Company In-Depth

SMALL & MID CAP

4 August 2006 | 29 pages

TRIO Finance (TRIO.L)

Focused Real Estate ABS Investor

- **Externally Managed Investment Company** — TRIO Finance is a newly incorporated Guernsey investment company focusing on investment in real estate asset-backed securities, the key objectives of which are the delivery of stable dividends and attractive risk-adjusted returns. The company was listed on the main market of the LSE on 5 June 2006 and is externally managed by Wharton Asset Management.

- **Stable Returns and High Yield** — TRIO aims to deliver a stable dividend flow and also the potential for substantial capital appreciation. Based on Wharton's strong real estate-related investment record, we conservatively estimate a gross portfolio return of ~14% pa, which should underpin the $1.00 dividend targeted for the full year to September 2007.

- **Key Investment Attractions** — Key attractions are Wharton's excellent track record, and the barbell portfolio, which combines leveraged RMBS/CMBS investments with subordinated instruments including residual income pieces (RIPs).

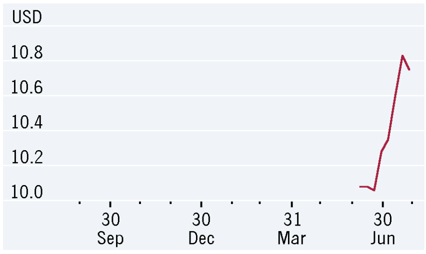
- **Differentiating Features** — Features that differentiate TRIO Finance from other ABS vehicles are the real estate ABS focus, the range of rated and unrated investments, ring-fenced term funding and in-house RIPs sourcing.

- **Recommendation** — We initiate coverage of TRIO with a Buy/ High Risk (1H) rating and a $12.50 target price, which implies a total expected return of 27.1%.

See page 27 for Analyst Certification and important disclosures.

Buy/High Risk	**1H**
Price (03 Aug 06)	US$10.66
Target price	US$12.50
Expected share price return	17.3%
Expected dividend yield	9.8%
Expected total return	**27.1%**
Market Cap	US$107M

Price Performance (RIC: TRIO.L, BB: TRIO LN)



TRIO Finance (USD)

Year to 30 Sep	2004A	2005A	2006E	2007E	2008E
Net Income ($M)	na	na	3.1	11.1	17.0
Diluted EPS ($)	na	na	0.30	1.05	1.09
Diluted EPS (Old) ($)	na	na	na	na	na
PE (x)	na	na	35.6	10.1	9.8
P/BV (x)	na	na	1.2	1.2	1.1
DPS ($)	na	na	0.30	1.05	1.09
Net Div Yield (%)	na	na	2.8	9.9	10.2
ROE (%)	na	na	3.4	11.9	11.8

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Fiscal year end 30-Sep	2004	2005	2006E	2007E	2008E
Valuation Ratios					
P/E adjusted (x)	na	na	35.6	10.1	9.8
EV/EBITDA adjusted (x)	na	na	na	na	na
P/BV (x)	na	na	1.2	1.2	1.1
Dividend yield (%)	na	na	2.8	9.9	10.2
Per Share Data (US$)					
EPS adjusted	na	na	0.30	1.05	1.09
EPS reported	na	na	0.30	1.05	1.09
BVPS	na	na	9.26	9.26	9.70
DPS	na	na	0.30	1.05	1.09
Profit & Loss (US$M)					
Net sales	na	na	na	na	na
Operating expenses	0	0	0	0	0
EBIT	**na**	**na**	**na**	**na**	**na**
Net interest expense	na	na	4	13	20
Non-operating/exceptionals	na	na	na	na	na
Pre-tax profit	**na**	**na**	**3**	**11**	**17**
Tax	na	na	0	0	0
Extraord./Min.Int./Pref.div.	na	na	0	0	0
Reported net income	**na**	**na**	**3**	**11**	**17**
Adjusted earnings	na	na	3	11	17
Adjusted EBITDA	na	na	na	na	na
Growth Rates (%)					
Sales	na	na	na	na	na
EBIT adjusted	na	na	na	na	na
EBITDA adjusted	na	na	na	na	na
EPS adjusted	na	na	na	251.1	3.8
Cash Flow (US$M)					
Operating cash flow	**na**	**na**	**na**	**na**	**na**
Depreciation/amortization	na	na	na	na	na
Net working capital	na	na	na	na	na
Investing cash flow	**na**	**na**	**na**	**na**	**na**
Capital expenditure	na	na	na	na	na
Acquisitions/disposals	na	na	na	na	na
Financing cash flow	**na**	**na**	**na**	**na**	**na**
Borrowings	na	na	na	na	na
Dividends paid	na	na	na	na	na
Change in cash	**na**	**na**	**na**	**na**	**na**
Balance Sheet (US$M)					
Total assets	**na**	**na**	**448**	**448**	**687**
Cash & cash equivalent	na	na	na	na	na
Accounts receivable	na	na	na	na	na
Net fixed assets	na	na	na	na	na
Total liabilities	**na**	**na**	**355**	**355**	**544**
Accounts payable	na	na	na	na	na
Total Debt	na	na	na	na	na
Shareholders' funds	**na**	**na**	**93**	**93**	**143**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	na	na	na	na	na
ROE adjusted	na	na	3.4	11.9	11.8
ROIC adjusted	na	na	na	na	na
Net debt to equity	na	na	na	na	na
Total debt to capital	na	na	na	na	na

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Investment Summary

TRIO Finance is a focused, real estate securities investor, blending a leveraged, ring-fenced rated portfolio with an unlevered portfolio of subordinated debt instruments and residual income pieces. As a result, it aims to deliver a stable dividend flow and also the potential for substantial capital appreciation. Based on Wharton's strong real estate-related investment record, we conservatively estimate a gross portfolio return of ~14% pa, which should underpin the company's dividend targets.

Wharton Track Record

TRIO will be externally managed by Wharton Asset Management. Wharton boasts a track record of over 10 years' experience in investing in real estate securities. Wharton's flagship Y2K hedge fund has never in its 81 months since inception recorded a downturn in its monthly NAV and in 2005 was ranked number one fixed income hedge fund by Bloomberg.

Real Estate Asset Focus

TRIO will primarily invest in securities that are backed directly or indirectly by real estate assets or mortgages located in the US, UK and/or continental Europe. The company has targeted five distinct asset pools for investment: (i) US mezzanine RMBS; (ii) RIPs in high grade ABS CDOs; (iii) RIPs in mezzanine ABS CDOs; (iv) real estate debt instruments (including fixed coupon 'pay-in-kind' instruments (PIKs)); and (v) short-term investments (AAA-rated RMBS and Wharton's Y2K hedge fund).

Barbell Portfolio

The leveraged RMBS sub-portfolio provides visible net interest income which underpins the company's RoE and hence its dividend potential. The higher risk/return profile of the unrated portfolio adds a more volatile income stream with substantial incremental upside potential.

Diversified Asset and Income Profiles

The company's wide range of targeted investments will result in a diversified asset and income mix. This diversity should reduce overall income volatility and hence help deliver relatively stable earnings and dividends.

Attractive Returns and High Dividend Yield

Our financial projections, which we believe are based on conservative assumptions, suggest TRIO can deliver a gross return on shareholders' equity of around 14%. Net of fees and other costs, we project an average RoE of 11.8% between 2007E and 2010E, which supports a prospective yield off the IPO price of 10.5% (now 9.9% at current prices), comfortably ahead of management's target of 10.0% (now 9.4%) or $1 per share.

Recommendation

We initiate coverage of TRIO with a Buy/ High Risk (1H) rating and a $12.50 target price, which implies a total expected return of 27.1%. At $12.50 the shares would yield a forecast 8.4% for the year to September 2007E, and value the shares on a price:NAV multiple of 1.35x.

Investment Case

Investment Positives

Wharton: a Manager With a Record For Innovation and Performance

Wharton's flagship Y2K Finance hedge fund has delivered 81 months of positive returns since inception in 1999 and average annual returns of 16.8%; Y2K was top-ranked European fixed income hedge fund in 2005 according to Bloomberg with a 20.3% return.

Wharton's CDO vehicles — the H2, G Square, G Street and Delta vehicles — have employed innovative investment strategies and funding structures and all have performed in line with their modelled returns.

Wharton's competitive strengths are strong asset sourcing and credit underwriting, efficient liability management, substantial experience in the use of structured, cash flow based and synthetic CDO vehicles, and its track record in delivering stable and predictable results.

TRIO Finance: Real Estate-Focused Investment Strategy

The company's investment objective is to deliver stable dividends and attractive risk-adjusted rewards through investing primarily in real estate-related assets.

The investment strategy is to invest in a diversified portfolio of securities backed either directly or indirectly by property or mortgages, primarily in the US, UK and continental European market.

Investments will include debt instruments (B notes, payment-in-kind securities — PIKs), ABS investments (both rated and unrated tranches) and CDO residual income positions (RIPs).

Efficient Funding Strategy

The company's funding strategy is to blend financing structures most appropriate to the underlying sub-portfolios whilst limiting contagion risk through use of non-recourse and ring-fenced facilities.

This has been designed to minimise interest rate, market, foreign exchange and refinancing risks.

Wharton's strong banking relationships have resulted in attractive financing terms. TRIO's $400m revolving facility pays Libor+0.65%, yet includes provisions for extensions well beyond its 364-day term.

Stable Dividends and High Yield

TRIO's returns are generated by: (i) the yield on non-levered investments, and (ii) the net interest spread on leveraged investments.

Based on conservative assumptions, we believe TRIO can deliver stable gross returns of approximately 14% pa. Management has targeted a dividend yield of approximately 10% based on the IPO price (now 9.4% at current prices), in its first full financial year to September 2007E.

Risk Factors

Credit risk. Unexpected deterioration in credit quality may cause mark-to-market hits to NAV for the rated RMBS and CMBS bond portfolio and poorer cash flow and returns for the unlevered investments.

Prepayment & reinvestment risk. Slower prepayment speeds pose the threat of liabilities repricing faster than assets. Faster prepayments cause quicker asset paydown and greater reinvestment risk. TRIO seeks to mitigate these risks through establishing a highly flexible term loan facility, rather than using any short-term Repo funding. TRIO would rather pay slightly higher basis points on its funding to ensure it has lengthy additional term-out facilities (were prepayment speeds to slow) than use cheaper Repo funding.

Potential for conflicts of interest. Wharton will continue to invest in asset-backed securities for its other vehicles, eg Y2K hedge fund. This may present conflicts of interest with TRIO for particularly desirable investments.

High fee structure. TRIO will pay management and incentive fees to Wharton that are hedge-fund-like in nature. These fees are in line with listed competitors but may preclude certain investors investing in this type of vehicle.

Valuation

Valuation Issues

As a new company TRIO Finance has a lack of trading history. Any initial price must reflect such concerns, as well as the risks of low liquidity and an uncertain credit spread environment.

We believe the market will value TRIO in relation to its NAV and its dividends: investors are likely to determine an appropriate price-to-NAV multiple for TRIO in relation to the company's return on equity (RoE) and with reference to the multiples being afforded to comparable quoted companies; investors are likely to determine an appropriate yield for TRIO with reference to yields afforded to similar companies.

We therefore value TRIO according to two methodologies, one absolute and one relative. First, based on a fundamental price-to-book approach and second, based on peer group relative analysis.

Fundamental Price-to-Book Valuation

Our preferred valuation approach is summarised in the table below, alongside our EPS and NAV per share projections to 2010E. Our objective is to estimate a fundamental fair value for the shares as at end-September 2006.

Figure 1. Fundamental Price-to-Book Valuation

Year to September ($c)	**2007E**	**2008E**	**2009E**	**2010E**
Diluted EPS	1.05	1.09	1.13	1.18
NAV per share	9.26	9.70	10.12	10.52
RoE	11.4%	11.2%	11.2%	11.2%
Dividends per share	1.05	1.09	1.13	1.18
Discount factor	1.095	1.199	1.313	1.438
PV dividends	0.96	0.91	0.86	0.82
Sustainable RoE	11.3%			
Long-term growth assumption	0.0%			
Discount rate	9.5%			
Fair value Price to NAV	1.18			
2010 terminal value	12.41			
NPV terminal value	8.63			
NPV dividends	3.55			
Fair value	**12.18**			

Source: Citigroup Investment Research

There are two parts to this estimate:

- First, we calculate a terminal value for the business at end-2010E. Based on our EPS and NAV per share forecasts, we estimate a sustainable RoE of 11.3%.
- We use this return as the RoE assumption in the fair value price to NAV formula: Fair P/NAV = (RoE - g) / (CoE - g). In this case, where we have assumed g = 0, reflecting the company's full earnings payout / zero retentions model and our zero capital gain assumption.

- This terminal value is discounted to net present value (NPV) at end-September 2006E using an estimate of cost of equity as the discount rate.

- Second, we calculate the NPV of our dividend forecasts for 2007E-2010E.

The sum of the NPVs of estimated terminal value and forecast dividends produces a central case estimate of a fair end-September 2006E value for TRIO of $12.18 per share.

Peer Group Comparatives

We have used a broad range of European- and US-quoted ABS investor and Real Estate Investment Trust (REIT) companies for the following peer group comparative analysis.

Figure 2. Peer Group Valuation Metrics (Prices as of 2 August 2006)

	Price	Curr	Mkt value ($)	P/BV	Dividend yield
European Peers					
Caliber*	8.43	$	207	0.87	13.0%
Eurocastle	30.00	EUR	1753	1.47	5.8%
Queens Walk*	10.81	EUR	563	1.09	9.9%
Prodesse	392.5	p	195	0.85	7.8%
European weighted average			2717	1.30	7.4%
US REITS					
Annaly Mortgage*	12.85	$	2,093	1.24	4.5%
Anthracite Capital Inc	12.42	$	709	1.20	9.2%
Arbor*	25.87	$	445	1.52	10.2%
Capital Trust*	34.22	$	524	1.43	7.7%
Gramercy Capital*	25.5	$	582	1.43	8.2%
iSTAR financial*	39.89	$	4,519	2.11	7.7%
Luminent Mortgage Capital	9.82	$	393	0.99	7.1%
MFA Mortgage Investments	6.96	$	551	0.96	2.9%
Newcastle*	25.64	$	1,128	1.28	9.9%
Thornburg Mortgage*	24.73	$	2,767	1.17	11.0%
US weighted average			13,712	1.52	8.0%
US and European weighted average				1.46	7.9%
Unweighted US/Euro avg.				1.26	8.2%

Source: Citigroup Investment Research. *Citigroup estimates otherwise IBES consensus

In estimating a relative fair value range for TRIO, we have taken the following approaches:

- We apply the European and US unweighted average P/BV multiple (1.26x) to our $9.26 per share end-September 2007E NAV estimate for TRIO. This suggests a fair value of $11.67 per share.

- We apply the European and US unweighted average dividend yield (8.2%) to our $1.05 per share 2007E dividend forecast for TRIO. This suggests a fair value of $12.80 per share.

- Applying the same European and US average yield to a first year dividend of $1.00 per share (the minimum implied by management targets), this suggests a fair value of $12.20 per share.

Valuation Summary

Taking into account our fundamental price-to-book methodology, and with reference to the range of peer group relative-based valuations set out above, we consider $12.50 to be a reasonable 12-month target price for TRIO.

Company Background

Investment Company Focused on Real Estate

TRIO Finance is a Guernsey-incorporated investment company focused on real estate asset-backed investments.

The company's investment manager will be Wharton Asset Management Bermuda Limited ('Wharton Bermuda'), which will be ultimately responsible for the management of TRIO's investment portfolio. Wharton Bermuda will engage Wharton Asset Management UK Limited ('Wharton UK') as sub-manager. (References to 'Wharton' in this note should be taken to mean Wharton Bermuda and Wharton UK collectively.)

The company will have an independent Board of Directors comprising an independent chairman (Julian Waldron), one Wharton-affiliated director (Ash Shah) and two additional independent directors.

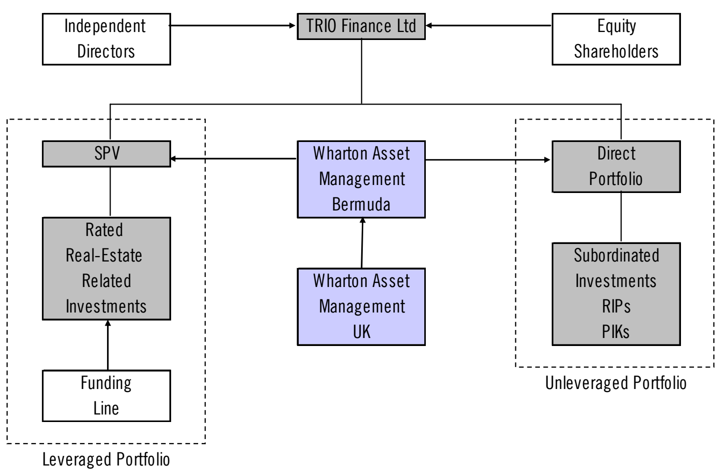
Investment Objective

The company's key investment objectives are the delivery of stable dividends and attractive risk-adjusted returns through a disciplined approach to acquiring, financing and managing primarily real estate asset-backed securities and real estate-related financial assets.

Investment Strategy

The overall portfolio can be divided into two sub-portfolios: a ring-fenced, leveraged Special Purpose Vehicle investing primarily in rated residential asset-backed securities, and a portfolio of unlevered subordinated investments. This structure is portrayed in the diagram below, which also includes the investment management and sub-management roles of Wharton UK and Wharton Bermuda.

Figure 3. Corporate Structure and Investment Portfolios



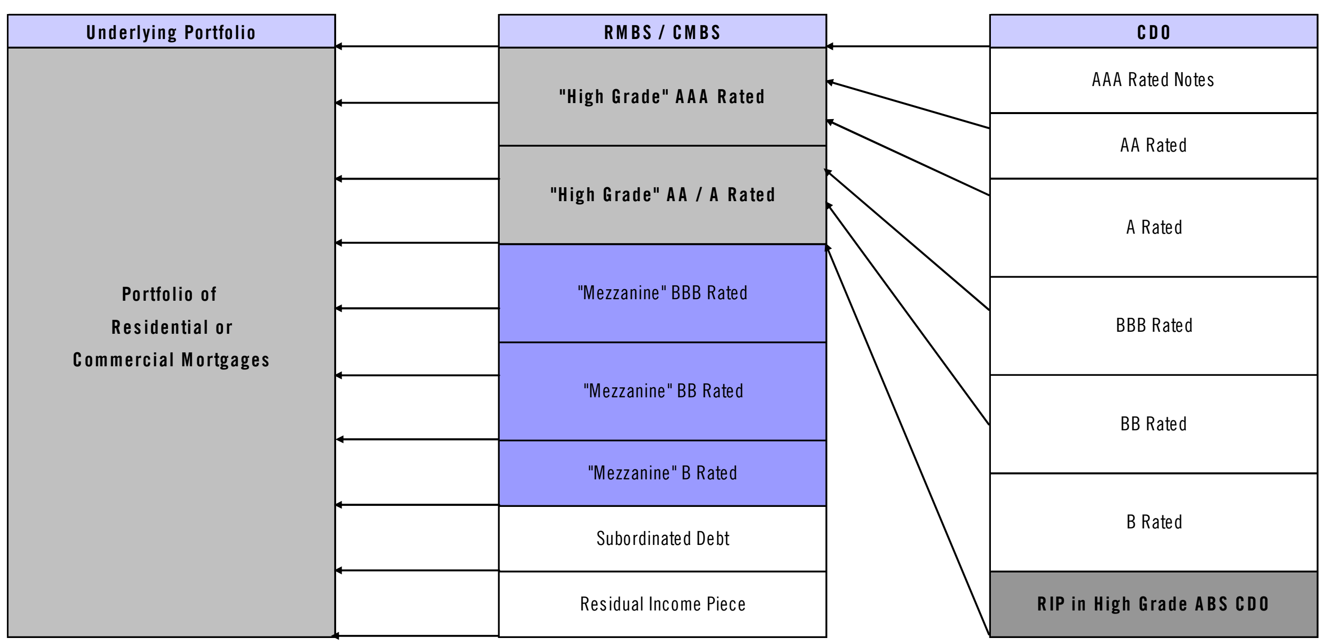
Source: Citigroup Investment Research

TRIO will primarily invest in securities that are backed directly or indirectly by real estate assets or mortgages located in the US, UK and/or continental Europe.

The company has targeted five distinct asset pools for investment:

- US mezzanine RMBS: Targeting an average rating of BBB/BBB–, and an average life of three to five years, this segment is likely to account for around 21% of the portfolio's net assets (~84% of gross assets) post IPO. The asset pool will be highly leveraged: an equity:assets ratio of around 5%-6% would leverage a net interest spread of around 125bps into a gross return on equity of around 20%-25%.
- Residual Income Positions (RIPs) in high grade ABS CDOs: Residual tranches in securitisations of high grade ABS, mainly US RMBS, where the underlying collateral has an AA+/AA average rating. The post-IPO RIPs portfolio is likely to account for ~43% of net assets (~9% of gross assets) and involves purchasing residual positions in Wharton's G Square and G Square 2006-1 CDOs. In the future, TRIO Finance Limited will continue to purchase RIPs produced in-house by Wharton.

Figure 4. RIP in High Grade ABS CDO: Look Through to Underlying Asset Portfolio



Source: Citigroup Investment Research

- RIPs in mezzanine ABS CDOs: Residual tranches in securitisations of mezzanine ABS, mainly US RMBS, where the underlying collateral has a BBB/BBB– average rating. Although initially the portfolio will have a zero weighting, Wharton aims to build a position of approximately 20% of NAV over time.

- **Real estate debt instruments**: These investments may be single property-specific or related to a pool of properties, and be subordinated tranches of real estate financing/securitisation transactions. This is likely to include fixed coupon 'pay-in-kind' instruments (PIKs) that rank above the residual pieces but which share in some residual upside.

- **Short-term investments**: Mainly AAA-rated RMBS and/or Wharton's Y2K hedge fund.

Funding Strategy

TRIO will use financing structures most appropriate to the requirements of the different types of asset within its investment portfolio. In particular, it aims to optimise returns whilst minimising risk by:

- Choosing funding structures that will minimise interest rate, market, foreign exchange and refinancing risks.

- Limiting contagion risk by funding through non-recourse, ring-fenced structures where appropriate.

Investment Portfolio

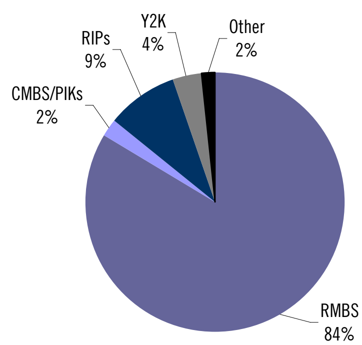
We estimate the following broad asset pool weightings following ramp-up of the portfolio post-IPO.

Figure 5. Estimated Portfolio Weightings

	US$m
RMBS/CMBS leverage	355.0
RMBS/CMBS equity	19.0
RMBS/CMBS portfolio	**374.0**
RIPs in High Grade ABS CDOs	40.0
RIPs in Mezzanine ABS CDOs	0.0
Real Estate Debt Instruments (PIKs)	17.6
Short-term investments	16.0
Investment portfolio	**447.6**

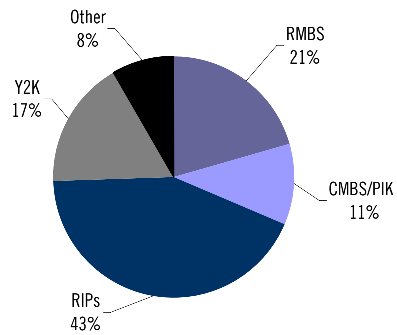
Source: Citigroup Investment Research

Figure 6. Estimated Gross Asset Mix



Source: Citigroup Investment Research

Figure 7. Estimated Net Asset Mix



Source: Citigroup Investment Research

Although TRIO expects to invest in mezzanine ABS CDO RIPs over the medium term, Wharton does not expect to make such investments immediately. (As shown in our financial projections set out later in this note, we expect these assets to account for around 18% of net assets by 2008E.) Short-term investments, primarily a ~$16m investment in Wharton's Y2K fund, essentially function as a semi-liquid pool available for reinvestment in longer-term assets as and when opportunities arise.

Top Holdings

The table below sets out the portfolio's largest 25 investments as at end-May 2006, shortly following the company's IPO.

Figure 8. Initial Portfolio Post-IPO: Top-25 Investments

Issuer	Current Value ($m)	Asset Type	% gross assets	Credit Rating	Region
Royal Mint Court B Loan	26.5	CMBS	6.1%	UR	UK
Y2K Finance	16.0	Other	3.7%	UR	US
Redleaf B Loan	15.0	CMBS	3.4%	UR	UK
SHOME 2005-2A M6A	11.3	RMBS	2.6%	A3	US
HVMLT 2005-5 B2	10.7	RMBS	2.5%	A2	US
G Square 2006-1	10.0	RIP	2.3%	UR	US
VWALL 1 F	9.5	CMBS	2.2%	Baa3	UK
MacAllan Portfolio B Loan	8.2	CMBS	1.9%	UR	UK
MSAC 2005-HE5 B1	8.1	RMBS	1.9%	A3	US
LBMLT 2006-2 M8	8.0	RMBS	1.8%	Baa2	US
Herbrand Street B Loan	7.5	CMBS	1.7%	UR	UK
INDX 2005-AR2 B3	7.3	RMBS	1.7%	Baa2	US
Holland Park Towers B Loan	7.0	CMBS	1.6%	UR	UK
WAMU 2005-AR15 B5	7.0	RMBS	1.6%	A2	US
RUSCF 1 A1	7.0	Other	1.6%	Baa2	Asia
MLMI 2005-FM1 M6	6.8	RMBS	1.6%	A3	US
MSC 2006-HE2 B2	6.5	RMBS	1.5%	Baa2	US
BSABS 2006-EC2 M8	6.2	RMBS	1.4%	Baa2	US
PPSI 2005-WHQ1 M9	6.0	RMBS	1.4%	Baa3	US
FMIC 2006-1 M8	5.8	RMBS	1.3%	Baa2	US
ALFAB 1A A	5.5	Other	1.3%	Baa3	Asia
ARSI 2004-W8 M9	5.0	RMBS	1.1%	Baa3	US
AMSI 2003-11 M6	5.0	RMBS	1.1%	Baa3	US
FHLT 2006-2 M6	5.0	RMBS	1.1%	Baa1	US
G Square Finance	5.0	RIP	1.1%	UR	US
	215.8		**49.6%**		
	219.2		50.4%		
Total assets	**435.0**		**100.0%**		

Source: Wharton Asset Management

Excluding the holding in Y2K and the Wharton-managed G Square CDO RIPs, the post-IPO portfolio consisted of 87 investments with an aggregate cost of $380m (75% RMBS, 19% CMBS, 6% other ABS) with an average investment size of $4.4m. Approximately 79% of these investments were denominated in US$, 19% in £, and 2% in €, by cost. A breakdown of the portfolio (ex-Y2K and G Square RIPs) by Moody's rating and geography is set out below.

Figure 9. Rating Characteristics*

	US	Europe	Asia	Total
RMBS				
A1-A3	15%	0%	0%	**15%**
Baa1-Baa3	60%	0%	0%	**60%**
UR	0%	0%	0%	**0%**
CMBS				
A1-A3	0%	0%	0%	**0%**
Baa1-Baa3	0%	3%	0%	**3%**
UR	0%	17%	0%	**17%**
Other ABS				
A1-A3	0%	0%	0%	**0%**
Baa1-Baa3	3%	0%	3%	**6%**
UR	0%	0%	0%	**0%**
Total	**77%**	**19%**	**3%**	**100%**

Source: Citigroup Investment Research. *Moody's rating.

The table below sets out the top 10 investments as at end-June 2006.

Figure 10. Portfolio Update: Top-10 Investments ant End-June 2006

Issuer	Current Value ($m)	Asset Type	% gross assets	Credit Rating	Region
Royal Mint Court B Loan	26.5	CMBS	5.9%	UR	UK
Y2K Finance	16.0	Other	3.6%	UR	US
Redleaf B Loan	15.0	CMBS	3.3%	UR	UK
GLOBE PUB ISSUER PLC-B1	13.1	CMBS	2.9%	UR	UK
SHOME 2005-2A M6A	11.3	RMBS	2.5%	A3	US
DOVE 2006-1 C1	11.1	CMBS	2.5%	UR	UK
HVMLT 2005-5 B2	10.7	RMBS	2.4%	A2	US
G Square 2006-1	10.0	RIP	2.2%	UR	US
VWALL 1 F	9.5	CMBS	2.1%	Baa3	UK
MacAllan Portfolio B Loan	8.2	CMBS	1.8%	UR	UK
Top 10	**131.4**		**29.3%**		
Other*	316.6		70.7%		
Total	**448.0**		**100.0%**		

Source: Wharton Asset Management

- The Globe Pub and Dove investments are new additions to the portfolio, and account for 5.5% of total investment assets.

- The portfolio continues to swing towards CMBS, subordinated investments, and Europe as a geographical location, which is consistent with the company's medium-term investment objectives.

Trading Update

On 20 July, TRIO released a trading update, reporting that it had made good progress in delivering on its strategy to grow its diversified portfolio of European real estate loans and ABS, and that it will continue to take advantage of opportunities in this market, particularly in commercial loans. Reassuringly, it also reported that the portfolio was performing in line with expectations.

Management Contract

The key terms of the Investment Management Agreement between TRIO and Wharton are set out below:

Management Fee

Calculated monthly and payable monthly in arrears; 1.75% pa of the proceeds of the IPO.

Incentive Fee

Calculated quarterly and payable quarterly in arrears; 25% of consolidated net income (before incentive fees) for each quarter that exceeds a hurdle rate equal to the gross equity of the company multiplied by 1% plus one quarter of three-month US$ LIBOR (at the beginning of the relevant quarter).

Term and Termination Rights

The management contract will have an initial five-year term with a three-year rolling notice period commencing from the fifth anniversary (effectively a minimum eight-year term).

There will be a termination payment in lieu of three-year notice; if the investment management contract is terminated on less than three years other than for cause, the termination fee will equal the management fee and the incentive fee that Wharton might have earned if the investment management agreement had not been terminated prior to the end of the three-year notice period.

Wharton Investment/Warrants

An affiliate of Wharton, Trident Capital Limited, invested $5m in the IPO, acquiring a 5% stake in TRIO. The same affiliate will receive a warrant to acquire further shares at the offering price of 10% of outstanding shares post IPO and on all subsequent share issues.

Dividend Targets

The main target management has set itself is deliverance on dividends:

- A target dividend of $0.30 for the stub period to September 2006;
- A target dividend of $1.00 for the first full fiscal year to September 2007.

Corporate Governance Issues

Board of Directors

TRIO's board comprises three independent directors and one Wharton-affiliated director.

- Julian Waldron is the company's Non-Executive Chairman.
- The Wharton-affiliated director is Ash Shah.

The board will ensure that TRIO complies (as far as possible given its size) with the Combined Code. This will include the board establishing audit and nomination committees.

Conflicts Policy

- Wharton will provide services to TRIO on a non-exclusive basis.
- When Wharton considers it appropriate, it will use all reasonable efforts to ensure TRIO has the opportunity to invest in investment grade ABS through CDO RIPs.
- Wharton will use all reasonable endeavours to allocate opportunities to invest in high grade ABS through CDO RIPs between TRIO and Wharton's other clients in a manner that is fair to all clients.
- Wharton has agreed that for a period of 12 months from Admission it will not sponsor another listed investment vehicle with an investment policy substantially similar to that of TRIO (ie excluding its current unlisted funds and future CDO transactions).

Wharton Asset Management

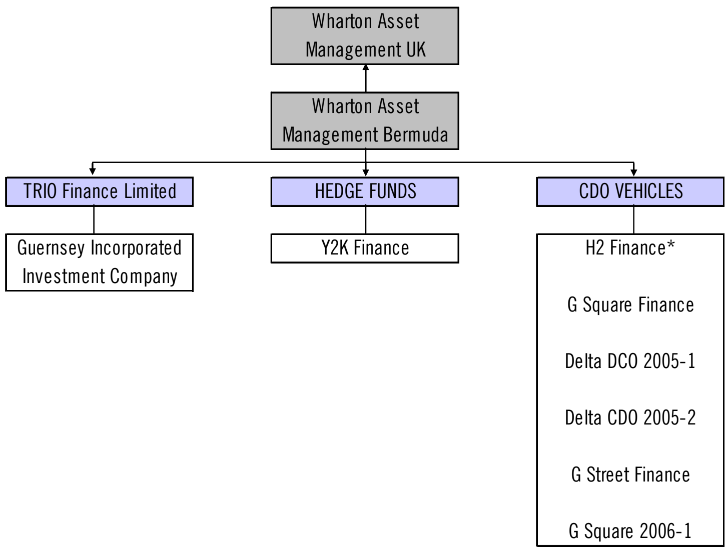
Wharton UK is a private limited company incorporated in England and Wales with offices in London. It is authorised under the Financial Services and Markets Act 2000 and regulated by the UK Financial Services Authority.

Wharton UK provides investment advice to Wharton Bermuda, which in turn acts as the investment manager to Wharton's investment funds and vehicles, including TRIO Finance.

Wharton was established in 1993 by Maurice Salem as an investment advisor to offshore total return funds ranging from financial markets to real estate.

Today, Wharton manages hedge funds and CDO vehicles with AUM of approximately $11bn, with portfolios covering the entire ABS capital structure — from AAA-rated to unrated equity tranches.

Figure 11. Wharton Funds and Vehicles



Source: Citigroup Investment Research. *H2 Finance was liquidated on 31 March 2006.

Wharton's flagship Y2K Finance Inc hedge fund has delivered a net cumulative return of 185% since inception in September 1999 and an average annual return of 16.8%. Last year, Y2K was ranked first in Bloomberg's European managed fixed income strategies hedge fund universe based on previous 12-month performance.

Wharton is recognised as a leading alternative investment management group, and is recognised as an innovative manager of predominantly real estate asset-backed investments.

Wharton Funds and Vehicles

To date, Wharton has launched the following funds and CDO vehicles:

- Y2K Finance Inc. ('Y2K'), a British Virgin Islands registered company incorporated in September 1999. Y2K is a fixed income performance fund designed to generate returns by applying leverage on AAA to A rated asset-backed securities. Since its inception Y2K has been funded in the Repo market;
- H2 Finance Ltd, an ABS CDO which was funded primarily in the Repo market, was liquidated on 31 March 2006;
- G Square Finance Ltd, a part cash, part-synthetic CDO of ABS;
- Delta CDO plc (in respect of the Delta CDO plc Series 2005-1 Notes and Series 2005-2 Notes), synthetic CDOs of high grade ABS;
- G Street Finance Ltd, a CDO of a static portfolio of ABS with commercial paper funding; and
- G-Square 2006-1, a multi-tranche high grade CDO.

Wharton Assets Under Management

Wharton's existing assets under management are summarised in the table below.

Figure 12. Wharton — Assets Under Management*

Fund/Vehicle	Size	Description
Y2K Finance	$2.5bn	Total-return ABS leveraged fund
G Square Finance	$1.3bn	High grade ABS CDO with total return swap funding
Delta CDO 2005-1	$2.2bn	Synthetic CDO of high grade ABS
Delta CDO 2005-2	$2.0bn	Synthetic CDO of high grade ABS
G Street Finance	$1.5bn	High grade ABS CDO with CP funding
G Square 2006-1	$1.5bn	Multi tranche high grade ABS CDO
	$11.0bn	

Source: Citigroup Investment Research. *Excluding TRIO assets.

Investment Management Team

The key members of the Wharton investment team are as follows:

Maurice Salem — Wharton's founder, CEO and CIO. Mr Salem has particular expertise in credit trading and in the management of fixed income portfolios, in particular ABS, and has extensive experience in the securitisation of long-dated real estate income streams. In 1999 Mr Salem was responsible for the establishment of Y2K, a fixed income performance fund designed to generate returns by applying leverage on the highest-quality portion of the ABS market. Previously, Mr Salem was responsible for French franc credit trading at Swiss Bank Corporation.

Ash Shah — Chief Financial Officer at Wharton and responsible for Finance, Compliance and Operations. For the previous 10 years, Mr Shah served as a Chief Financial and Compliance Officer of Malabar Capital, a global equities asset manager, with responsibility for financial management, operations and compliance. Prior to this he was with Deloitte and Touche from 1985 to 1994. Mr Shah is a Chartered Accountant.

Paul (Dan) Cook — Head of Structured Products at Wharton. Prior to joining Wharton, Mr Cook was Managing Director and Head of ABS Syndicate and Trading at UBS in London, which he joined in 1991 and he was responsible for the pricing and underwriting of all European ABS products as well as the coordination of product distribution. Prior to UBS, Mr Cook was Head of Syndication at CIBC for six years.

David Prosser — Senior Investment Adviser at Wharton and responsible for all fixed income securities. Prior to joining Wharton, Mr Prosser was Head of Trading & Sales, Head of Non-Japanese Syndication and Deputy Managing Director, Head of Capital Markets at Mitsui Trust International in London. Prior to this, Mr Prosser held key trading and distribution positions at Citicorp Investment Bank and at Prudential-Bache.

Caroline Velarde — Portfolio Manager at Wharton responsible for portfolio monitoring, credit and risk analysis of ABS and residential and commercial mortgage-backed securities. Previously, she was a member of the European Securitisation Group of Deutsche Bank in London and the International Asset Backed Securities Group of Bear Stearns International in New York, Paris and London for a period of six years.

Gerard Hammond — Portfolio Manager at Wharton concentrating on the US Consumer Credit Market. Prior to joining Wharton, Mr Hammond was a Structural Credit Analyst at Credaris Portfolio Management in London, focusing on European/US RMBS and CDOs of ABS and other North American credit assets. He has also worked in the ABS Origination Group at Bear Stearns (New York).

Phil Todd — Analyst at Wharton responsible for credit analysis of ABS, portfolio monitoring and construction. Previously, he was Portfolio Manager in the Structured Credit Trading Group of Abbey National Treasury Services where he was responsible for managing its $9 billion CDO portfolio and ultimately the winding down of the portfolio.

Masha Geeza — Analyst at Wharton responsible for credit analysis, portfolio monitoring and surveillance. Previously, she was part of the Structured Investment Group at JP Morgan and in the Global Derivative Products Group at Bank One.

Julio Arriaza — Quantitative Analyst at Wharton responsible for portfolio modelling and the development and implementation of its trading, pricing and credit-monitoring infrastructure. Before joining Wharton, Mr Arriaza was Project Manager and Consultant at E-Solutions, and Project Manager and IT Consultant at Devtechno, a software development company.

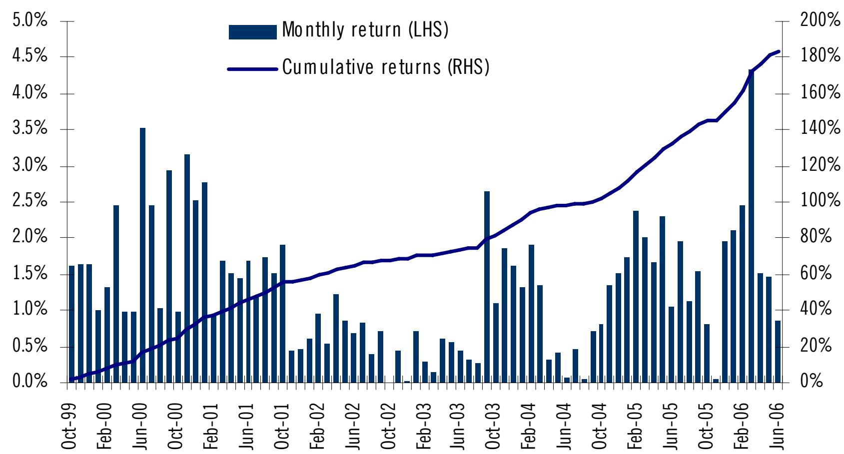
James McCunn — Analyst at Wharton responsible for short-term funding, asset monitoring and compliance modeling. Prior to joining Wharton he was a Risk Analyst in the JP Morgan Hedge Fund Services team.

Key Investment Attractions

Wharton Track Record

Wharton Asset Management boasts a track record of over 10 years experience investing in real estate activities. Wharton's flagship Y2K hedge fund has never in its 81 months since inception recorded a downturn in its monthly NAV. In 2005, Y2K recorded a 20% return causing Bloomberg to rank the fund number one out of the European fixed income hedge fund universe.

Figure 13. Growth in NAV of Wharton's Flagship Y2K Hedge Fund



Source: Wharton Asset Management

The table below summarises the performance record of Y2K since inception in September 1999.

Figure 14. Y2K Fund Performance Compared With AAA-Rated ABS Benchmark

	Y2K	Merrill Lynch Floating Rate AAA ABS
Cumulative return since 15 September 1999	185.2%	28.0%
June 2006 return	0.9%	0.4%
Average annual return	16.8%	3.7%
12-months to end-June 2006 return	22.1%	4.7%
Standard deviation*	3.0%	0.6%
Sharpe Ratio**	4.61	1.23

Source: Wharton AM. *Based on monthly returns since inception. Since inception assuming the ML 0-3m T-Bills Index as the risk-free rate.

Strong Asset Sourcing Capability

Wharton's track record of over 10 years experience and its $11bn portfolio of assets under management have given it access to a good pipeline supply of ABS investments.

- Access to in-house produced RIPs. The targeted post-IPO portfolio will include investments totalling $15m in RIPs from Wharton's G-Square and G-Square 2006-1 CDOs. We expect TRIO will have access to subordinated CDO tranches from future Wharton products.

- Strong ABS dealer relationships. With ~$11bn under management and a 10-year track record, Wharton has strong relationships with a number of financial institutions and ABS dealers through which it accesses external investment opportunities.

Consistent Underwriting and Asset Monitoring Processes

As a substantial purchaser of high grade ABS, Wharton is made aware of forthcoming transactions in the pre-marketing or early marketing stages. All new transaction details are registered in Wharton's pipeline database, following which senior analysts and directors discuss and select transactions for potential investment:

- Assets are selected through a combination of top-down and bottom-up analysis within pre-set portfolio parameters.

- The top-down analysis reflects Wharton's general investment outlook by sectors, regions and by diversification objectives.

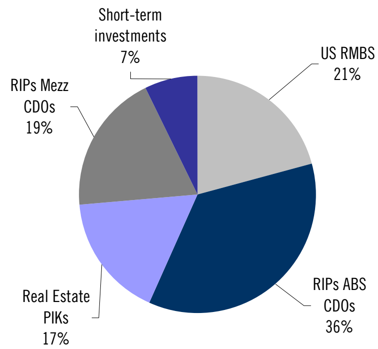
- Bottom-up analysis involves in-depth research into underlying collateral, deal structure, originator/servicer background and track record and credit risk. It also involves relative value analysis.

- Wharton actively monitors investment assets so as to manage credit risk.

The Barbell Portfolio – a Diversified Asset & Income Mix

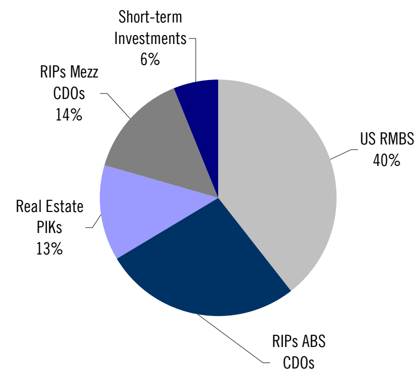
The company's wide range of targeted investments will result in a diversified asset and income mix. In the chart below we show our projections for TRIO's asset and income mix when fully invested (we have used our asset allocation estimate for 2010). This diversity should reduce overall income volatility and hence help deliver relatively stable earnings and dividends.

Figure 15. Estimated 2010E Net Asset Mix



Source: Citigroup Investment Research

Figure 16. Estimated 2010E Income Mix



Source: Citigroup Investment Research

Flexible and Ring-Fenced Funding Strategy

TRIO will use financing structures most appropriate to the requirements of the different types of assets within its investment portfolio. In particular, it aims to optimise returns whilst minimising risk by:

- Choosing funding structures that will minimise interest rate, market, foreign exchange and refinancing risks.
- Limiting contagion risk by funding through non-recourse, ring-fenced structures where appropriate.

The company has established a special purpose funding vehicle (SPV) specifically to acquire the company's initial portfolio — currently warehouse funded — post IPO.

Ring-fenced within TRIO, the SPV has arranged a $400m 364-day revolving facility with which to purchase the warehoused portfolio. Extension provisions within this facility — specifically a 10-year term out option — provide for flexibility and security, which compares favourably with the short-term Repo funding structure favoured by some US REIT competitors. TRIO Finance Limited may additionally use CDO structures as an alternative funding source (effectively securitisation), which would provide funding matched to the maturity profile of the investment portfolio.

Stable Dividends and High Yield

Our financial projections, which we believe are based on conservative assumptions, suggest TRIO Finance Limited can deliver a gross return on shareholders' equity of around 14%.

Net of fees and other costs, we project an average net RoE of 11.8% for the four years between 2007E and 2010E, which supports a 2007E dividend projection of $1.05, ie a prospective yield off the IPO price of 10.5% (now 9.9% at current prices), comfortably ahead of management's first full-year target of 10% (now 9.4%).

Based on the issue price of $10 per share, and based upon management's stated first full year yield objective, an interim dividend of at least $0.30 per share for the stub period to September 2006E would be consistent with an annual dividend of at least $1.00 per share for the full year to September 2007E.

Our projections, set out in detail later in this note, are for somewhat higher dividends: we project $0.30 per share for the stub period and $1.05 per share for the company's first full year.

Risks Factors Affecting TRIO Finance

Credit Risk

Credit risk is one of the key risks for this listed vehicle. Credit risk affects both the levered and unlevered parts of TRIO's portfolio. The listed RMBS assets must be marked-to-market on a regular basis. The possibility of a large number of defaults in underlying assets of these mortgage-backed securities could cause loss of net interest income spread and marked-to-market hits to shareholders' equity. In the unlevered portfolio (consisting of the RIPs, PIKs and subordinated investments) an unexpected deterioration in credit quality will be felt through poorer cash flow and, as a result, lower income and return on equity.

Prepayment & Reinvestment Risk

Prepayment risk is another key risk affecting purchases of mortgage-backed assets. In a rising interest rate environment, prepayment speeds slow. If a company's funding structure is not sufficiently flexible, management may find that its liabilities re-price faster than its assets. This undesirable consequence of a flattening yield curve has hit the performance of certain of TRIO's wider US REIT competitors. Similarly, faster-than-expected prepayment speeds cause quicker asset paydown. There is a risk that management may not be able to redeploy the cash flow realised into sufficiently profitable future investments.

TRIO has sought to mitigate prepayment risk through setting up highly flexible term loan structures instead of using short-term Repo funding favoured by certain US REIT competitors. TRIO has established for its levered portfolio a 364-day revolving bank credit facility with a term-out option of 10 years. This lengthy term-out option gives management great flexibility in the face of an unexpected change in prepayment speeds.

Potential For Conflicts of Interest

TRIO Finance Limited is externally managed by Wharton Asset Management but this is not a dedicated team, since Wharton will continue to invest in ABS areas for its other vehicles, eg Y2K hedge fund or its CDO vehicles. This may present conflicts of interest between these other funds and TRIO for particularly attractive rated ABS bonds. This risk should be mitigated by the investment of $5m by a Wharton affiliate in TRIO at IPO as well as the high performance and management fee incentives payable to Wharton.

High Fee Structure

TRIO will pay a management fee of 1.75% of IPO proceeds over to Wharton asset management and an incentive fee of 25% of the returns over US$ three-month LIBOR plus 400bps. This fee structure is in line with competitors, Caliber/Eurocastle and Queen's Walk, but is still high in absolute terms like a hedge fund fee. Certain investors may struggle to justify paying such high fees to third-party managers when they themselves are paid to manage money.

Financials

Forecast Summary

Our financial forecasts are summarised in the table below.

Figure 17. Forecast Summary

Year to September ($m)	**Stub**	**2007E**	**2008E**	**2009E**	**2010E**
Income & expenses:					
RMBS/CMBS portfolio	8.5	27.7	42.5	65.0	95.0
RIPs in High Grade ABS CDOs	1.6	4.8	7.0	10.1	13.8
RIPs in Mezzanine ABS CDOs	0.0	0.0	1.6	3.8	7.4
Short-term investments	0.7	2.2	2.3	2.8	3.1
Interest income	**10.8**	**34.6**	**53.4**	**81.7**	**119.3**
Interest expense	-7.3	-21.8	-33.5	-51.2	-74.9
Net interest income	**3.5**	**12.8**	**20.0**	**30.5**	**44.5**
Real estate debt instruments (PIKs)	0.7	2.2	3.0	4.6	6.7
Operating income	**4.3**	**15.0**	**23.0**	**35.1**	**51.2**
Management fees	-0.5	-1.6	-2.5	-3.8	-5.6
Other operating expenses	-0.5	-1.6	-2.4	-3.7	-5.4
Net income before incentive fee	**3.2**	**11.8**	**18.1**	**27.6**	**40.2**
Memo: incentive fee hurdle	2.9	8.8	13.6	20.8	30.4
Incentive fee	-0.1	-0.8	-1.1	-1.7	-2.4
Net income	**3.1**	**11.1**	**17.0**	**25.9**	**37.8**
Tax	0.0	0.0	0.0	0.0	0.0
Dividend	-3.0	-10.5	-16.1	-24.6	-35.8
Retentions	0.1	0.6	0.9	1.3	2.0
Balance sheets:					
-RMBS/CMBS leverage	355.0	355.0	544.0	832.2	1,217.3
-RMBS/CMBS equity	19.0	19.0	29.8	45.6	66.6
RMBS/CMBS portfolio	374.0	374.0	573.7	877.8	1,283.9
RIPs in High Grade ABS CDOs	40.0	40.0	58.4	84.1	115.3
RIPs in Mezzanine ABS CDOs	0.0	0.0	13.7	31.5	61.5
Real Estate Debt Instruments (PIKs)	17.6	17.6	24.0	36.8	53.8
Short-term investments	16.0	16.0	17.2	21.0	23.1
Investment portfolio	**447.6**	**447.6**	**687.1**	**1,051.3**	**1,537.6**
Term bank loans	355.0	355.0	544.0	832.2	1,217.3
Equity	92.6	92.6	143.2	219.0	320.3
Funding	**447.6**	**447.6**	**687.1**	**1,051.3**	**1,537.6**
Ratios:					
Equity:assets	21%	21%	21%	21%	21%
Assets:equity leverage	4.83	4.83	4.80	4.80	4.80
Debt equity leverage	3.83	3.83	3.80	3.80	3.80
RoA	0.02	2.5%	2.5%	2.5%	2.5%
RoE	10.1%	11.9%	11.8%	11.8%	11.8%
Expense ratio	26.5%	26.3%	26.2%	26.2%	26.2%
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%
Per share data:					
Shares in issue	10	10	14.8	21.6	30.4
Diluted shares in issue	11.0	11.0	16.2	23.8	33.5
Basic EPS	**0.31**	**1.11**	**1.15**	**1.20**	**1.24**
DPS	**0.30**	**1.05**	**1.09**	**1.13**	**1.18**
NAV	9.26	9.26	9.70	10.12	10.52

Source: Citigroup Investment Research

Key Forecast Assumptions

The key assumptions underlying our forecasts are: (i) the size and shape of the company's gross investment portfolio, its funding mix and the interest rates and spreads earned and paid on its assets and liabilities; (ii) the timing and size of additional capital raisings.

Gross Assets, Funding, Rates & Spreads

The table below sets out our key investment portfolio and funding assumptions, together with the rate, spread and yield assumptions that drive our net interest and investment income forecasts.

Figure 18. Gross Assets & Funding and Rates & Spreads

Year to September ($m)	2007E	2008E	2009E	2010E
Investment portfolio				
-RMBS/CMBS leverage	355.0	544.0	832.2	1,217.3
-RMBS/CMBS equity	19.0	29.8	45.6	66.6
RMBS/CMBS portfolio	374.0	573.7	877.8	1,283.9
RIPs in High Grade ABS CDOs	40.0	58.4	84.1	115.3
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Real Estate Debt Instruments (PIKs)	17.6	24.0	36.8	53.8
Short-term investments	16.0	17.2	21.0	23.1
	447.6	**687.1**	**1,051.3**	**1,537.6**
Funding				
Term bank loans	355.0	544.0	832.2	1,217.3
Equity	92.6	143.2	219.0	320.3
	447.6	**687.1**	**1,051.3**	**1,537.6**
Rates & spreads				
US LIBOR	5.50%	5.50%	5.50%	5.50%
Asset spreads:	0.00%	0.00%	0.00%	0.00%
RMBS/CMBS	1.90%	1.90%	1.90%	1.90%
RIPs ABS CDOs	12.00%	12.00%	12.00%	12.00%
RIPs Mezz CDOs	12.00%	12.00%	12.00%	12.00%
PIKs	12.50%	12.50%	12.50%	12.50%
Short-term investments (Y2K)	13.50%	13.50%	13.50%	13.50%
Liability spreads:				
Bank term loans	0.65%	0.65%	0.65%	0.65%

Source: Citigroup Investment Research

Follow-On Capital Raising

As shown below, we assume follow-on capital raising on 1 October in each of the three years 2008E-2010E.

Figure 19. Follow-On Capital Raising

Year to September ($m)	2007E	2008E	2009E	2010E
Opening equity	**92.6**	**92.6**	**143.2**	**219.0**
Retained earnings	0.0	0.6	0.9	1.3
Equity issuance	0.0	50.0	75.0	100.0
Unrealised gains	0.0	0.0	0.0	0.0
Closing equity	**92.6**	**143.2**	**219.0**	**320.3**

Source: Citigroup Investment Research

Profit & Loss Accounts

Figure 20. Profit & Loss Accounts

Year to September ($m)	2007E	2008E	2009E	2010E
Interest income	34.6	53.4	81.7	119.3
Interest expense	-21.8	-33.5	-51.2	-74.9
Net interest income	**12.8**	**20.0**	**30.5**	**44.5**
Other income	2.2	3.0	4.6	6.7
Operating income	**15.0**	**23.0**	**35.1**	**51.2**
Operating expenses	-3.9	-6.0	-9.2	-13.4
Profit before tax	**11.1**	**17.0**	**25.9**	**37.8**
Tax	0.0	0.0	0.0	0.0
Dividend	-10.5	-16.1	-24.6	-35.8
Retentions	0.6	0.9	1.3	2.0

Source: Citigroup Investment Research

Cash Flows & Capital Raisings

Figure 21. Cash Flows

Year to September ($m)	2007E	2008E	2009E	2010E
Cash flows				
Opening equity	92.6	92.6	143.2	219.0
Retained earnings	0.0	0.6	0.9	1.3
Equity issuance	0.0	50.0	75.0	100.0
Unrealised gains	0.0	0.0	0.0	0.0
Closing equity	**92.6**	**143.2**	**219.0**	**320.3**
Equity issuance:				
Funds raised		50.0	75.0	100.0
New issue price		10.51	10.91	11.35
Shares issued		4.8	6.9	8.8

Source: Citigroup Investment Research

Balance sheets

Figure 22. Balance Sheets

As at end-September ($m)	2007E	2008E	2009E	2010E
Cash and cash equivalents	16.0	17.2	21.0	23.1
ABS	374.0	573.7	877.8	1283.9
Other assets	73.6	113.4	173.5	253.7
Total assets	**447.6**	**687.1**	**1051.3**	**1537.6**
Bank overdrafts and loans	355.0	544.0	832.2	1217.3
Trade and other payables	0.0	0.0	0.0	0.0
Total liabilities	355.0	544.0	832.2	1217.3
Opening share capital	92.6	92.6	142.6	217.6
Equity raised	0.0	50.0	75.0	100.0
Retained earnings	0.0	0.6	1.4	2.7
Unrealised gains	0.0	0.0	0.0	0.0
Equity	92.6	143.2	219.0	320.3
Total liabilities and reserves	**447.6**	**687.1**	**1051.3**	**1537.6**

Source: Citigroup Investment Research

TRIO Finance

Company Description

TRIO Finance Limited is a real estate ABS investment company the key objectives of which are the delivery of stable dividends and attractive risk-adjusted returns. The company is structured as a Guernsey-incorporated entity paying zero taxation and distributing substantially all of its earnings. TRIO is externally managed by Wharton Asset Management.

Investment Thesis

The stock's high dividend yield is its strongest attraction, and the company has targeted a first full-year dividend (to September 2007) of not less than $1.00 per share, which at current prices equates to a dividend yield of 9.4%. Other key attractions are Wharton's excellent track record, the real estate investment focus, the broad range of rated and unrated investments, and the company's conservative term funding strategy. We rate the stock Buy/ High Risk.

Valuation

We value TRIO according to two methodologies, one absolute and one relative, the former based on a fundamental price-to-book approach and the latter in relation to quoted peers — these produce our target price of $12.50. Our fundamental approach, which blends our forecast for sustainable returns, medium-term dividend payments and the potential for NAV enhancing follow-on capital raising, suggests an end-September 2006 fair value of $12.19 per share. Our relative analysis, which uses a broad range of European- and US-quoted ABS investor and Real Estate Investment Trust (REIT) companies as comparatives, validates our preferred fundamental methodology.

Risks

We rate TRIO High Risk. The risk rating on the stock is derived after the consideration of a number of industry-specific risks, financial risk and management risk. Specific risk factors that could cause earnings, dividends and/or share price to deviate from our estimates and target price include: credit risk — unexpected deterioration in credit quality; prepayment & reinvestment risk — faster prepayments cause quicker asset paydown and greater reinvestment risk; potential for conflicts of interest — Wharton will continue to invest in asset-backed securities for its other vehicles, which may present conflicts of interest with TRIO for particularly desirable investments; high fee structure — TRIO will pay fees to Wharton that are hedge-fund-like in nature and which may preclude certain investors investing in this type of vehicle.

Analyst Certification Appendix A-1

We, Tony J Cummings and Andrew P Coombs, research analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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