samir@trophypointinvestment.com // 404-723-8410
www.TrophyPointCapital.com

30 December 2021

Subject: Q4, 2021 Quarterly Investor Letter for Trophy Point Lending Fund

Dear Investors and Friends of Trophy Point,

This letter covers:

Happy 2022! We hope 2021 brought you closer to your goals and dreams. We at Trophy Point wish you all the best.

Partner dinner, The Consulate restaurant, Atlanta, GA, Dec 2021

On a quick personal note: I finished teaching my first semester of Real Estate Entrepreneurship at Georgia State University. I thoroughly enjoyed the experience and am set to teach it again to Masters's students in the Spring. Some of the concepts I covered during the semester were:

- Understanding yourself and your risk tolerance
- Reviewing real estate asset classes
- Exploring the players involved in a real estate transaction
- Reviewing "real estate math" and how value is created financially
- How to raise capital + how to review a lender's term sheet
- Understanding the entrepreneurial journey from a variety of amazingly accomplished real estate professionals.

The Numbers

Thru end of Q4, 2021:

- Loans Originated in Q4: $5.2 million
- Total Loans Originated in 2021: $18 million
- Total # of loans originated: 92
- No losses or monetary defaults last four quarters
- 100% on-time monthly payments from borrowers
- $3.5 million in loans paid back in Q4 2021.
- West Point and Army Officer Year Group's served: 1983-2020
- Investor Interest payments: $500,000+

The types of deals we are doing:

- Average loan to value: 76.2%
- Average term: 7.5 months
- Average loan size: $175K
- All borrowers have verifiable income from other sources.
- Current # loans: 42
- Average credit score: 720

Balance Sheet:

Trophy Point Investment Group, LLC

Balance Sheet Summary
As of December 31, 2021

	TOTAL
ASSETS	
Current Assets	
Bank Accounts	1,030,523.70
Other Current Assets	7,697,760.77
Total Current Assets	**$8,728,284.47**
TOTAL ASSETS	**$8,728,284.47**
LIABILITIES AND EQUITY	
Liabilities	
Current Liabilities	
Credit Cards	3,391.92
Other Current Liabilities	6,748,066.05
Total Current Liabilities	**$6,751,457.97**
Total Liabilities	**$6,751,457.97**
Equity	1,976,826.50
TOTAL LIABILITIES AND EQUITY	**$8,728,284.47**

Assets = loans we have made
Liabilities = investor capital (your money)
Equity = assets minus liabilities is what Samir, Dave and Nick have invested (~$1.9MM)

Operational Improvements

This past quarter saw tremendous leaps in our operational capabilities. The most important one was that we went fully operational on a cloud-based **loan origination platform**. This platform is hosted by a 3rd party and enables our borrowers to complete our loan application and upload important due-diligence documents with ease. Furthermore, the platform supports our data collection efforts.

This next quarter we are embarking on a project to **“score” or grade eac**h of our loans in accordance with the following criteria below. We believe that tracking and categorizing our loans in such a manner allows us to uncover patterns not only in non-performing loans but also help improve profitability.

A mentor of mine keeps reminding me that as a balance-sheet lender, **we manage the Risk, not the Return.** That mentality underpins how we do business. Whenever we feel a loan exceeds our ability to understand it or we have doubts about the borrower’s ability and capacity to repay a loan, we are okay with declining the request. We have rejected tens of millions of dollars already. Often, it’s not easy to say No to a borrower but my experience has taught me that it’s even harder to go collect on a debt… therefore, we would rather not go down that path in the first place.

If you are on the quarterly interest payment option, you may also have noticed that **we moved to ACH payments** versus checks! We are quite pleased that our roll-out of ACH has reduced anxiety over misplaced checks. Furthermore, ACH allows to track payments easier inside quarterly reporting periods. We are very much open to feedback on how investors get paid so please call me if you would like to discuss. We want to hear from you!

Surprisingly, our growth in 2021 did not involve much marketing. Our only serious outreach effort was speaking at a popular West Point conference in 2020. The great news is that our service and lending operation garners amazing word-of-mouth referrals. In lending, acquisition cost per loan is a critical metric. It’s not unheard of for lenders to shell out $2,000-3,000 in marketing expenses to generate a loan. Of course, this cost is surreptitiously passed on to the borrower and thus potentially ruins the borrower’s return. We have an extremely low acquisition cost per customer. This allows us to compete with the big lenders and on top of that allows us to present straightforward terms without the high fees” that in our opinion are completely unnecessary. This may explain why 40% of our loan volume comes from repeat borrowers.

Why we are a good investment:

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 ensure my money is safe and the firm can pay my fixed interest rate?**

We publish our balance sheet each month. You’ll notice that our assets are far greater than our liabilities. This equity represents what I and my partners Dave Marold, and Nick Cosmas have invested into the business.

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 $1.9 million in equity. That means at least eight or nine of our secured, real estate loans (avg loan size of $175k) would have to be a complete loss in order for an investor's principal to be touched.

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 any losses would come out of our pocket first.

What our 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 most 80% of the property's value
- 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 borrower 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 graduates yields far greater cooperation when there is a problem. We've experienced two situations in which if we had lent to someone outside of our network, the episode might have resulted in litigation. However, because all parties operated off mutual trust, a simple and direct conversation resolved the issues.
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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, as a lender, I 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 West Point and military crowd.

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

<u>Why should you invest:</u>

- 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.

<u>What makes our notes low risk:</u>

- 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 $1.9MM in equity.

<u>Our updated 12-month notes yield (payable quarterly):</u>

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! If you made it to the end of this letter, please text me "Go Army!" and I'll send you a $25 Amazon gift card!

S Patel
Samir Patel
Managing Partner, Trophy Point
404-723-8410
samir@TrophyPointInvestment.com