



**INVESTOR
RELATIONS
REPORT
JUNE 2023**

Investing amid High Inflation and Market Volatility

It's Time to Consider the Alternatives

Report from the

CHIEF OPERATING OFFICER - CHRIS CHENG



Chris Cheng
CHIEF OPERATING OFFICER

We were all hoping that the economy would magically return to boom times after we get through COVID. But now that the most serious global pandemic in a century is apparently behind us, numerous negative headwinds have caused the economy to continue to languish.

In addition to geopolitical conflict abroad, domestic inflation remains well above the government's target of 2%; the Canadian real estate market slowed down due to the rapid and successive increases of the Bank of Canada's policy rate from 0.25% to the current level of 5.00% in just fifteen months; the collapses of American regional and specialty

banks caused ripples throughout the banking sector.

All of these negative headwinds have also caused the stock market to be extremely volatile. As an investor, it must be difficult to know what to do with your investments.

I believe that the best way to enhance potential returns while reducing risks in today's environment is by adding alternative investments to your investment portfolio. Specifically, the alternative investment I am referring to are Mortgage Investment Entities (MIEs).

What are MIEs?

Mortgage Investment Entities raise funds from the public to form a pool of funds to lend out as mortgages to borrowers. In recent years, there is a dramatic increase in the number of homeowners relying on mortgages from alternative lenders such as MIEs to finance their homes due to government regulations such as the B-20 residential mortgage lending guidelines and the infamous mortgage stress test.

Here at the RESCO Group of Funds, we offer investments in **RESCO First Mortgage Fund LP (RESCO LP)** and **RESCO Mortgage Investment Corporation (RESCO MIC)**, both of which are MIEs.

The MIEs in the RESCO Group of Funds have strong, proven track records. Even in times of negative headwinds mentioned above, we have been able to deliver stable and consistent returns to our investors. In fact, we have just increased the yield on our RESCO First Mortgage Fund LP units.

This type of investment does come with risks, and it is not guaranteed by the CDIC (Canada Deposit Insurance Corporation). However, at RESCO, we implement rigorous underwriting standards to minimize risks. Our Fund Manager, Radiance Mortgage Brokerage Inc. (FSRAO Licence 12430) follows a stringent and rigorous risk management process when selecting the right mortgages for the investment portfolio, such as:

- The mortgage portfolios of RESCO LP and RESCO MIC comprise mortgages secured by marketable residential properties only, located in desirable locations
- We closely evaluate the creditworthiness of each individual borrower and the marketability of the collateral
- To reduce market and interest rate risks, our mortgages are mostly short-term with an average term of less than one year

Although MIEs might not be suitable for everyone, there are two main reasons you should consider adding MIEs to your investment portfolio:

- MIE has the potential for higher returns than GICs
- MIE is a good alternative investment to diversify your stock and bond portfolio



➤ MIEs might offer Higher Potential Returns than GICs

Even though Guaranteed Investment Certificates (GICs) are back on investors' radars after recent increases in their returns to above 5%, money invested in GICs is still in negative territory on an after-inflation basis.

We have also seen a dramatic decrease in the number of GIC issuers offering yields of 5% or more. As of late April 2023, one-year term GICs offer returns of nearly 5% while three-year term GICs offer returns of less than 5%. Canada's inflation rate cooled to 4.4% in April 2023, but grocery prices were up 9.1% compared with a year ago. In other words, the 5% interest that you are

earning from GICs is still not enough to keep up with your grocery bills.

Although MIEs do not offer the same guarantee as GICs, they could serve as a more effective hedge against inflation.

➤ Diversify to Reduce Risk

Effective diversification is the practice of spreading your investment amongst different asset classes so that your exposure to any one type of investment is limited. Diversification can help mitigate the risk and volatility of your portfolio.

Stock markets have remained volatile after a disappointing 2022. Considering that we are still not out of the woods yet with factors like inflation and uncertainty surrounding a potential economic slowdown or recession, the stock market will likely remain volatile.

Similarly, persistent inflation has caused interest rates in the bond market to creep higher in the past month, which means lower bond prices because yields and prices move in opposite directions. As such, balanced portfolios are once again being held back by weak bond performance.

Investments in RESCO LP and RESCO MIC provide diversification benefits because of their low correlation to the bond and stock market.

➤ Longer Horizon

If you do not need to access the funds in your investment for short-term, or you are investing with your TFSA or RRSP, then perhaps RESCO MIC Preferred Shares is a suitable alternative investment solution to help you diversify the risk and to enhance the potential returns of your portfolio.

By having sound risk management strategies and good underwriting practices, RESCO MIC has been able to stay

“Wait and See”

Looking ahead, markets are still trying to price in various factors. This could mean a lot of uncertainty and a wide range of outcomes. If you are sitting on idle cash and not sure what to do with your investment, Class A Units and Class B Units in RESCO First Mortgage Fund LP are two very attractive investment options. The current yields are 6.00% per annum and 6.50% per annum for Class A Units and Class B Units, respectively. Class A Units have a one-year term while Class B Units have a 3-years term, and interest is payable on a quarterly basis for both.

If you do not want to commit to any long-term investments given the current investment environment, then the Class A Units might be a viable option for you. It offers a steady stream of income, and you can simply “park” your money for one year and then assess down the road.

resilient during turbulent times and consistently generate a monthly income while preserving investment capital for our investors. In fact, we have been delivering dividends of 8% per annum for 110 consecutive months (as of May 31, 2023) since the fund's inception in March 2014. The rate of return compounds to 8.24% per annum for investors enrolled in our DRIP (Dividends Reinvestment Program).



Positive Outlook

While headwinds may cause some turbulence in the short term, the overall longer-term outlook in the alternative mortgage and real estate markets is encouraging. The Bank of Canada has been sitting on the sideline since the last rate hike in January of this year; inflation is seemingly under control and trending downward; the housing market is showing signs of recovery due to the increased demand and the lack of supply; and the influx of immigrants will keep driving the demand for housing while the

lack of housing supply will remain an issue without any short-term remedy.

Demand for private mortgages is therefore expected to remain robust as the market anticipates the potential introduction of a new set of lending guidelines that will make it even harder to qualify for a traditional mortgage.

To learn more about adding any of the RESCO products to your portfolio to give you peace of mind in today's unsettled market, please contact us at:

 Email: info@rescogroup.ca

 Office: 905-886-8786



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This information sheet is for general information purposes only and is not, and under no circumstances is to be construed as, an invitation to make an investment in RESCO First Mortgage Fund LP or RESCO Mortgage Investment Corporation (collectively "RESCO Group of Funds"). These materials should be read in conjunction with the Offering Memorandums dated March 28, 2023 and February 22, 2023, respectively, including the risk factors identified therein.

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PORTFOLIO HIGHLIGHTS

2023

ALL RESULTS AND DATA ARE AS OF APRIL 30, 2023

8.00%

ANNUAL YIELD

8.24%

ANNUAL YIELD WITH DRIP

\$75 Million

MORTGAGES UNDER ADMINISTRATION

227

NUMBER OF MORTGAGES

\$330 Thousand

AVERAGE MORTGAGE SIZE

64.15%

WEIGHTED AVERAGE LOAN-TO-VALUE

100%

% OF RESIDENTIAL MORTGAGES

64.68%

% OF FIRST MORTGAGES

\$600 Million

\$ MORTGAGES FUNDED SINCE INCEPTION

683

WEIGHTED AVERAGE CREDIT SCORE

0.06%

% OF DEFAULT SINCE INCEPTION

10.7 Months

AVERAGE TERM TO MATURITY

Ontario: 99.82%

Manitoba: 0.18%

GEOGRAPHIC DISTRIBUTION

6.00%

CLASS A UNITS ANNUAL YIELD

6.50%

CLASS B UNITS ANNUAL YIELD

\$5.46 Million

MORTGAGES UNDER ADMINISTRATION

7

NUMBER OF MORTGAGES

\$779 Thousand

AVERAGE MORTGAGE SIZE

57%

WEIGHTED AVERAGE LOAN-TO-VALUE

100%

% OF RESIDENTIAL MORTGAGES

100%

% OF FIRST MORTGAGES

\$40 Million

\$ MORTGAGES FUNDED SINCE INCEPTION

700

WEIGHTED AVERAGE CREDIT SCORE

0%

% OF DEFAULT SINCE INCEPTION

8.1 Months

AVERAGE TERM TO MATURITY

Ontario: 100%

GEOGRAPHIC DISTRIBUTION