



TROPHY POINT

INVESTMENT GROUP

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Subject: Q3, 2021 Quarterly Investor Letter for Trophy Point Lending Fund

Dear Investors and Friends of Trophy Point,

On a quick personal note: I was promoted to Major in the US Army Reserves. I believe continuing to serve (at least on a part time basis) is an important aspect of our operations because it keeps us closer to our target customers (West Point grads and military officers).

In my view, placing your capital with Trophy Point provides you with the best risk-adjusted return among your alternatives. Your capital is secured with well-qualified borrowers and the Trophy Point partners (me, Dave and Nick) take the first loss on any loan against our \$1.5 million in equity. That means at least eight or nine of our secured, real estate loans (avg loan size of \$169k) would have to be a complete loss in order for an investor's principal to be touched.

The numbers thru end of Q3, 2021:

- No losses or defaults across 75 loans in the last three quarters.
- West Point graduation years served: 1983-2020
- 98% on time monthly payments from borrowers.
- \$2.5 million already paid back.
- We've paid \$300,000+ in interest to investors.
- Money is pooled across the entire portfolio of loans so risk is spread out.
- Partners (me, Nick Cosmas, David Marold) have \$1.5 million of our own money in the fund and we take the first loss before investors do.
- We've created about \$2-3 million in wealth for our borrowers by providing fast Real Estate loans on coveted, competitive properties.

The types of deals we are doing:

- Average loan to value: 76.2%
- Average term: 7.5 months
- Average loan size: \$169K.
- All borrowers have verifiable income from other sources.
- Current # loans: 46
- Average credit score: 734

Whenever I draft these investor letters, I reverse my role and ask myself what would I want to know if I were a passive investor in this fund?

The two primary questions that come to mind are: 1) **what are assets minus liabilities?** Meaning, do they have enough equity to cover losses and preserve my capital? And 2) **what kind of deals are they doing that ensures my money is safe and the firm can pay my fixed interest rate?**

Here is our balance sheet. You'll notice that our assets are far greater than our liabilities. This equity represents what myself and my partners Dave Marold, and Nick Cosmas have invested into the business.

(balance sheet on next page due to size)

Trophy Point Balance Sheet thru end of quarter

ACCOUNTS	Sep 30, 2021
Assets	
Total Cash and Bank	\$911,283.57
Total Other Current Assets	\$2,423,204.78
Total Long-term Assets	\$4,001,380.14
Total Assets	\$7,335,868.49
Liabilities	
Total Current Liabilities	\$1,027,047.47
Total Long-term Liabilities	\$4,614,078.55
Total Liabilities	\$5,641,126.02
Equity	
Total Other Equity	\$1,486,578.28
Total Retained Earnings	\$208,164.19
Total Equity	\$1,694,742.47

Assets = loans we have made

Liabilities = investor capital (your money)

Equity = assets minus liabilities is what Samir, Dave and Nick have invested (~\$1.4MM)

As you are aware, we would take the first loss on any bad loan before investors would take a hit. We are very much incentivized to ensure we do not make bad loans as it would come out of our pocket first.

What these stats tell us is that:

- 1) our loans are short term and are less susceptible to longer term market swings.
- 2) There is a great deal of margin of safety (25%) on our loans
- 3) Our loans are smaller compared to the entire pool of capital which is good since your money is spread out amongst the entire pool instead of an individual loan.
- 4) Our borrowers (90% of whom are West Point graduates) have sufficient income to cover unexpected expenses or cover our debt service which is owed monthly to us.

Our main underwriting criteria has not changed:

- Personal guarantees of all borrowers
- Lend at max 80% LTV on ARV
- Properties must be able to command market rent (even if it's a flip project)
- We can easily sell a property if we somehow had to foreclose.
- Borrowers must show income from other sources (such as US Army W2 wages).
- Loans must be business-purpose in nature - no owner occupied properties.

Our original thesis holds true: Competent real estate investors need to secure real estate funding quickly in order to win deals in this very competitive real estate market. Many borrowers are raving about our fast closing times and ease of doing business with us.

They are willing to pay higher rates of interest because it's far more effective to borrow from us than to get tripped up waiting for a loan closing via an online lender. In fact, we have saved many deals by stepping in at the last minute when an online lender could not close on time despite their promises.

Furthermore, lending to West Point grads yields far greater cooperation when there is a problem. We've experienced two situations in which if we had lent to a non-USMA person, the episode might have resulted in litigation. However, because all parties operated off mutual trust, a simple and direct conversation resolved the issues.

I have been lending for nearly 13 years in over 100+ deals and I can tell you as a matter of fact that the character of borrowers matter a great deal more than one might think: to the point where, I as a lender, am even willing to reduce rates in order to do business with people I know to be reliable and trustworthy. You cannot find a better borrower class than the USMA crowd.

As we are growing, so does our need for more capital. **We would like you to consider investing with us.**

Why should you invest:

- You need a place to safely park cash for a period of time.
- You have a need or desire for a fixed income offering between 6-8%.
- You desire a fairly safe and above average risk adjusted return.
- We take Self Directed IRA funds to help diversify your retirement.
- You like the idea of your money being invested in fellow USMA grads.

What makes our notes low risk:

- 1st position lien on the real estate at 80% or less loan to value.
- Personal Guarantee of credit-worthy West Point graduates and/or military officers.
- Your money is not tied up in any single loan; co-mingled across the pool of loans.
- We (Samir, Nick and Dave) take the first loss on any loan that goes bad against our \$1.4MM in equity.

Our updated 12-month notes yield (payable quarterly):

8% for amounts over \$50,000

7% for amounts between \$25,000-\$50,000

6% for amounts between \$15,000-\$25,000

I'm only a phone call away if you desire to chat!



Samir Patel

Managing Partner, Trophy Point