Truvera Mortgage Corporation

Surging Yields Driven by Rising Rates & Demand for Alternative Lending

Expected Yield (2023): 8.0%
Rating*: 2
Risk*: 2

Sector / Industry: Mortgage Investment Entities (MIEs)

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Highlights

- In 2022, Truvera Mortgage Corporation yielded 5.8% vs 5.3% in 2021, **amid higher mortgage receivables and lending rates**. The yield further increased to 8.1% in Q1-2023. The fund has been able to raise its lending rates quickly because 80%+ of its mortgages are floating rate.
- In 2022, mortgage receivables were up 47% YoY, to $34M. As of June 2023, **receivables totaled $35M - the highest in the fund's history.**
- We note that the fund maintains a low-risk profile, and remains focused on first mortgages secured by single-family units in B.C. The fund has **not had any realized losses since its inception in 2016.** Loan-to-Value ("LTV") at origination was just 45% at the end of 2022 vs 50%-70% for comparables.
- In addition to accredited investors, the fund has **10 B.C.-based financial institutions as investors** (up from nine at the time of our previous report in 2021), which we believe reflects the ongoing trust and confidence of institutional investors.
- We believe alternative lenders, such as Truvera, **should be able to continue growing their loan portfolios**, amid lower repayments and new loan applications from borrowers unable to qualify with traditional lenders due to high rates.
- Due to rising financial instability, and cooling inflation, **we are expecting rates to start declining in late 2023**. However, as rates are likely to remain relatively high for most of the year, we anticipate an increase in defaults and foreclosures. Nationwide mortgage delinquencies were up from 0.14% in Q4-2022, to 0.15% in Q1-2023 (Source: CMHC), but remained well below the 10-year average of 0.29%. Non-mortgage delinquencies were up 25% YoY in Q1-2023 (Source: Equifax). For conservatism, we are modeling higher loan loss allowances for all of the lenders under our coverage. **We believe Truvera's low LTV (45%) puts them in a comfortable position.**
- On a positive note, **housing prices in Vancouver are recovering.** As of June 2023, the MLS benchmark price for all residential properties in Metro Vancouver was up 8% YTD, following a 9% decline in 2022.
- **We are forecasting a yield of 8.0% in 2023, slightly below management's guidance of 8.5%.** As we expect rates to start declining later this year, we anticipate an increase in appetite for high-yielding funds, such as Truvera.

Sid Rajeev, B.Tech, MBA, CFA
Head of Research

Offering Summary	
Issuer	Truvera Mortgage (Senior) – 1 Limited Partnership
Date of OM	N/A
Securities Offered	Limited Partnership Units
Unit Price	$1
Minimum Subscription	$250,000
Distribution to Investors	Quarterly
Redemption	Once a year
MER	1.75% of AUM / 25% of origination & renewal fee
Sales Commissions	up to 1% p.a. (trailer)
Auditor	DMCL
Registered Plans	N/A

	2020	2021	2022	2023E	2024E
Mortgage Receivables	$20,846,135	$22,774,214	$33,519,586	$50,000,000	$60,000,000
Debt to Capital	0%	0%	0%	0%	0%
Revenue	$1,551,703	$1,796,766	$2,466,865	$4,969,415	$5,775,000
Dividends	$1,065,192	$1,172,099	$1,683,904	$3,446,875	$3,719,655
Dividend Yield	5.58%	5.30%	5.78%	8.03%	6.71%

*See last page of this report for important disclosures, rating and risk definitions. All figures in C$ unless otherwise specified.

***For additional details on the fund, management team, structure, and historic performance, please refer to our 2019 initiating report.**

Investment Strategy

Short-term loans secured by real estate

- The primary focus of the fund is on residential properties in B.C.
- A single mortgage will not account for more than 10% of the portfolio
- A single borrower will not account for more than 20% of the portfolio
- Mortgages over $1M require board approval
- The fund may use leverage of up to 20%

The following table shows how Truvera's portfolio compares to that of other comparable MIEs focused on single-family residential units.

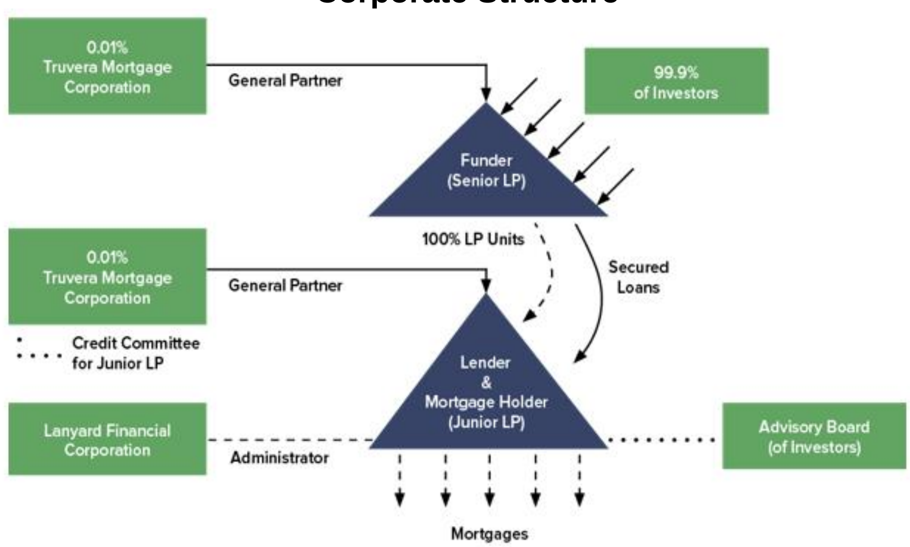
Truvera has higher first mortgages, and a lower weighted average LTV, implying a relatively low risk-profile

The fund does not use leverage to enhance yields

	Truvera	Average
First Mortgage	100%	84%
B.C.	100%	41%
ON	0%	44%
AB	0%	6%
Others	0%	9%
LTV	45%	58%
Yield (2022)	5.8%	7.0%
Debt to Capital	0%	25%
Average Loan Size	$1,022,873	$557,231
Delinquent/Foreclosures	0.0%	2.6%
Provision	0.0%	0.6%

Source: FRC / Various

Corporate Structure



- Investors subscribe to units of the Senior LP. Capital flows via a secured zero interest loan arrangement with the Junior LP, which, in turn, uses the proceeds to invest in mortgages.

Source: Fund

Management and board have extensive experience in the mortgage industry

Four out of six board members are independent, and do not hold any management position

The fund has, amongst other unitholders, 10 financial institutions as investors with **total committed capital of $30M**, of which, $20M has been drawn to date. As each financial institution is not allowed to own over 10% of the fund's equity (a regulatory requirement), the fund has to draw capital in tranches to ensure that none of the financial institutions exceeds their maximum permitted investment.

Mortgages are **underwritten and administered by Lanyard Financial Corporation** – a Vancouver based lender and mortgage broker with a track record of over 20 years. The principals of Lanyard indirectly own a 30% interest in the fund's General Partner, **aligning their interests with Truvera and its investors.**

Investors of the fund **have voting rights**, which we believe align management and investors' interests. We note that most MIEs do not offer voting rights to investors. **Management's goal** is to grow the fund's portfolio to over $50M by the end of 2023.

Brief biographies of the management team and board of directors, as provided by the fund, follow:

Management and Board	Role	Experience
Don Rolfe	President & CEO	Former CEO of Central 1 and Ethical Funds Credential Financial Services
Barry Macdonald, CPA	Chairman of Board, Independent Director, Credit Committee Member	PricewaterhouseCoopers (past Partner)
Peter McGrath	Director, Credit Committee	Director of Axiom Mortgage Brokerage; owns multiple mortgage brokerages, and real estate development/management entities
Michael Kalef, LLB	Director, Credit Committee	Koffman Kalef Law Firm (Partner)
Benjamin Goldberg	Director	Principal of Lanyard Financial Corporation/Koffman Kalef Law Firm (past Partner)/Freeman + Co Law Firm (past Partner)
Nancy Fong, Bcom, LLB, CFP, FEA	Vice President - Operations and Investor Relations, Credit Committee	Practised law for 12 years; Owner of NYH Wealth Management; Treasurer of the Executive of the Estate Planning Council of Vancouver

Source: Fund/FRC

Portfolio Update

Mortgage receivables grew 47% YoY, to $34M by the end of 2022

As of June 2023, receivables totaled $35M

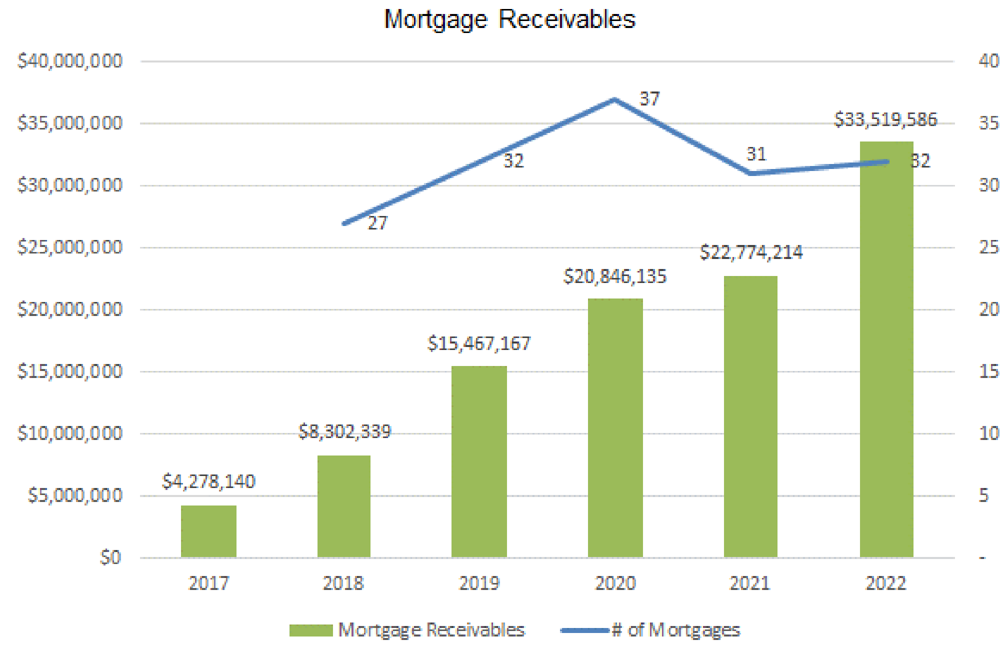
Management's focus remains on first mortgages secured by single-family residential properties in B.C.

LTV was just 45% at the end of 2022

Lending rates have been rising with market rates

No loan loss allowances or realized losses

As of June 2023, the fund had two past-due mortgages, representing 5% of the portfolio; our discussions with management indicated that they do not expect any losses from these mortgages



	2018	2019	2020	2021	2022	Jun-23
# of Mortgages	27	32	37	31	32	31
Average	$307,494	$483,349	$563,409	$730,519	$1,022,873	$1,126,725
First Mortgages	100%	100%	100%	100%	100%	100%
LTV	47%	41%	39%	47%	45%	46%
Lending Rate	7.35% - 9.00%	5.75% - 9.53%	4.00% - 8.03%	5.50% - 18.75%	8.00% - 18.75%	8.00% - 15.25%
Past Due						
# of Mortgage	-	2	1	-	n/a	2
$ (Mortgages)	-	$650,000	$300,000	-	n/a	$2,124,274

	2018	2019	2020	2021	2022
Actual Losses (% of Receivables)	0.00%	0.00%	0.00%	0.00%	0.00%
Provisions (% of Receivables)	0.00%	0.00%	0.00%	0.00%	0.00%

Source: Fund / FRC

Mortgage receivables have increased every year since the fund's inception in 2016

Although comparables of similar size utilize up to 10% debt, the fund does not use leverage to enhance yields

In summary, we believe the portfolio's risk profile has increased slightly (two red signals vs one green)

Balance Sheet	2018	2019	2020	2021	2022
Assets					
Cash	$270,818	$1,604,688	$896,965	$445,890	$2,611,384
Mortgage Investments (net)	$8,302,339	$15,467,167	$20,846,135	$22,774,214	$33,519,586
	$8,573,157	**$17,071,855**	**$21,743,100**	**$23,220,104**	**$36,130,970**
Liabilities					
A/P	$10,863	$10,500	$13,000	$16,000	$18,000
Due to GP	$14,001	$22,008	$23,976	$57,909	$61,181
	$24,864	$32,508	$36,976	$73,909	$79,181
LP Units	$8,430,001	$16,805,016	$21,355,017	$22,880,009	$35,425,009
Accrued Distribution	$118,290	$234,329	$351,105	$266,184	$626,778
	$8,548,291	$17,039,345	$21,706,122	$23,146,193	$36,051,787
GP Units	$2	$2	$2	$2	$2
SE + Liabilities	**$8,573,157**	**$17,071,855**	**$21,743,100**	**$23,220,104**	**$36,130,970**
Debt to Capital	0%	0%	0%	0%	0%
Debt as a % of Mortgage Outstanding	0%	0%	0%	0%	0%
Interest Coverage Ratio	n/a	n/a	n/a	n/a	n/a

Source: FRC / Fund

Parameter	Risk Profile
Average Mortgage	↑
Diversification	-
Priority	-
LTV	↓
Property Type (lower-risk types)	-
Default	↑
Debt to Capital	-
Duration	n/a

- red (green) indicates an increase (decrease) in risk level

Source: FRC

Financials

In 2022, revenue and net income were up 37% and 44% YoY, respectively, due to higher mortgage receivables and lending rates

Income Statement	2018	2019	2020	2021	2022	YoY
Revenues						
Interest Income	$465,550	$934,519	$1,310,757	$1,558,215	$2,185,763	40%
Other Income	$86,684	$195,240	$240,946	$238,551	$281,102	18%
	$552,234	**$1,129,759**	**$1,551,703**	**$1,796,766**	**$2,466,865**	**37%**
Expenses						
G&A	$14,653	$19,098	$20,383	$21,336	$35,409	66%
Administrator Fees	$90,226	$183,606	$260,629	$330,970	$422,771	28%
GP Fees	$61,032	$123,758	$214,456	$280,434	$352,267	26%
Loan Loss Provision						
Interest on Loan Payable		-$12,605	-$10,123	-$9,514	-$29,105	206%
	$165,911	**$313,857**	**$485,345**	**$623,226**	**$781,342**	**25%**
Net Income	**$386,323**	**$815,902**	**$1,066,358**	**$1,173,540**	**$1,685,523**	**44%**
Distribution to LP Unitholders	$386,323	$815,402	$1,065,192	$1,172,099	$1,683,904	44%
Net Asset Value	$1.00	$1.00	$1.00	$1.00	$1.00	**0%**
Shares Outstanding	8,430,001	16,805,016	21,355,017	22,880,009	35,425,009	55%

In 2022, lending rates and yields increased by 60 bps and 50 bps, respectively

% of Mortgage Receivable	2018	2019	2020	2021	2022
Interest Income	7.40%	7.86%	7.22%	7.14%	7.77%
Other Income	1.38%	1.64%	1.33%	1.09%	1.00%
Interest Income + Others	**8.78%**	**9.51%**	**8.55%**	**8.24%**	**8.76%**
Less:					
G&A	0.23%	0.16%	0.11%	0.10%	0.13%
Administrator Fees	1.43%	1.54%	1.44%	1.52%	1.50%
GP Fees	0.97%	1.04%	1.18%	1.29%	1.25%
Loan Loss Provision					
Interest on Loan Payable	0.00%	-0.11%	-0.06%	-0.04%	-0.10%
Net	**6.14%**	**6.87%**	**5.87%**	**5.38%**	**5.99%**
Investors' Returns (% of Invested Capital)	**5.86%**	**6.46%**	**5.58%**	**5.30%**	**5.78%**

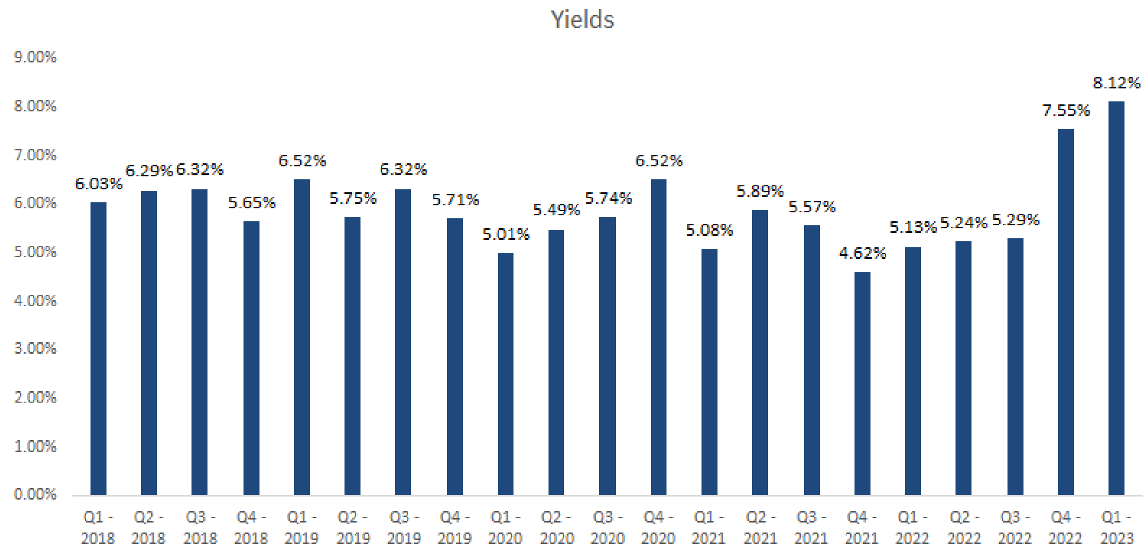
*The calculations in the above table are approximates as we used the average of beginning and end of period mortgage receivables outstanding.

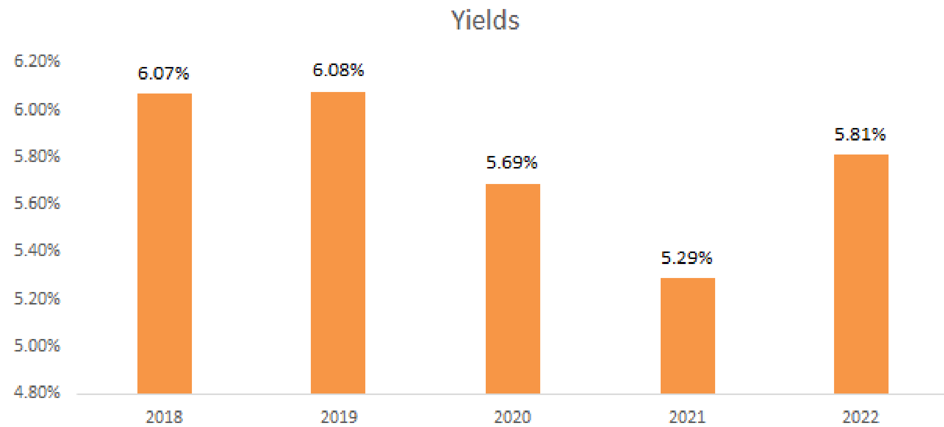
Source: FRC

The yield increased from 5.3% in 2021, to 5.8% in 2022

We are forecasting a yield of 8.0% in 2023, up from 5.8% in 2022

Management is projecting 8.5% in 2023; Our forecast is conservative as we are assuming the fund will report loan loss allowances totaling 1% of receivables over the next 12 months; Banks and conventional lenders had raised their allowances by 100%-200% during past recessions





Source: Fund

FRC Rating

	2020	2021	2022	2023E	2024E
Mortgage Receivables	$20,846,135	$22,774,214	$33,519,586	$50,000,000	$60,000,000
Debt to Capital	0%	0%	0%	0%	0%
Revenue	$1,551,703	$1,796,766	$2,466,865	$4,969,415	$5,775,000
Dividends	$1,065,192	$1,172,099	$1,683,904	$3,446,875	$3,719,655
Dividend Yield	5.58%	5.30%	5.78%	8.03%	6.71%

Source: FRC

Our estimate for the 2023 yield varies between 6.5% and 8.8%, using various loan loss allowances

Loan Loss Allowances (% of Mortgages)	2023 Yield
0.00%	8.81%
0.50%	8.42%
1.00%	8.03%
2.00%	7.25%
3.00%	6.47%

Source: FRC

We are reiterating our overall rating of 2, and risk rating of 2. We believe Truvera's most appealing feature is its relatively low-risk profile, derived from its focus on first mortgages with exceptionally low LTVs. **We are anticipating a 2.2 ppt increase in yield this year.** Key sector risks include a softer mortgage origination market, and higher default rates. As we expect rates to start declining later this year, we anticipate an increase in appetite for high-yielding funds, such as Truvera.

FRC Rating	
Expected Yield (2023E)	8.0%
Rating	2
Risk	2

Risks

We believe the fund is exposed to the following key risks:

- **Operates in a highly competitive sector**
- Timely deployment of capital is crucial
- Credit
- A downturn in the real estate sector may impact the fund's deal flow
- Geographical concentration
- Distributions are not guaranteed
- **Default rates can rise during recessions**

APPENDIX

Income Statement	2020	2021	2022	2023E	2024E
Revenues					
Interest Income	$1,310,757	$1,558,215	$2,185,763	$4,551,817	$5,225,000
Other Income	$240,946	$238,551	$281,102	$417,598	$550,000
	$1,551,703	**$1,796,766**	**$2,466,865**	**$4,969,415**	**$5,775,000**
Expenses					
G&A	$20,383	$21,336	$35,409	$38,950	$42,845
Administrator Fees	$260,629	$330,970	$422,771	$626,397	$825,000
GP Fees	$214,456	$280,434	$352,267	$521,997	$687,500
Loan Loss Provision				$335,196	$500,000
Interest on Loan Payable	-$10,123	-$9,514	-$29,105		
	$485,345	**$623,226**	**$781,342**	**$1,522,540**	**$2,055,345**
Net Income	**$1,066,358**	**$1,173,540**	**$1,685,523**	**$3,446,875**	**$3,719,655**
Distribution to LP Unitholders	$1,065,192	$1,172,099	$1,683,904	$3,446,875	$3,719,655
Net Asset Value	$1.00	$1.00	$1.00	$1.00	$1.00
Shares Outstanding	21,355,017	22,880,009	35,425,009	50,425,009	60,425,009

Balance Sheet	2020	2021	2022	2023E	2024E
Assets					
Cash	$896,965	$445,890	$2,611,384	$1,138,888	$1,147,598
Mortgage Investments (net)	$20,846,135	$22,774,214	$33,519,586	$50,000,000	$60,000,000
	$21,743,100	**$23,220,104**	**$36,130,970**	**$51,138,888**	**$61,147,598**
Liabilities					
A/P	$13,000	$16,000	$18,000	$19,800	$21,780
Due to GP	$23,976	$57,909	$61,181	$67,299	$74,029
	$36,976	$73,909	$79,181	$87,099	$95,809
LP Units	$21,355,017	$22,880,009	$35,425,009	$50,425,009	$60,425,009
Accrued Distribution	$351,105	$266,184	$626,778	$626,778	$626,778
	$21,706,122	$23,146,193	$36,051,787	$51,051,787	$61,051,787
GP Units	$2	$2	$2	$2	$2
SE + Liabilities	**$21,743,100**	**$23,220,104**	**$36,130,970**	**$51,138,888**	**$61,147,598**
Debt to Capital	0%	0%	0%	0%	0%
Debt as a % of Mortgage Outstanding	0%	0%	0%	0%	0%

Cash Flow Statement	2023E	2024E
Operating Activities		
Net Income	$3,446,875	$3,719,655
Adjustments	$7,918	$8,710
	$3,454,793	**$3,728,365**
Cash For Investing Activities	**-$16,480,414**	**-$10,000,000**
Financing Activities		
Equity	$15,000,000	$10,000,000
Debt		
Distributions	-$3,446,875	-$3,719,655
Cash From Financing Activities	**$11,553,125**	**$6,280,345**

Fundamental Research Corp. Rating Scale:

Rating – 1: Excellent Return to Risk Ratio
Rating – 2: Very Good Return to Risk Ratio
Rating – 3: Good Return to Risk Ratio
Rating – 4: Average Return to Risk Ratio
Rating – 5: Weak Return to Risk Ratio
Rating – 6: Very Weak Return to Risk Ratio
Rating – 7: Poor Return to Risk Ratio
A "+" indicates the rating is in the top third of the category, A "-" indicates the lower third and no "+" or "-" indicates the middle third of the category.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk)
2 (Below Average Risk)
3 (Average Risk)
4 (Speculative)
5 (Highly Speculative)

FRC Distribution of Ratings			
Rating - 1	0%	Risk - 1	0%
Rating - 2	32%	Risk - 2	10%
Rating - 3	46%	Risk - 3	40%
Rating - 4	8%	Risk - 4	32%
Rating - 5	4%	Risk - 5	8%
Rating - 6	1%	Suspended	10%
Rating - 7	0%		
Suspended	9%		

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