

2023

RESCO GROUP OF FUNDS

WINTER NEWSLETTER





Solid Security.
Stable Return.

Chris Cheng
Chief Operating Officer

RESCO Group of Funds
Since 2013



Reflecting on a Year of Resilience

As we approach the close of a remarkable year, I want to express my heartfelt gratitude for your continued trust and support. The unprecedented challenges that we have seen in the past twelve months had the paradoxical effects of presenting difficulties while simultaneously showcasing the resilience and adaptability of our organization.

In the face of high inflation domestically and geopolitical unrest internationally, we remained persistent in our commitment to delivering consistent returns while protecting your investment capital. Sustained by your unwavering confidence, our dedicated team propelled us through the ups and downs, reinforcing our belief in the strength of our long-standing business model and core values.

As we are soon to turn the page to a new year, we remain optimistic about the future and our ability to thrive in a challenging environment.

With inflation peaking in 2022, the Bank of Canada has been attempting to reduce spending by raising key interest rates. The effect is to make mortgage borrowing costs more expensive, and in turn, dampening demand for housing and overall consumer demand. However, there are several compelling factors that point to a future increase in house prices and a resurgence of mortgage lending activities.

The tightening of monetary policy is working:

Recent data from Statistics Canada showed the inflation rate had fallen to 3.1% in October 2023, continuing the downward trend from September 2023's 3.8% rate. Gross Domestic Product (GDP) stagnated in September 2023, which is an indication of a slowing economy. This economic slowdown is expected to linger well into 2024, and is likely to continue the downward pressure on inflation in the coming months.

Canada's unemployment rate rose to 5.7% in October from 5.5% the previous month:

A hot labour market was one of the causes of Canada's persistent inflation. We are now seeing signs that the labour market may be easing. Tight monetary policy has begun to weigh on business investment and limit hiring. Combined with weaker demand and higher borrowing costs, the Canadian job market cooled in October 2023.

The Canadian economy added only 17,500 jobs in October 2023, a significant drop from the 63,800 jobs added in September 2023. Correspondingly, Unemployment ticked higher in October 2023, rising to 5.7% from 5.5% for the previous month. This marks the fourth monthly increase in unemployment since April 2023 when the rate was at 5.0%.

The housing supply gap has shrunk only marginally since last year:

According to CMHC (Canada Mortgage Housing Corporation), Canada will need to build an additional 3.45 million homes from now till 2030 in order for housing to remain affordable for most Canadians. However, housing starts are not on pace to achieve this target, with Ontario accounting for most of the shortfall with a 1.46 million supply gap. Combined with the historic immigration level to drive population growth, demand is still expected to outstrip demand and lead the housing market to recover in the coming months.

Rate cuts could be on the way:

With the Bank of Canada having left its policy rate unchanged in its last two announcements, economists generally agree that rate cuts will begin in 2024 and we may even see aggressive cuts in the second half of 2024. We are already seeing a precursor of this with five-year Government of Canada bond yields – which is the basis for most fixed mortgage rates – ticking downwards in recent weeks.

Once again, I want to extend my sincere appreciation for your trust, partnership, and shared vision. Together, we have weathered storms and celebrated successes, and I am confident that the coming year holds even greater promise for us. We are committed to building on the momentum generated in 2023 and continuing to deliver value to our investors.

Wishing you and your loved ones a joyous holiday season and a prosperous New Year. Thank you for being an integral part of our journey.

RESCO's resilience and ability to thrive under the economic challenges in 2022-2023

Canadians from coast to coast experienced a multitude of economic challenges in what was RESCO's 2022-2023 Financial Year. The challenge with the most widespread impact was the ever-rising inflation rate and resulting affordability pressures on a day-to-day basis. Combined with other economic challenges such as a cooling real estate market and lower home prices in various locales, RESCO's various structural processes were put under rigorous testing and stress.

It was apparent that our judicious underwriting process has produced an extremely strong mortgages portfolio. Our rate of default has remained extremely low – both in relation to the overall number of mortgages in the portfolio and the overall assets under management. Conversely, other alternative lenders have experienced much higher rates of default, causing some to temporarily stop accepting new investments, reduce or stop paying dividends, and stop funding new mortgages.

Despite a rise in the occurrences of payment default, our persistent collection process has ensured that most defaults are remedied without being in arrears for more than 30 days. In appropriate cases, we worked with borrowers to provide payment deferrals or accommodations. As of the end of the financial year, outstanding deferred or accommodated payments represent approximately 0.5 percent of the annual revenue.

Although the number of mortgages in severe delinquency were minimal, our principled legal process was called on to assert our rights in certain situations. Two delinquent mortgages were enforced by power of sale during the past Financial Year. Despite taking losses on both

properties, the impact on our profitability was insignificant as we were able to maintain our dividend payments throughout without having to utilize our reserve fund. In fact, the already-healthy reserve fund was increased during the past Financial Year to approximately \$500,000. This is a demonstration of our prudent risk mitigation process. As responsible fund managers, we always prepare for the proverbial rainy day in order to protect your investment.

Overall, RESCO's structural processes have proven to be robust in weathering the storm this past Financial Year, reinforcing our confidence that we will continue to thrive even in adverse conditions.



Announcements

RESCO LP dividends now distributed monthly

The LP dividend distribution changed from quarterly to monthly, effective November 1, 2023.

A significant advantage of monthly distributions is that RESCO offer investors a more consistent and predictable cash flow, aiding in covering living expenses.

MIC October Monthly Dividend Increase

The MIC dividend for the month ending October 31, 2023 has been increased to 8.5% p.a., payable on December 15, 2023.

This increase in the dividend underscores RESCO's commitment to delivering attractive returns and financial prosperity to our investors.

RESCO is expanding our lending area to include in British Columbia

RESCO, as an equity lender in the Mortgage Investment Corporation arena, is thrilled to announce our expansion into the flourishing real estate market of British Columbia in the coming months!

This strategic move marks a significant milestone in our journey as we bring our mortgage lending expertise to the picturesque province of British Columbia.

RESCO 10th Anniversary

RESCO is thrilled to announce its 10th Anniversary Gala scheduled for April 10, 2024, in Ontario and April 24, 2024, in Vancouver, marking a decade of success and innovation. The gala promises to be a spectacular celebration, reflecting RESCO's journey and achievements in the financial landscape. Stay tuned for exciting updates and preparations for this milestone event!



Highlighted Data:

as of Oct 31, 2023

762

Total number of MIC investors since inception

452

Number of investors who have RESCO MIC in their RRSP and TFSA

The maximum contribution you can make to your RRSP is 18% of your previous year's income up to the current fixed contribution limit (\$31,560 for 2024).

257

MIC Investors who have stayed with us for more than 5 years (invested on or before Oct 31, 2018)

Investment income earned by, and changes in the value of your TFSA investments will not affect your TFSA contribution room for current or future years. The annual TFSA dollar limit for the year 2024 is \$7,000.

\$445,612,596.35

Volume Funded since Inception

\$29,912,791.13

Dividends paid to MIC Class B shareholders since inception

\$984,235.36

Dividends paid to LP (Class A & B) investors since inception

1,640

Total number of funded mortgages (1st & 2nd) since inception

Portfolio Performance

as of Oct 31, 2023

RESCO Mortgage Investment Corporation



8%

Annual yield



8.30%

Annual yield with DRIP



\$79,016,439.34

Mortgages under administration



217

Number of mortgages



\$364,131.06

Average Mortgage Size



66.67%

Weighted average LTV



64.03%

% of first mortgages



699.18

Weighted average credit score



11.46 Months

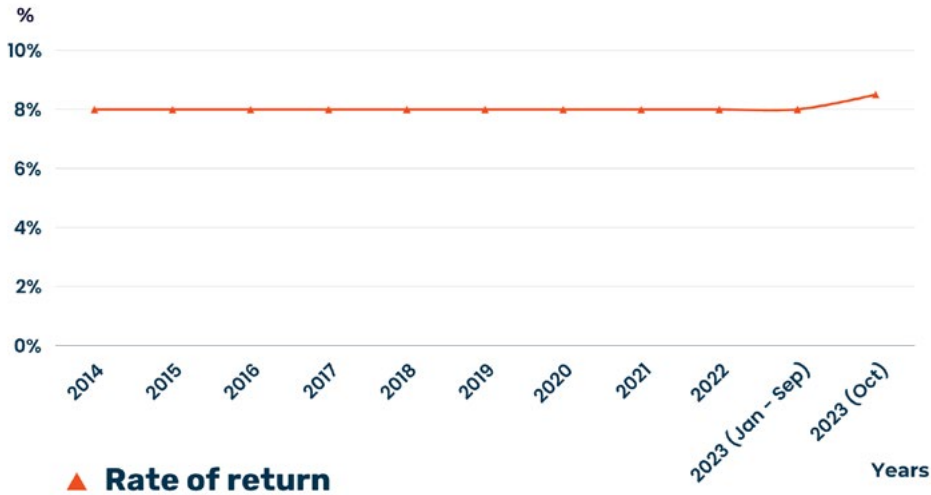
Average term to Maturity



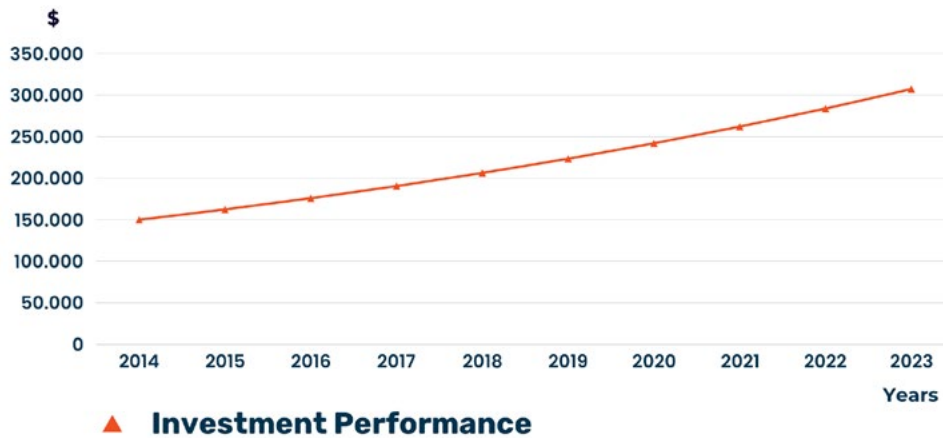
100%

% of residential mortgages

It's time to consider **the alternatives**

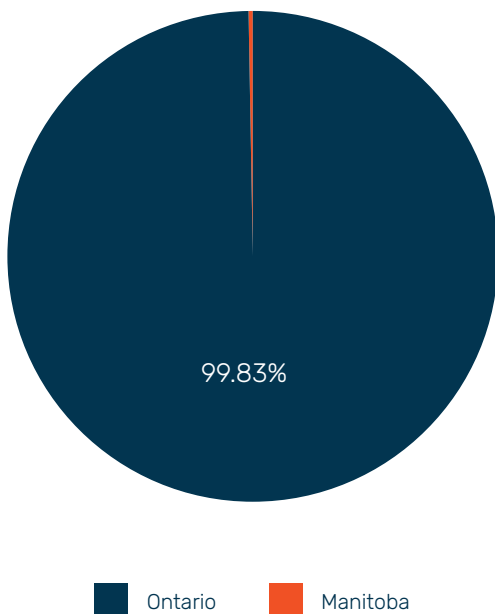


This chart displays the rate of return for holders of RESCO MIC's Class B Preferred Shares since March 2014. It highlights that RESCO never suspended distributions or reduced the rate of return of 8%. The dividend for the month ending October 31, 2023 has been increased to 8.5% p.a.

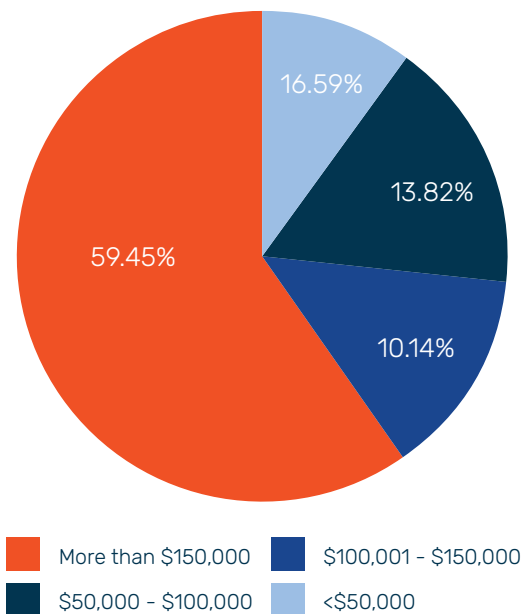


This chart illustrates the investment DRIP dividend performance for holders of RESCO MIC's Class B Preferred Shares each year since inception. It is based on an initial investment of \$150,000 since March 2014.

Geographic Distribution



Mortgage Size



Portfolio Performance

as of Oct 31, 2023

RESCO First Mortgage Fund LP



6.0%

Class A Units annual yield



6.5%

Class B Units annual yield



\$42M

Mortgages Advanced since inception



\$958,000

Average Mortgage Size



100%

% of Residential first mortgages



767

Average Credit Score of borrowers



50.79%

Average Loan-To-Value



9.14%

Weighted Average Interest Rate



10.8 Months

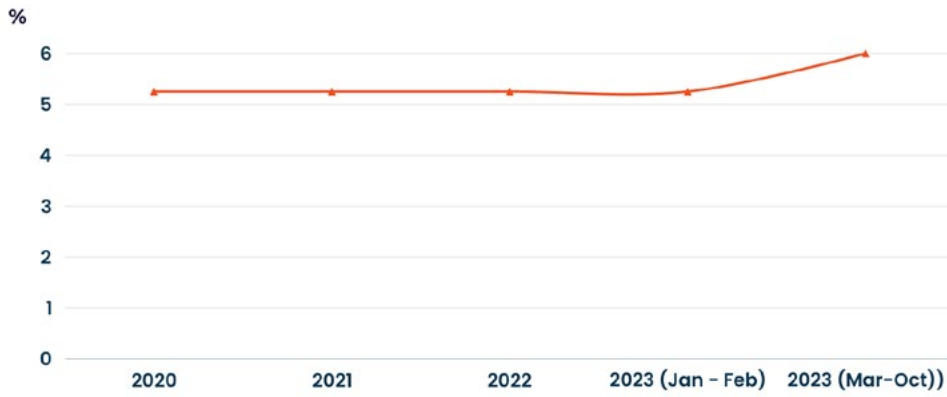
Average term to Maturity



0%

% of Default since inception

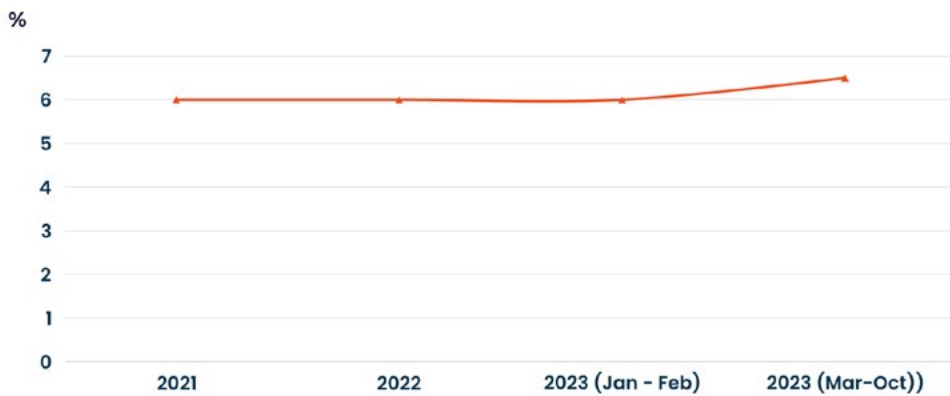
It's time to consider **the alternatives**



This chart displays the rate of return for holders of RESCO LP's Class A Units each year since March 2020. It highlights that RESCO never suspended distributions or reduced the rate of return of 5.25% (as of February 28, 2023) & 6% (as of October 31, 2023).

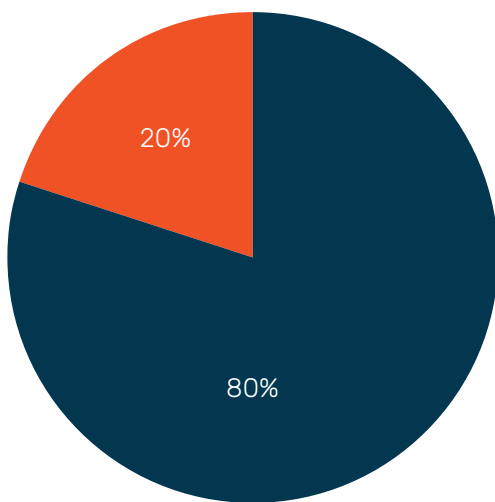
▲ **Rate of return**

Years



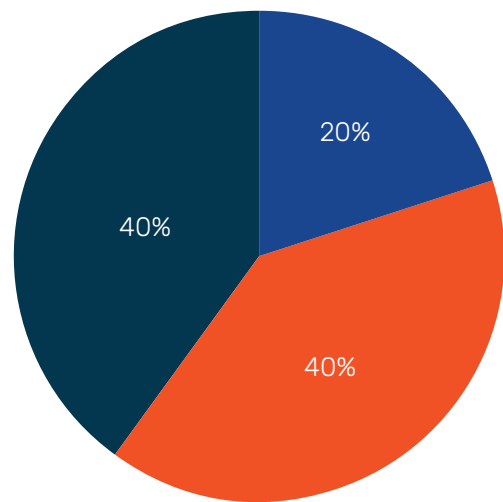
This chart displays the rate of return for holders of RESCO LP's Class B Units each year since October 2021. It highlights that RESCO never suspended distributions or reduced the rate of return of 6% (as of February 28, 2023) & 6.5% (as of October 31, 2023).

Property Type



- Townhouse
- Semi-Detached
- Detached
- Condo

Mortgage Size



- \$150,000 - \$250,000
- \$500,001 - \$1,000,000
- More than \$1,000,000
- \$250,001 - \$500,000



Peace of Mind Begins with RESCO

RESCO MIC has consistently
offered annual returns of 8.3%*
since March 2014.

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:

☎ 905-886-8786

✉ info@rescominc.ca

📍 28 -360 Highway 7 East,
Richmond Hill, ON L4B 3Y7

DISCLAIMERS

*CALCULATION BASED ON REINVESTMENT OF MONTHLY DIVIDENDS. INVESTORS MAY CHOOSE TO REINVEST DIVIDENDS OR RECEIVE DIVIDEND PAYMENTS.

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