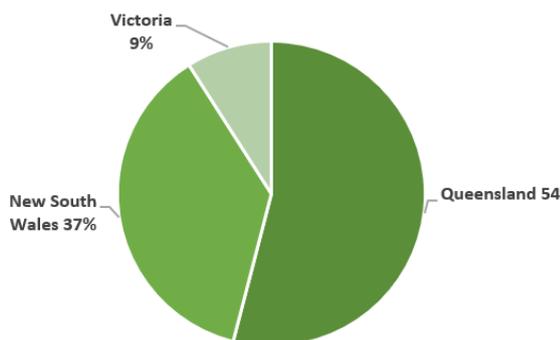
Source: Trilogy

KEY METRICS (as at 14 October 2019)

Total Number of Loans: 71
 Value of Loan Book: Approved: \$392m, Drawn \$260m, Undrawn: \$132m
 Average Loan: \$5,5m
 Max. loan: \$14.6m
 Weighted Average loan expiry: 5.98 months
 Non-Performing Loans >30 days: 1.47%
 Liquidity: 28.5%

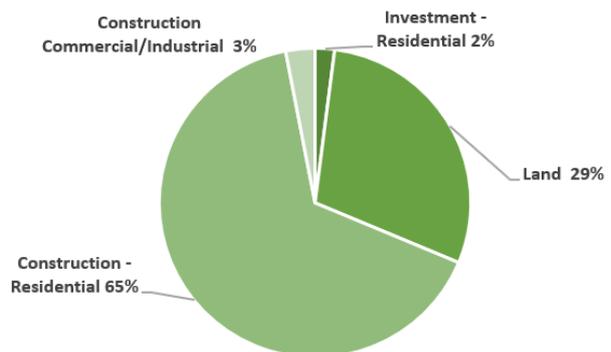
GEOGRAPHIC SPREAD

Geographic Spread - October 2019

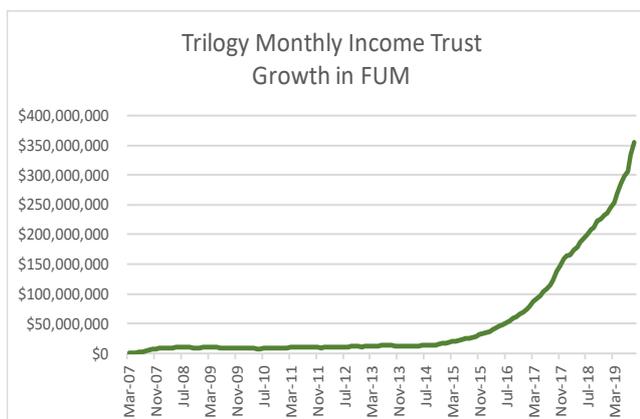
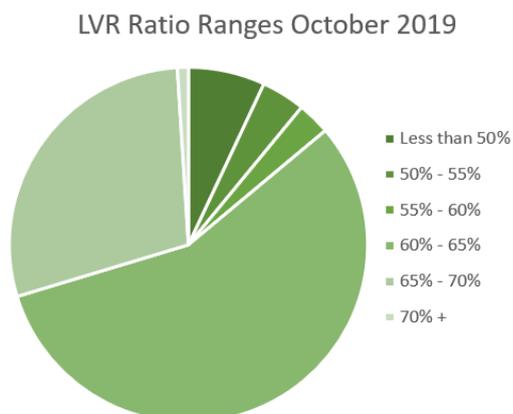


PROPERTY/LOAN TYPE

Property/Loan Type - October 2019



LVR RATIO RANGES



Transparency & Reporting

Investors receive monthly reports showing 1mth, 1yr and 5yr net distributions. The reports show details of liquidity, the number and diversification of loans, updated LVR ranges, and the maturity spread of the loans.

In addition, they receive:

- a receipt of funds notification;
- annual tax statements; and
- annual periodic (transaction) statements, and an annual financial report, if requested.

Trilogy maintains a website that publishes the current RG45 reports and continuous disclosure information. There is a new investor portal that enables the autonomous collection and review of these documents by investors.

Compliance & Risk

Risk management for the Trilogy Monthly Income Trust is embedded throughout the due diligence process and ongoing monitoring. It is reported through the various committees, including the Lending Committee and the Treasury Committee (see section on Investment Strategy.)

Trilogy's compliance management system comprises a framework of policies and procedures which set out roles, responsibilities and tools for identifying and managing compliance obligations. The Compliance Plan for the Trust addresses compliance with the legal framework and Trilogy's ethical standards. The Compliance Plan includes provisions to be adopted for:

- appointment of agents,
- management of the Trust;
- custody of the assets of the Trust;
- valuations;
- methods for the handling of application money;
- Trust assets, income and payments;
- complaints handling and dispute resolution;
- audits;
- conflict of interests;
- monitoring, resolving, and reporting suspected breaches of the Corporations Act; and
- formation and operation of the Compliance Committee.

The compliance function is overseen by the Managing Director and Head of Governance & Risk. Internal policy review is driven by Head of Governance & Risk and Governance & Risk Officer.

THIRD PARTY & SERVICE ADVISORS

| | |
|---------------------------|--|
| Fund Administrator | In-house |
| Custodian | The Trust Company (Australia) Limited |
| Taxation Advisor | PwC Australia (various) and BDO (statutory and compliance audit) |
| External Auditor | BDO Australia |
| Fund Research | In-house |
| IT Consultant | Wyntec and REDD Digital |
| Portfolio Software | In-house |

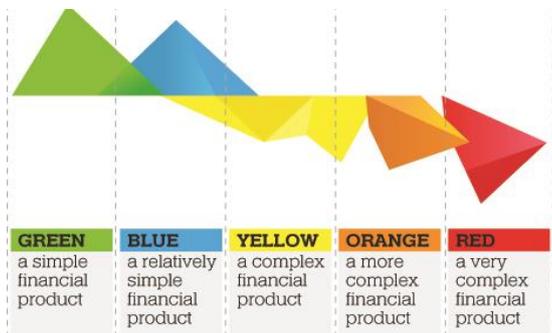
Investment Rating Scale

The Australia Ratings Analytics' investment rating is an opinion on how well we believe a fund will perform against a range of risks.

| Rating | Definition |
|-------------|--|
| Superior | Indicates the highest level of confidence that the fund can deliver a risk adjusted return in line with the investment objectives of the fund. |
| Very Strong | Indicates a very strong conviction that the fund can deliver a risk adjusted return in line with the investment objective of the fund. |
| Strong | Indicates a strong conviction that the fund can deliver a risk adjusted return in line with the investment objective of the fund. |
| Competent | Indicates that the fund may deliver a return in line with the funds relevant benchmark. |
| Weak | Indicates a view that the fund is unlikely to deliver a return in line with the investment objective of the fund and/or meet the returns of its benchmark. |

Product Complexity Indicator

A Product Complexity Indicator (PCI) highlights the complexity of an investment by its terms and conditions' structure and transparency that may affect the investor's return.



Credit Rating & Product Complexity Methodology

Australia Ratings Analytics' methodology for its investment rating and research can be downloaded from its website.

Contact details

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