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30 April 2023

Subject: Q1, 2023 Quarterly/Annual Investor Letter for Trophy Point Lending Fund

About us. If you are new to Trophy Point, we are a short-term or "bridge" real estate lender that primarily lends/funds single-family fix/flip and rental property deals. We offer our investors 7-10% annualized, fixed returns and we take your money and lend it out at higher rates. The partners have $4.5 million personally invested and we take the first on all bad loans up to our equity.

I draft these quarterly update letters with the intent to answer the questions I would have if I were a passive investor, such as: how is my money being deployed, how is it kept safe, and what kind of systems are they running?

Dear Investors and Friends of Trophy Point,

We have closed our 10th quarter of lending operations. This letter was delayed due to the tax season and closing our books in light of a big Q1.

Loans continue to pay back and we have not yet experienced any defaults. We also have not yet experienced any late payments of more than 30 days. This was also our busiest quarter yet with $14 million in loans originated, largely due to a lack of liquidity elsewhere in the markets. Out of our approx $38 million portfolio, our average loan size was $210,000 thus providing adequate diversification across 175+ loans.

In the business world, this quarter was dominated by banking failures and liquidity turmoil. I can't add much to what has already been said by others, but there is one key element I would like to call out.

Failure in finance and real estate often stems from when liabilities become due before assets "mature" or payout. In other words, you don't want short-term liabilities outpacing your longer-term assets. In Trophy Point's case, our loans generally mature within 7-12 months while investor lockup periods are 12 months or longer in addition to our notice periods.

The question on everyone's mind is what's going to happen to real estate with the upcoming recession. The short answer is that some sectors like office buildings are going to be hit hard by a wave of loan defaults and other segments like multi-family may not experience any appreciation as more supply hits the market. The real truth is that these things are hard to predict for a single asset as real estate is a hyper-local game and often depends on well-executed property/asset management.

We remain confident in our portfolio of loans. We have increased lending standards and we are conducting business on assets we would not mind owning at the cost/lending basis that we have. To summarize, our lending criteria for the near future:

1) Minimum 10% down on all loans,
2) Lending no more than 65% of the ARV (after repair value)
3) Loan size must be below $350,000
4) Borrowers have sources of income not tied to real estate
5) We also have additional exclusionary rules around remote ownership and the experience level of each borrower.

Dave Marold, our partner in charge of underwriting, has so far done a fantastic job of making sure that our loans do not present too much trouble which is evident in our results.

The Numbers: Current Portfolio

Trophy Point Investment Group LLC

Balance Sheet
As of March 31, 2023

	TOTAL
ASSETS	
Current Assets	
Bank Accounts	$1,542,611.67
Other Current Assets	$36,236,401.48
Total Current Assets	**$37,779,013.15**
Other Assets	$50,000.00
TOTAL ASSETS	**$37,829,013.15**
LIABILITIES AND EQUITY	
Liabilities	$33,060,955.92
Equity	$4,768,057.23
TOTAL LIABILITIES AND EQUITY	**$37,829,013.15**

Assets = loans we have made or cash in the bank | Liabilities = investor money | Equity = Samir, Nick's and Dave's money (this money takes the first loss on every and any bad loan)

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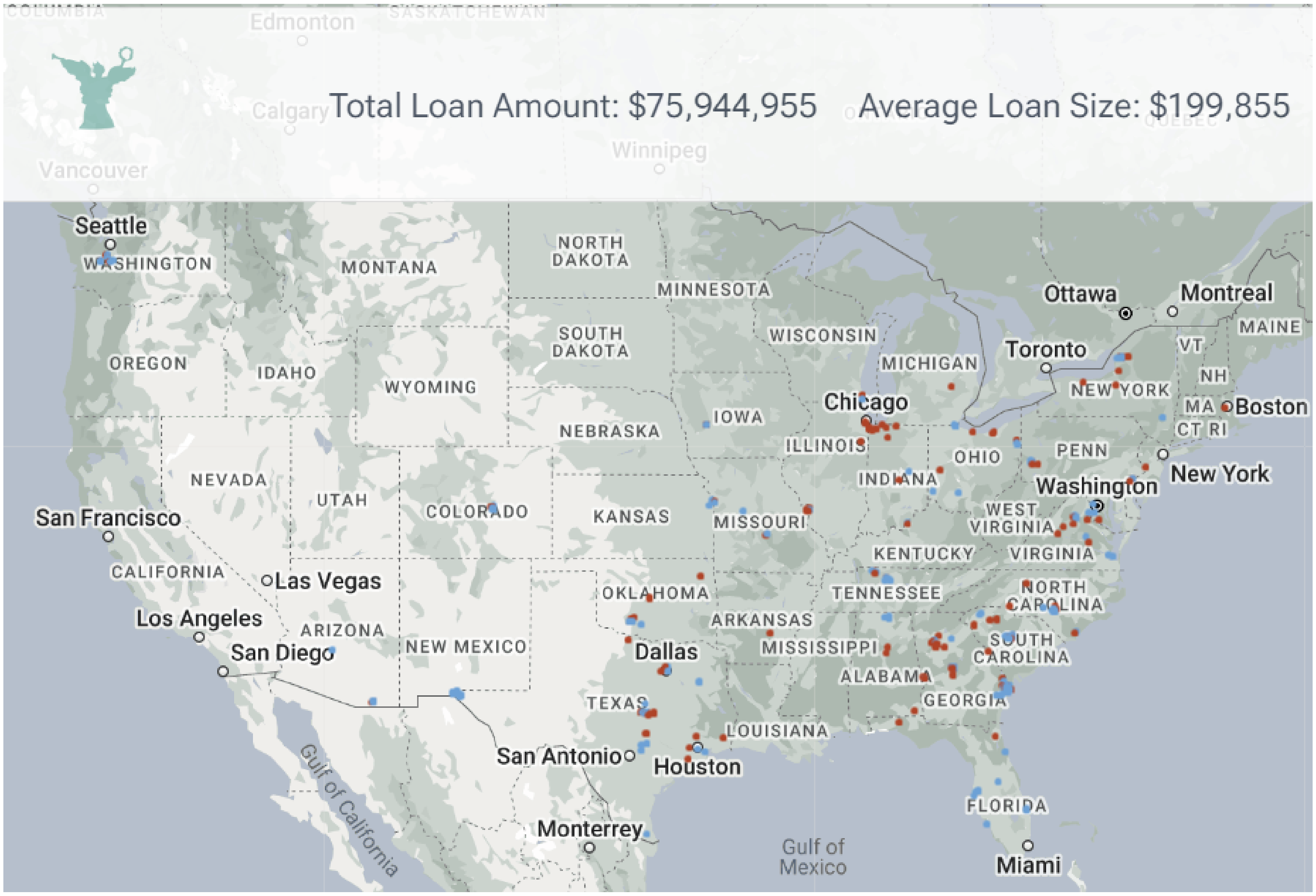
Our Key Metrics:

	This Quarter	**Cumulative (since Aug 2020)**
$ Assets under management	$37.8 million	n/a
# Loans Originated	82	371
$ Loans Originated	$14.2 million	$75.3 million
# Loans Outstanding	177	n/a
$ Loan volume paid back	$4.1 million	$35.0 million
% On-Time Payment Rate of Loans (late payment = 30 days+ late)	100%	100%
Loans in Extension Status	17 $5.8 million (15% of portfolio)	n/a
% Loans in Monetary Default	0% (no defaults)	0% (no defaults)
$ Interest earned by Investors	$615K	$3.8 million
Avg Weighted LTV	68.27%	70.81%
Avg Term	7.8 mos	6.8 mos
Avg Credit Score	730	740



Blue dots = paid-off loans
Red dots = current/active loans
As of 30 April 2023

Commentary

Thoughts on Q1, 2023

This is our 10th quarter in business as a formalized lending operation. We have deployed $75 million and still have not experienced a default (or even a missed payment longer than 30 days). That's the good news. The bad news is that we feel it's still only a matter of time before a default does occur. There are many negative trends projected such as more layoffs and slower consumer spending. Even AI adoption could bring about more net job losses within the next 12-24 months. Furthermore, rising interest rates will cause a decrease in asset values.

Yet despite macro trends, we are sticking to our hyper-local and "defensive" lending strategy, meaning we lend sensibly to borrowers who have a "holistic" ability (income, experience, credit score, etc...) to pay us back. I believe thus far, we have done a good job of avoiding speculative lending and/or becoming involved with borrowers who are stretching themselves too thin. At our scale, it's impossible to not make mistakes but we have many tools and measures at our disposal to ensure we don't lose money. In fact, Nick, Dave, and I take the first loss on bad loans (up to our collective $4.7 million) so we are very much incentivized to not engage in bad deals.

Thoughts on the economy

Where the economy is headed is at the top of every investment professional's mind. If you're asking me, I don't know what's going to happen with any certainty. What I can tell you is that we have mapped out a few scenarios and have adjusted our portfolio/underwriting with these in mind.

If you don't wish to read further, my prediction is that among ALL investable asset classes, I believe the single-family residential sectors will not be hit as hard. Primarily because, unlike in 2008, there is still a housing shortage, and residential lending standards appear to have been disciplined across the country.

Here are three potential scenarios (credit to Dave Wald, an economist who helped me flesh this out):

1. The Fed remains committed to bringing inflation down to 2% and keeps raising rates and reducing liquidity until that happens. This scenario requires the Fed to crush consumer demand until inflation is back to 2%. That means more bank consolidation, household contraction, large declines in asset values, much higher unemployment, and large increases in business failures. And, yes, maybe something breaks. This is why so many 'predict' the Fed will fold on its pursuit of 2% inflation.

2. The Fed accepts a higher level of structural inflation of about 4%, pausing then dropping rates until that happens. This is the 'thank heavens it's finally over scenario. This means a 'lose/lose' compromise, where the 'bargain' is that prices will continue to rise and wage earners will continue to lose ground to inflation, but unemployment will remain low and assets will reflate to some degree after a brief period of discomfort. That 'discomfort' may include structurally higher interest rates. After all, who cares if a cup of coffee costs $10 as long as real estate prices keep going up?

3. The Fed abandons its inflation fight completely, dropping rates back to near zero. This third scenario is most often cited with the belief that the economy was fine before and will be fine again if the Fed would just go back to the way things were before.

It is also frequently cited as the Fed's necessary response to scenario #1. That the Fed will have to abandon its inflation fight in order to once again 'rescue' the economy from the financially painful and politically unpopular demand destruction that the Fed induced to get inflation back to 2%.

There is also a view that the Fed has already crushed the economy, but we just haven't seen the lagging damage yet. The problem with this view is that it is voiced both by those generally anxious about the future of their jobs and investments, as well as by investors and macroeconomists - who may in turn be anxious about the future of their jobs and investments.

I don't know if the overall economy has been crushed yet but I do know that certain sectors of commercial real estate like Office and maybe even Hospitality will get hammered hard. Turmoil in those sectors could touch off issues elsewhere such as banks not getting the full measure of their $1.5 trillion in debt that is due from CRE loans by 2025. I do believe CRE could hit 2008 levels of crises for Office, Hotel, and Industrial assets. I don't see the same happening for single-family or multi-family. In the event of a doomsday scenario, I think the Fed will have no choice but to relent and bring interest rates back down to near zero. Many pundits on TV are saying "Survive til 2025".

To that end, we are being extremely conservative with our lending and enforcing borrowers to either find really good deals or put enough cash into the deal so that we (as the lender) do not mind owning the asset ourselves at the lending basis if we had to foreclose. Believe me, we have quite a few deals that we would love for our borrowers to default on. However, our internal ethical guidelines, adopted from the American Association of Private Lenders which we are a member of, are to never induce a foreclosure if it can be avoided.

You as an investor should take note that I am inherently biased for single-family assets since we lend on it (and a significant portion of mine, Nick's and Dave's net worth is tied into it) so you should of course do your own research. Please share with us what you find.

To me, what matters is if our overall portfolio, despite any loan losses or missed payments, can still support our obligation to you, the investor. These days, we are responsible for sending $600K per quarter to investors. Our team fully recognizes that we should never jeopardize that sacred obligation with bad deals (or any deal) that risk disrupting that payment stream. To that end, we also have a few tools (such as selling loans, lines of credit or offering loan participations) to free up liquidity if the need presents itself (such as in the event of investor redemptions or a large number of loan requests).

Growth

In terms of volume, Q1 was our largest quarter ever, approaching $15 million in new loans. We believe the reason for this was that simply the banks are not lending and liquidity is tightening up across the economy.

I'd like to point out that a significant portion of the private lending industry, for the last 5-10 years, was filled with brokers or firms with a small amount of capital that relied on a few large "table funders" to help them close deals. They in turn would then securitize and sell off those loans. Those table funders ultimately relied on big banks and insurance companies for capital. That spigot has been turned off due to current economic conditions. This has opened a significant opportunity for funds like ours who have the ability to hold loans on our own balance sheet. **Because of you, the investor, we are now a nationally recognized source of liquidity.**

While it might appear that we should also stop lending, we believe the opposite is true for people in our position. When liquidity is tight, borrowers will pay more for our loans with far more restrictions.

While higher rates are appealing to us, what is more important is that our borrowers can repay the loans when they mature. To that end, we instituted strict lending guidelines at 65% LTV and all borrowers must put down at least 10%. I'm pleased to report that many borrowers put down up to 20% in exchange for lower origination costs or interest. We are happy to provide those accommodations if there is more skin in the game from our borrowers.

We have seen an increase in extension requests. From our perspective, we grant those in situations where:

1) The borrower has a plan to exit our loan and needs more time to execute their plan
2) Their ability to repay remains intact (i.e. they are current on loan payments, have income from other sources, and are not facing other types of financial challenges).
3) The value of the property remains in line with our collateral requirement ratios. In instances where collateral drops in value relative to our loan amount, we ask Borrowers to "buy down" their loan to an acceptable LTV ratio.

Fortunately, these measures are working and we still enjoy a 100% on-time payment rate and 0% default rate among the 375+ loans we have done. What also helps is that we are highly selective with the borrowers we become involved within the first place.

I must note that we have expanded beyond the military-only affiliation that Trophy Point started with. This certainly helped us get off the ground as a fund; we obviously still serve the military-affiliated crowd. What we have done now is lend to a wider audience but with stricter loan requirements.

Operational Improvements

This quarter we improved our capabilities by engaging and being approved for a series of lines of credit with a major bank and another private lender to the amount of $18 million. We have drawn $3 million on these to fuel our growth. We believe it should be comforting to all knowing that we have a strong line of liquidity should the need ever arise. Investors should be aware that using this line of credit involves pledging up to 50% of our Notes/Loans as collateral. However, Trophy Point still controls the Note (i.e. monthly interest payments are sent to us, we communicate directly with the Borrower and Borrower doesn't even know the LOC exists behind their Note).

There are some risks with lines of credit principally a credit provider refusing to fund a draw when needed. This would hurt our liquidity and render us potentially unable to fund a loan request. In that scenario, we would do what we have always done -- go out to our investors and raise capital from you to fund new loans. While that process is frustrating in the short term from an operational perspective, we would still be okay in the long term provided that our underlying loans continue to perform; which is why we have become so strict on our underwriting criteria (65% LTV, 10% down, W2 income sources, etc…).

However, there is one very big upside for investors with lines of credit, however. This quarter we began ordering 3rd party appraisals or valuations on all new loans. Historically we valued the collateral on our own. Now that lines of credit are in place, in order to draw on them, we need to have a 3rd party appraisal or valuation. Such a requirement ensures we are further disciplined in our underwriting.

This quarter also saw Nick Cosmas being able to join full-time. He resigned from the active duty Army (transitioning into the Reserves). Nick has helped usher our growth with responsive and patient customer service. In fact, we believe our intense focus on responsive and no-frills customer service is a major reason why borrowers refer business to us. Good customer service is our preferred form of marketing. It doesn't cost anything but results in 2-3 loan referrals on average. We know this because we have done very little in terms of paid marketing or advertising. Referrals account for 95% of our business.

For the upcoming Q2, 2023, we aiming for the following operational improvements:

1) Hire a loan processor to help loan/documentation files be processed quicker. Before Nick and Dave primarily handled this responsibility. As mentioned above, we believe the need for our lending services will increase and our team will need assistance in executing this process.

2) Hire a controller to ensure proper accounting and reduce any potential for fraud. Given our growing assets under management, the need for adding a person to make sure numbers match our accounting to our mortgage system is critical. Millions of dollars flow through Trophy Point on a weekly basis and I feel it's prudent to ensure that we have more robust controls in place.

If you are wondering how we pay for these operational capabilities, the answer is that we charge our borrowers standard fees in the form of processing, documentation, and evaluation fees that are accepted in our industry to cover this critical overhead. We have an internal rule that the fees collected (excluding origination points) must be able to cover these expenses. So far, that has not been a problem.

Previous Operational Improvements:

- *Interest Reinvestment Option (Q1, 2021)*
- *Loan Origination Platform (Q3, 2021)*
- *ACH Payments (Q4, 2021)*
- *Automated Statements (Q1, 2022)*
- *Investor Portal Sign Up via Jotform (Q2, 2022)*
- *New accounting firm, Acuity.co (Q3, 2022)*
- *Adding Staff, and marketing (Q4.2022)*

Fund Housekeeping

Investors need to be aware of the following proposed changes:

As the fund exceeds $40 million in AUM, there are a few proposed changes that management is contemplating. None of these are confirmed changes and thus I welcome your feedback. Please feel free to call me anytime at 404-723-8410 to discuss your thoughts or suggestions.

1) Moving to monthly payments - we will most likely institute this in Q3 of 2023. This means investors will be paid monthly versus quarterly.

   As a result of this, we may **potentially** terminate auto-reinvesting and ask for investors who want to reinvest cash in $10,000 increments. The reason for this potential change (not confirmed yet) is that it enables easier and more accurate accounting and statements which we feel is more important than the reinvestment option.

   We also believe monthly cash flow demonstrates the strength of our fund and could serve as a marketing function to attract more investors which we need in order to serve opportunities ahead of us.

2) Transition our investment offering to an SEC REG D, Rule 506 (c) fund. This allows us to market publicly which is critical to our growth trajectory but unfortunately means that any non-accredited investors would be automatically withdrawn from the fund (i.e. we will return your money). This change most likely will occur in Q4 of 2023.

3) We will be performing an audit in Q3 2023. This will involve an auditor reviewing investor capital accounts and cross check that the investor's money is solely going toward loans and authorized transactions. They will also verify that are in fact paying investors interest payments

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across the entire fund. Unlike other funds which standard practice, Trophy Point will not pass the cost of an audit (estimated at $30,000) to investors.

4) We will be more strict with investors who wish to redeem funds. Our fund rules state investors must provide at least 90 days of notice (unless separately negotiated with me) for the return of their capital. However, we get a lot of compelling stories (divorce, business interruption, loss of job, etc…) that request a return of capital shorter than 90 days. I'm proud to say that we have returned capital much shorter than 90 days in many instances but going forward we will have to enforce sticking to the 90-day timeline. For new investors, we may increase our notice period to 120 days. This is important to us because if we move toward monthly payments we need time to ensure proper liquidity on top of our lending operations which we project to be $3-5 million per month.

5) Our previously published yield structure is largely unchanged. However, there are a very small number of investors from early 2020 & 2021 who were on the 10 bps annual increase incentive program. Those investors have been notified that we are no longer observing that incentive due to low participation and that it is hard to track. We are offering to return their capital immediately if they do not wish to switch the same structure as everyone else.

Raising Capital

We are raising capital. Our yields and thresholds are below. We accept **self-directed IRA funds**. Funds carry a lock-up for 12 months with 90 days' notice. We pay interest quarterly but also offer a reinvestment option (great for IRAs).

$25,000-$49,900:	7%
$50,000-$249,900:	8%
$250,000+:	10%

For Self-Directed IRA Investors: 9.5% up to $250,000 and 10.5% for $250,000+

Please remember, I'm only a phone call away if you would like to talk about anything.

Here's to a successful Q2, 2023,

Samir Patel
Managing Partner, Trophy Point
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