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Fundamental Research Corp.
Investment Analysis for Intelligent Investors

November 16, 2017

Romspen Mortgage Investment Fund – One of the Largest Non-Bank Commercial and Industrial Lenders in Canada

Sector/Industry: Real Estate Mortgages **www.romspen.com**

Offering Summary	
Issuer	Romspen Mortgage Investment Fund
Portfolio Type (primary focus)	Commercial / Industrial First Mortgages
Securities Offered	Units
Unit Price	$10
Minimum Subscription	$150,000 (Fundserve: $50,000)
Distribution to Investors	Monthly
Management Fees	1% p.a. of the Mortgages and Investments
Auditor	KPMG

Investment Highlights

- Romspen Mortgage Investment Fund ("RMIF", "fund") invests in commercial and industrial mortgages in Canada and the U.S.
- Management has extensive experience in the sector. The founders have been in the business since 1966. The fund started operating in 2006.
- As of June 30, 2017, the fund had $1.87 billion in mortgage receivables and investments. First mortgages accounted for 94%, and mortgages with terms less than 12 months accounted for 82% of the portfolio.
- Well diversified portfolio with approximately 57% of the mortgages in Canada and the remaining 43% in the U.S.
- Realized loss rates have been extremely low and averaged just 0.2% p.a. of the portfolio since 2006.
- With a low debt to capital of 6.2% as of June 30, 2017, the fund uses leverage very conservatively. The fund uses leverage just to manage cash flows and not as structural leverage.
- Investors received an annualized return of 7.8% in the first six months of 2017. Annual returns have averaged 8.6% since 2006.
- The fund's returns have been higher than comparable funds focused on first mortgages. This is because the fund focuses on relatively large loans and also offers construction loans and pre-development mortgages, which have higher rates.
- We are initiating coverage with an overall rating of 2 and risk rating of 3.

Risks

- Timely deployment of capital is crucial.
- Volatility in real estate prices.
- Although the fund hedges most of its US$ dollar exposure, it has exposure to exchange rate risks.
- High average loan size.

FRC Rating	
Estd. Yield (2017)	8% p.a.
Rating	2
Risk	3

*see back of report for rating definitions

Overview

RMIF is one of the largest non-bank commercial and industrial lenders in Canada. Like other non-bank and private lenders, RMIF does not have to conform within the strict lending guidelines of banks and other traditional lenders. Non-bank lenders are more flexible in their lending guidelines, and therefore, can offer individually structured / tailor made loans to meet the specific requirements of a borrower. Also, banks have lengthy due diligence processes, and are typically not able to meet borrowers' quick capital needs. All the above reasons allow non-bank lenders to charge a higher interest rate on their loans compared to banks / traditional lenders.

RMIF allows investors to invest in a pool of short-term diversified mortgages and receive income from them. **The fund is structured as a mutual fund trust, qualifies as a registered investment, and is eligible for deferred plans such as LIF, RRSP, TFSA, RESP, etc.** The fund's structure is very similar to a mortgage investment corporation ("MIC").

The major differences between RMIF's structure, and a MIC, is that a MIC is required to hold at least 50% of its holdings in residential mortgages and cash, whereas a mutual fund trust does not have such a restriction. Another key difference is that all MIC investments must be in Canada. RMIF invests in U.S. and Canadian mortgages. As of June 30, 2017, approximately 43% of the portfolio was invested in U.S. mortgages.

Similar to MICs, the fund does not pay any corporate tax and act as a flow-through entity. **In order to avoid entity level taxation, the fund pays out 100% of its taxable income to investors. The distributions are treated as interest income for investors' tax purposes.**

RMIF is externally managed by the founders through a separate management company, which originates and manages mortgages for the fund.

Manager

The following section provides a background on the fund and its manager.

The Manager of the fund, Romspen Investment Corporation ("RIC", "Manager"), was formed in 1966, as a mortgage lender by three Toronto based lawyers, Louis W. Spencer, Sheldon Esbin and Arthur Resnick. Mr. Esbin and Mr. Resnick continue to remain as Partners of the firm. Their initial focus was on residential and commercial loans in southwestern Ontario, and the funding came from friends, family and accredited investors. Over time, the business evolved to focus primarily on commercial and industrial mortgages and expanded geographically across Canada and to the U.S.

RMIF was formed in May 2005 and commenced operations in January 2006. Until that time, investors were directly invested in individual mortgages. Investors of the mortgages at that time exchanged their interest (worth approximately $159 million) for units of the fund. The fund's investor base primarily includes accredited individuals, family offices, foundations, endowments and pension plans.

The manager does not originate or administer loans for third-parties. According to management, RIC has originated over **$4 billion from over 750 mortgages since 2006.** The manager sources its mortgages through their in-house origination team, and through third-party brokers, who are typically paid a fee of 2% – 3% by the borrower. The in-house origination vets 100% of all deals before they are put forward for consideration.

Romspen currently has 53 employees. The management team have extensive experience in the sector. Each individual has an average tenure of 17 years with Romspen. Brief biographies of the Managing Partners, as provided on the company website, follow:

Sheldon Esbin, Managing General Partner
Sheldon Esbin is a founder and Managing General Partner of Romspen Investment Corporation and oversees all operations of the Fund. Prior to founding Romspen, he practiced law for 26 years at Spencer Romberg during which time he also lectured, served on professional boards and authored numerous legal articles. Mr. Esbin graduated from Osgoode Hall Law School in 1964 and was called to the Ontario Bar in 1966, with Honours (Law Society prize). Mr. Esbin is an active collector of Toronto archival material and is an avid supporter of many organizations involved in the preservation of Toronto's historical past.

Mark Hilson, Managing General Partner
Mark Hilson is a Managing General Partner of Romspen Investment Corporation and oversees the Fund's overall operation and performance. Previously, Mark worked at Onex Corporation for 22 years where he was a Managing Director. Prior to joining Onex, Mark was an Associate in the Mergers and Acquisitions Group at Merrill Lynch and a Brand Manager at Procter & Gamble. Mark has an MBA (George F. Baker Scholar) from the Harvard Graduate School of Business Administration and an Honours Bachelor of Business Administration (Gold Medalist) from Wilfrid Laurier University.

Wesley Roitman, Managing General Partner
Wesley Roitman has been a Managing General Partner of Romspen Investment Corporation since January 2004 and oversees the Fund's overall operation and performance. Previously, Wes was General Partner of St. Aubyn's Partnership and prior to this he was Executive Vice President and Chief Operating Officer of Northern Financial Corporation. From 1996 to 1999 Wes was Chief Financial Officer of PSINet Limited, a large international internet service provider. Wes has a Bachelor of Science in Mathematics and Actuarial Science from the University of Toronto. Wes serves on the Board of Directors of the Holland Bloorview Foundation.

Arthur Resnick, Managing Partner
Arthur Resnick is a co-founder and Managing Partner of Romspen Investment Corporation and is a trustee of the Romspen Mortgage Investment Fund. Mr. Resnick practiced with the law firm of Spencer Romberg specializing in real estate and mortgage law from the time he was admitted to the Ontario bar in 1969. Arthur has a Bachelor of Commerce degree from the University of Toronto and a Bachelor of Law degree from Osgoode Hall Law School.

Blake Cassidy, Managing Partner
Blake Cassidy is a Managing Partner of Romspen Investment Corporation and is responsible

for business development including originating new loans and fostering relationships within the brokerage and lending community. Prior to joining Romspen in 1995, Blake gained experience in the real estate industry at New Era Mortgage Corporation and Sandray Property Management. Blake has a Bachelor of Science degree from the University of Toronto and holds brokerage licensing certifications from the Sauder School of Business, UBC Real Estate Division and by the Ontario Mortgage Brokers Association.

Richard Weldon, Managing Partner
Richard Weldon is a Managing Partner and is responsible for special projects including restructuring and development. Richard has 30 years experience in real estate planning, development and construction. He has built, owned and managed over 1,000 residential homes and various commercial projects across Ontario and Quebec. Prior to joining Romspen in 2011, Richard was Vice President of Sotheby's International Realty focusing on the successful restructuring, marketing and sale of major residential and commercial projects for many of Canada's largest financial institutions. Richard was trained as a Chartered Accountant and received his Commerce degree from Concordia University in Montreal.

Peter Oelbaum, Managing Partner
Peter Oelbaum is a Managing Partner and is responsible for managing a range of real estate development projects on behalf of Romspen. Peter has more than 15 years' experience in managing and developing real estate assets and in overseeing related legal aspects. Prior to working with Romspen, Peter was a principal of Ronan Investments Inc., where he oversaw the management of a diverse portfolio of real estate assets. In 2005, Peter acquired a large specialty furniture retailer and led a turnaround of the business, culminating in a successful exit transaction in 2008. Peter was also a co-founder and V.P. of North American Operations for Sparkice Inc. where he managed the international operations of an Asian supply chain management company. Peter holds a BA in Political Science from McGill University and an LLB from the University of British Columbia.

Mary Gianfriddo, Managing Partner
Mary Gianfriddo is a Managing Partner at Romspen Investment Corporation and is responsible for the overall administrative oversight of the mortgage portfolio Mary has been with Romspen Investment Corporation since August 2005, bringing over 25 years of experience in mortgage lending. Prior to joining Romspen, Mary was a Client Relations Manager with GMAC, Senior Mortgage Analyst with Canada Life Mortgage Services and a Senior Mortgage Officer with National Trust.

There are no independent board members. We believe that the board of a company should include independent or unrelated directors who are free of any relationships or business that could materially interfere with the director's ability to act in the best interest of the company.

The Managing Partners own a total of 6.83 million units, or 3.6% of the total outstanding units of RMIF as of June 30, 2017.

Management	No. of Units of RMIF	% of Total
Sheldon Esbin	2,973,489	1.63%
Mark Hilson	1,416,329	0.77%
Wesley Roitman	968,089	0.53%
Arthur Resnick	1,037,199	0.57%
Blake Cassidy	372,758	0.20%
Richard Weldon	19,508	0.01%
Peter Oelbaum	36,020	0.02%
Mary Gianfriddo	8,358	0.00%
Total	**6,831,750**	**3.60%**

Investment Mandate

The fund's primary focus is on commercial and industrial first mortgages across Canada and the U.S. The target properties include multi-purpose, office, industrial, office, retail, and multi-family residential properties, such as condominium or apartment buildings. The fund offers mortgages on revenue generating properties, as well as construction loans and pre-development mortgages. The following examples provide a general overview of the type of mortgages that Romspen originates.

Name	Location	Type	Financing
Hotel X	Toronto, ON	29-storey / 406 room hotel development	$70 million construction facility
Roundhouse Development	Victoria, BC	800,000 sq. ft. mixed-use development	$78 million multi-facility financing
107 Morgan Street	Jersey City, New Jersey	1.4 acre site with residential development potential of 850,000 sq. ft.	US$32.7 million to refinance an existing mortgage
200 Kent Avenue	Brooklyn, New York	mixed-use development project	US$21.5 million mortgage to refinance
Maison De Jesus-Marie	Montreal, Quebec	redeveloped into a 200 unit luxury condo with high-end amenities	$23.2 million mortgage
Garvey Court	Chicago, Illinois	assisted in the purchase of this retail and food court site from a bankruptcy proceeding	US$9.3 million mortgage

Management's top three mandates are capital preservation, generating absolute cash yields to investors regardless of the market return, and performance consistency.

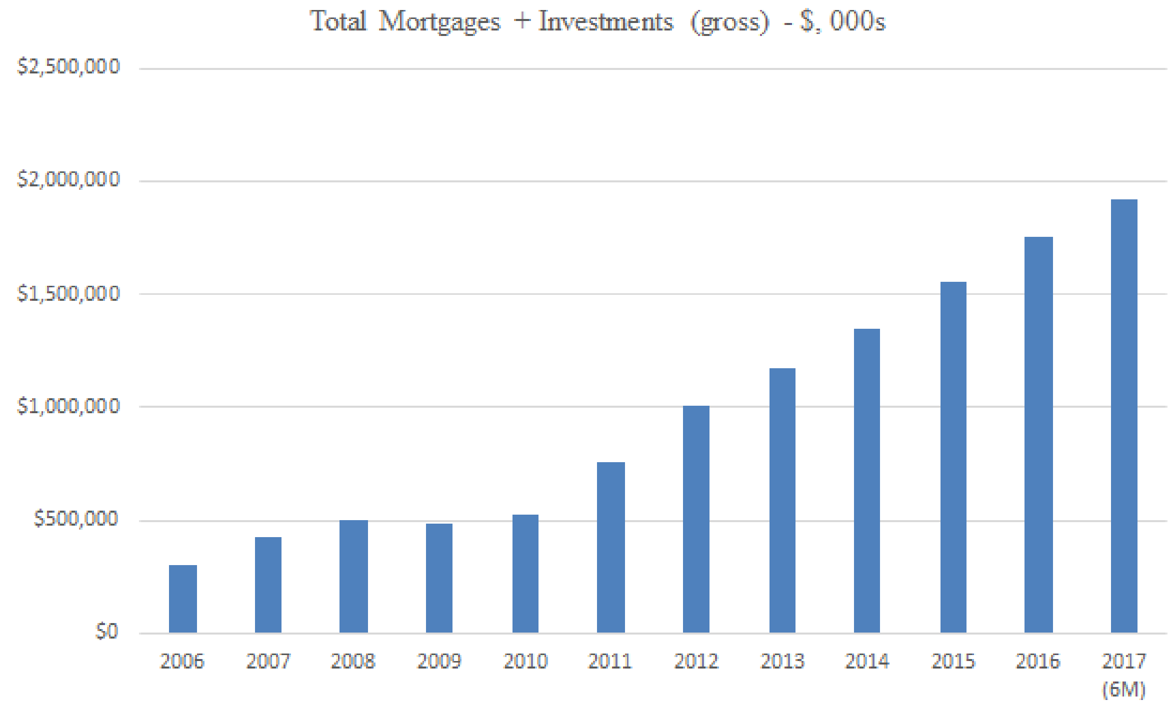
The following points highlight the fund's key investment strategy:

- Maintain an average term of under two years - Typically, shorter terms have lower risk as they have less exposure to interest rate and real estate price fluctuations. Like most non-bank lenders, the fund tends to renew terms once or twice per borrower. According to management, typically, 60% of the loans get renewed at least once.
- Typically, Loan to Value ("LTV") not higher than 65% at the time of origination.
- Geographical diversification – The fund began to invest in U.S. based mortgages in 2011. At the end of June 2017, approximately 57% of the mortgages were in Canada and the remaining 43% were in the U.S. ON and BC accounted for 70% of the Canadian exposure. The fund is diversified across 17 states in the U.S. with the bulk of the investments being in Texas, California, Florida and New York.
- No single mortgage can account for over 10% of the portfolio.
- No single borrower can account for over 10% of the portfolio.
- First mortgages should account for over 80% of the portfolio.
- Investments in the U.S. should not account for more than 50% of the portfolio.
- As of June 30, 2017, $31 million loans (two loans) were classified as related party mortgages, or 2% of the mortgage portfolio.
- The fund may take control of certain underperforming mortgages acquired through foreclosure. Management's strategy here is to hold and/or develop the properties instead of disposing them at values significantly below optimal market prices. Such acquired properties are classified as "Investment in Subsidiaries" on the fund's balance sheets. As of June 30, 2017, the fund had $309 million in such investments, reflecting 17% of the overall portfolio of $1.87 billion.

The following section presents a detailed analysis of the fund portfolio's key parameters.

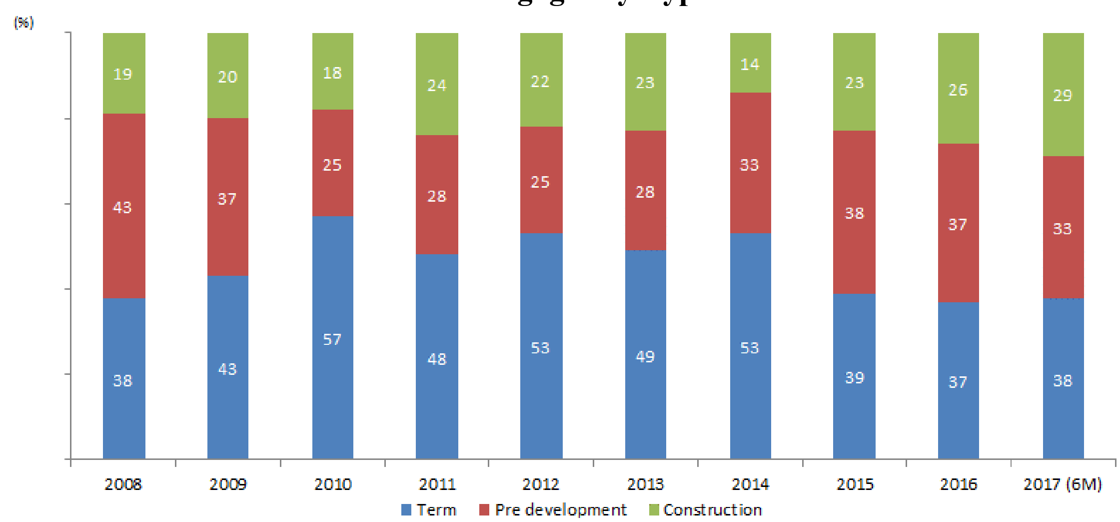
Portfolio's Key Parameters

As of June 30, 2017, the fund had $1.92 billion in gross mortgage receivables and investments in subsidiaries secured by 149 properties, versus $302 million at the end of 2006, reflecting a CAGR (compounded annual growth rate) of 19%. The following chart shows the portfolio size at the end of ever year since inception.



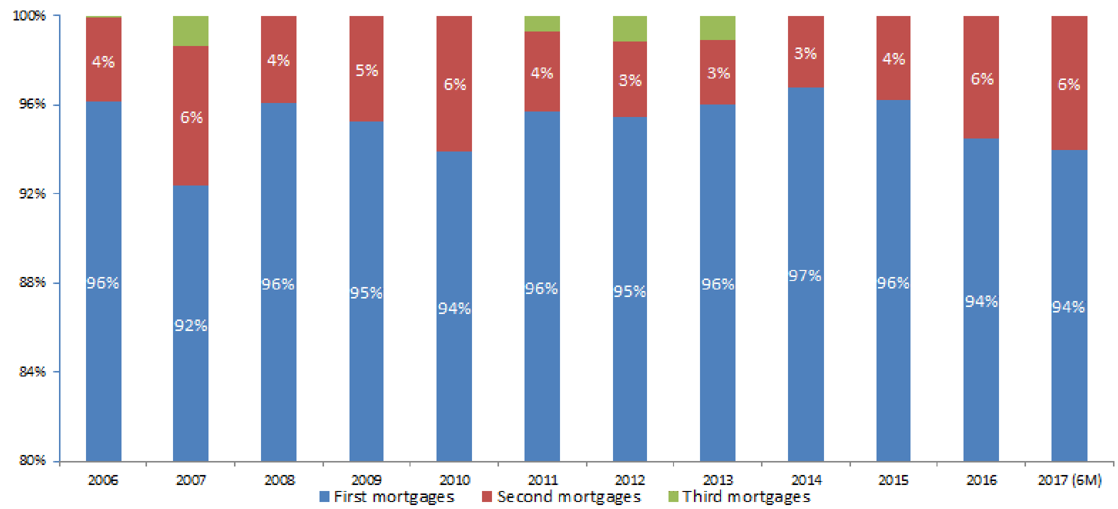
Mortgages by Type: The mortgages held by RMIF are classified as term (income producing built projects), construction or pre-development mortgages. As shown in the chart below, term mortgages accounted for 38%, pre-development was at 33%, and construction was at 29% of the portfolio as of June 30, 2017. The historic averages were 46%, 33%, and 21%, respectively.

Mortgages by Type



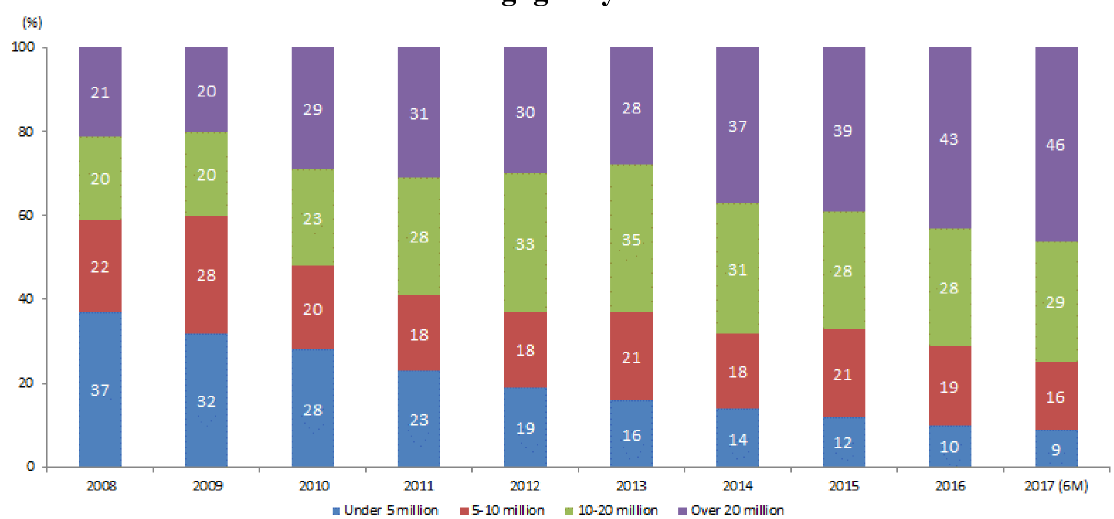
Mortgages by Security: First mortgages accounted for 94% of the portfolio as of June 30, 2017. Since 2006, first mortgages have averaged 95.2% of the portfolio (range: 92.4% to 96.8%).

Mortgages by Security



Mortgages by Size: As of June 30, 2017, 46% of the portfolio were of mortgages over $20 million, 29% were beween $10 and $20 milion, and the remaining 25% were under $10 million. The historical averages were 20%, 20%, and 60%, respectively.

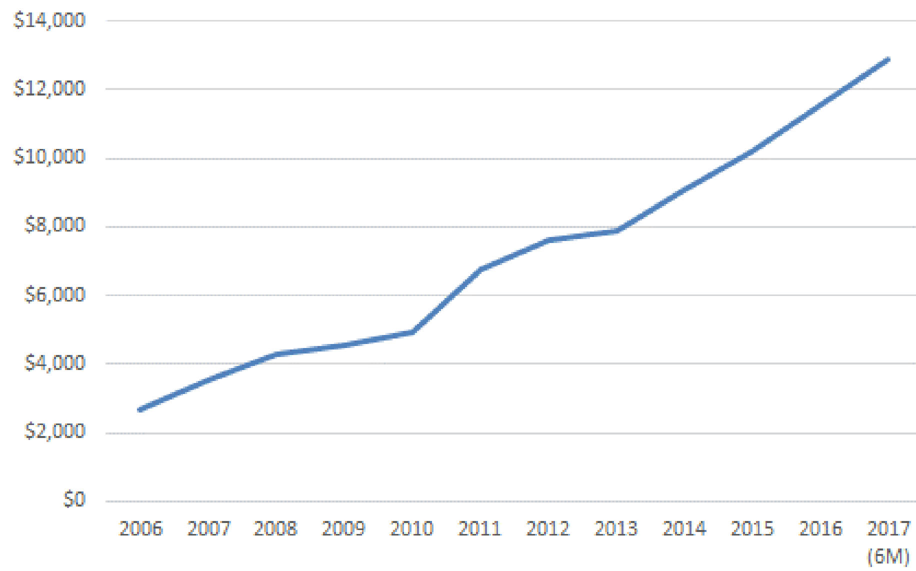
Mortgages by Size



The largest loan in the current portfolio was a $70 million loan as of June 30, 2017.

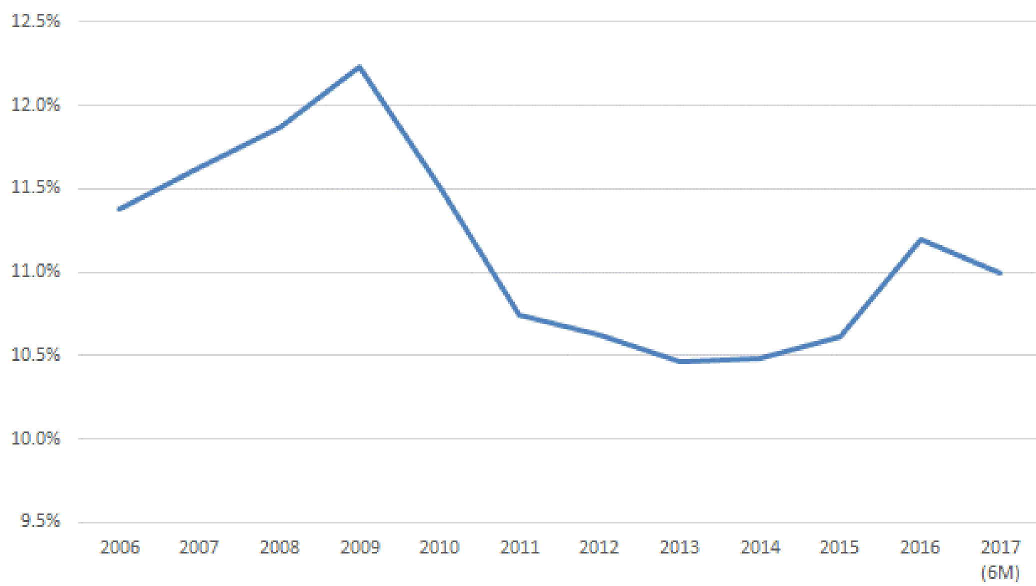
As of June 30, 2017, the average loan size was $12.9 million; the average has been rising every year, as shown below. According to management, the average has been increasing as larger loans are typically less competitive, allowing RMIF to receive better terms and rates on such loans.

Average mortgage value ($, 000s)



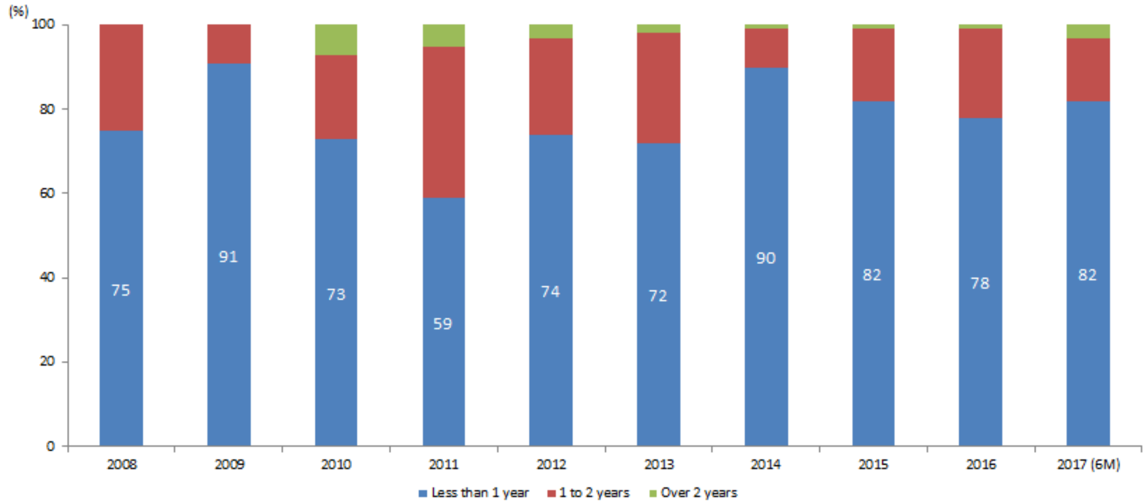
Lending Rate: The following chart shows the weighted average lending rate since 2006. As of June 30, 2017, the weighted average lending rate was 11.0% p.a.

Lending Rate



Mortgages by Term: As of June 30, 2017, approximately 82% of the portfolio had mortgages with terms less than 12 months. The historic average was 78% (range – 59% to 91%).

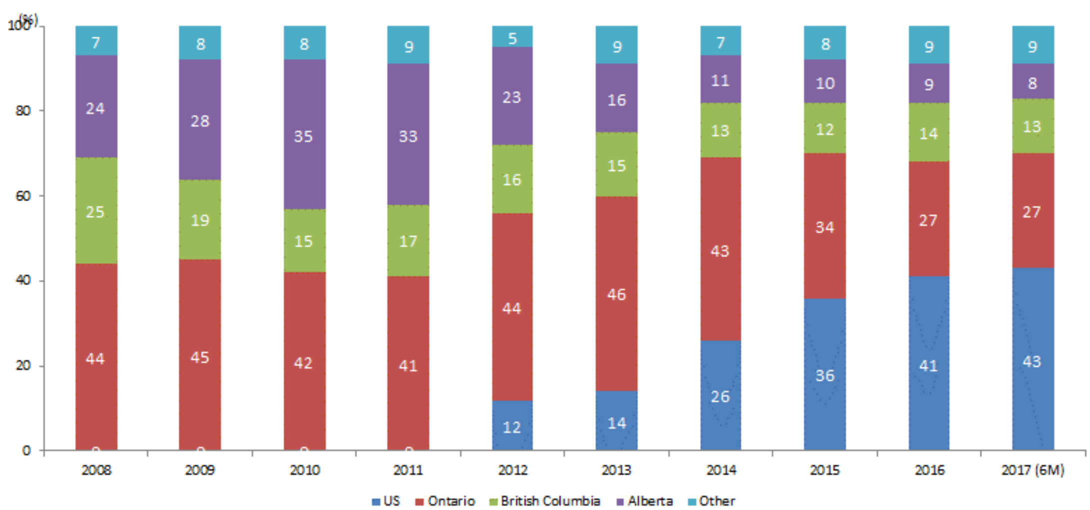
Mortgages by Term



Loan to Value (LTV) – The fund does not disclose the weighted average LTV of its portfolio.

Geographical Diversification: The chart below outlines the fund portfolio's distribution of mortgages by location. As of June 30, 2017, approximately 43% of the portfolio was secured by properties in the U.S., 27% in ON, 13% in BC, 8% in AB and 9% in other provinces.

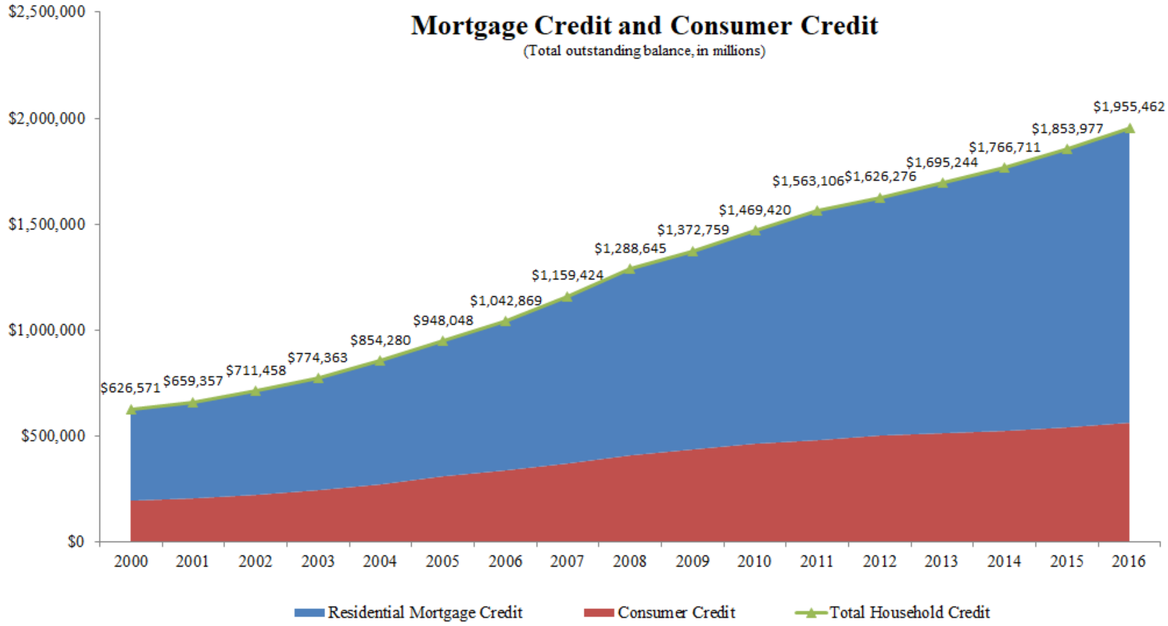
Geographical Diversification



Private Lending Market

The following section provides an overview of the mortgage lending market.

The total residential mortgage credit in Canada (outstanding balance of the major private institutional lenders) increased from $0.43 trillion in 2000, to $1.39 trillion by the end of 2016, reflecting a compounded annual growth rate ("CAGR") of 7.6%, and a 6.3% YOY increase.



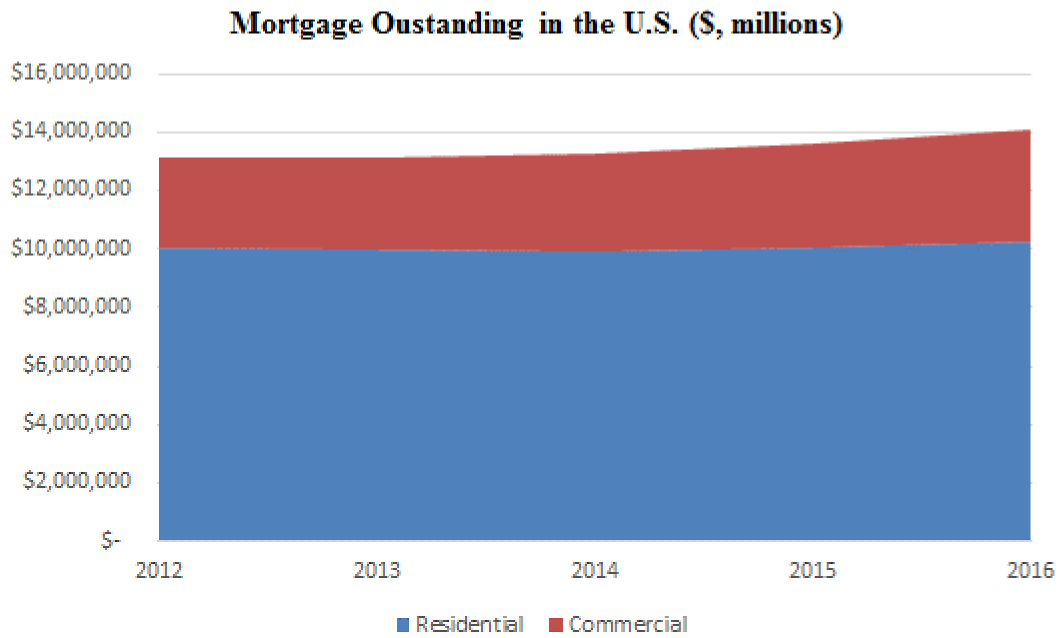
Source: Statistics Canada

At the end of 2016, mortgage credit accounted for 71%, and consumer credit accounted for the remaining 29% of total household debt.

The commercial mortgage market in Canada is much smaller and was at approximately $215 billion at the end of 2016, up from $139 billion in 2010, reflecting a CAGR of 7.5%. Approximately $44 billion in new loans were originated in 2016. The following chart shows the total outstanding commercial mortgages and the annual originations since 2010.

Source: CMLS

In the U.S., at the end of 2016, there were approximately US$3.80 trillion in commercial mortgages outstanding, up from US$3.11 trillion at the end of 2012, reflecting a CAGR of 5.2%. Residential mortgages accounted for US$10.26 trillion at the end of 2016, up from US$10.04 trillion at the end of 2012, reflecting a CAGR of 0.6%.



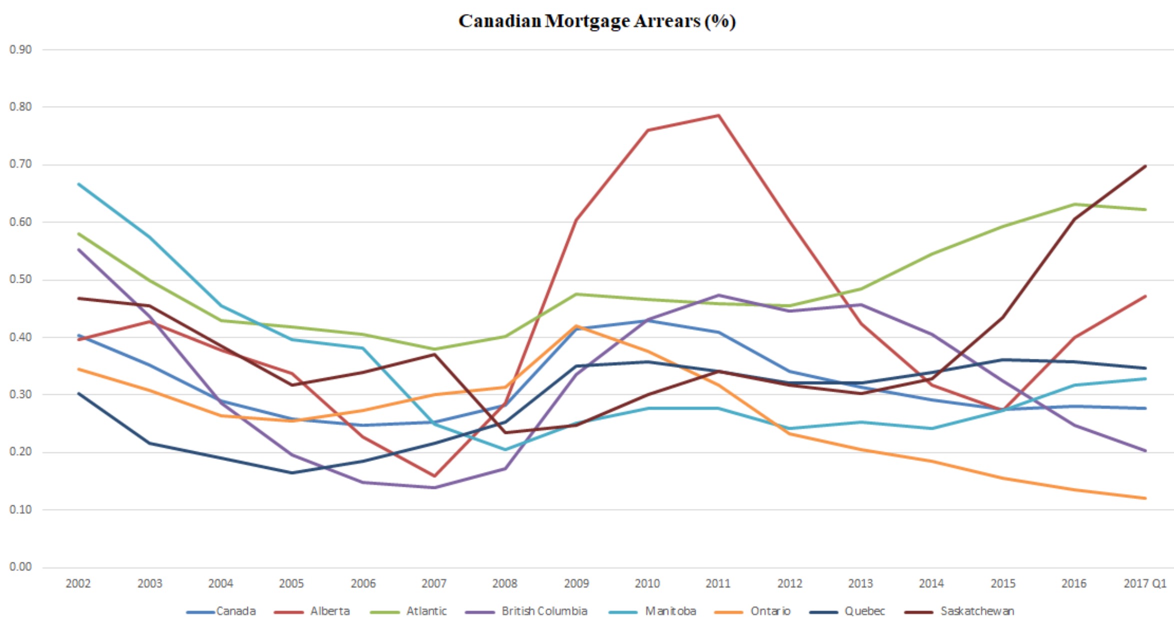
Source: Federeal Reserve

In the U.S. and Canada, the key lenders in the residential and commercial segments are chartered banks, trust and mortgage loan companies, credit unions, pension funds, life insurance companies, etc. **Non-bank lenders such as Romspen, we estimate, account for under 5% of the overall market.** Note that the above figures do not account for construction / pre-development mortgages.

In a study we conducted for the Canada Mortgage Housing Corporation, we estimated that the MIC industry in Canada is an $8 to $10 billion market. The top 10 funds accounted for $2.75 billion in mortgages at the end of Q3-2016.

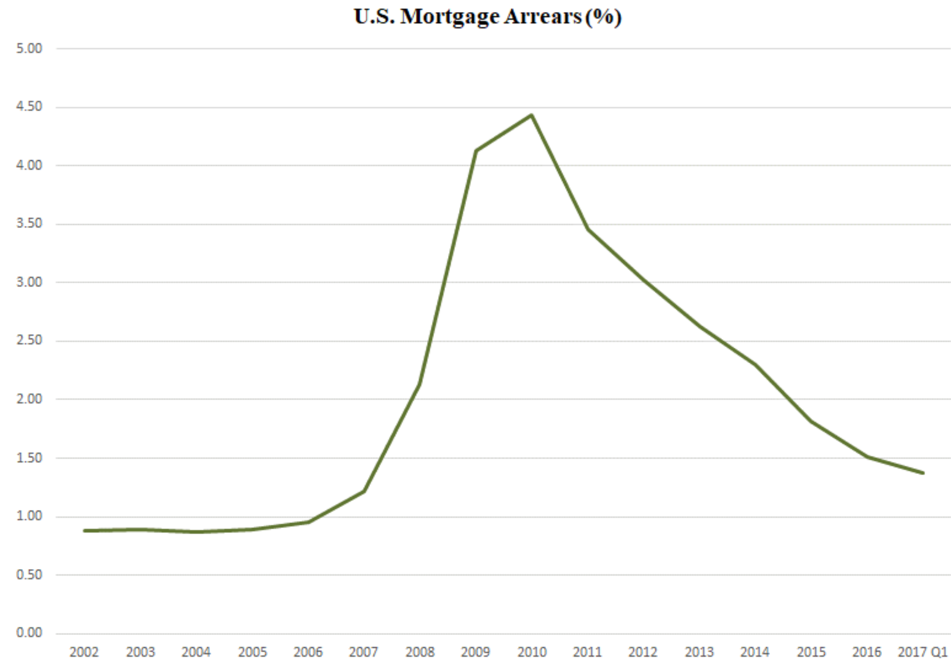
The factors that have been contributing to increased lending in Canada are the strong growth in housing prices, decreasing unemployment rates (see chart below), a low interest rate environment, and the relatively low default rates. Also, the tighter lending policies set by banks and conventional lenders have been encouraging more and more private lenders to enter the market over the last decade.

Although there was a rise in residential mortgage arrears during the recession (mid-1990s and 2008-2009), the rates have dropped considerably since 2010, as shown in the chart below.



Source: CMHC

The Canadian national average was 0.28% in Q1-2017, versus 0.43% in 2010. This is significantly lower than the default rates in the U.S. (see chart below).



Source: CMHC

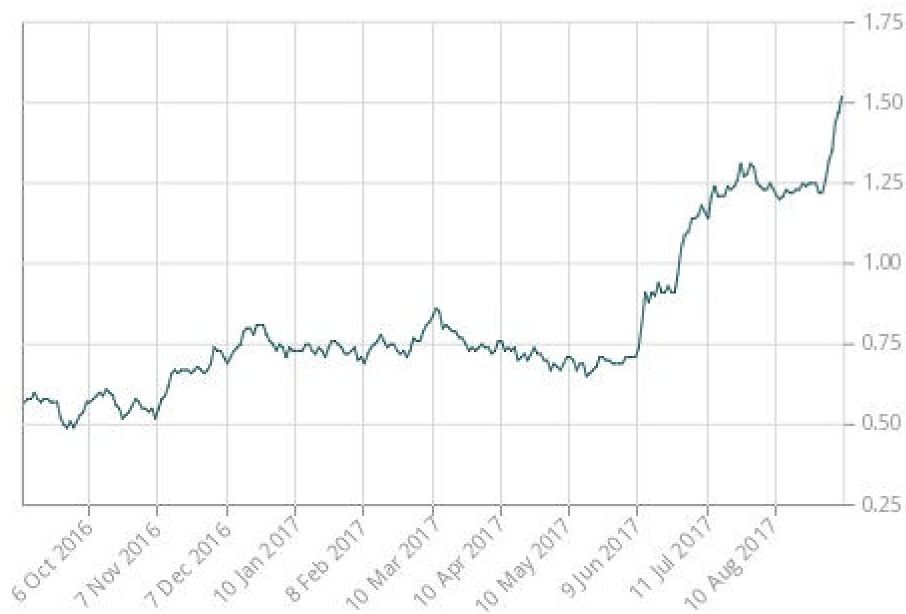
The following table shows the average, minimum and maximum rates in Canada since 2002. British Columbia's ("BC") rate of 0.20% in Q1-2017, was well below the historical average of 0.34%. Ontario's ("ON") rate of 0.12% in Q1-2017, was well below the historical average 0.27%. The U.S. national average was 0.70% in Q1-2017.

%	2002 - 2016 (Average)	Low	High	Q1-2017
Canada	**0.32**	**0.25**	**0.43**	**0.28**
Alberta	0.43	0.16	0.79	0.47
Atlantic	0.48	0.38	0.63	0.62
British Columbia	0.34	0.14	0.55	0.20
Manitoba	0.34	0.21	0.67	0.33
Ontario	0.27	0.14	0.42	0.12
Quebec	0.29	0.17	0.36	0.35
Saskatchewan	0.36	0.24	0.61	0.70
U.S.	**2.07**	**0.87**	**4.43**	**1.37**

Data Source: CMHC

As mentioned earlier, the low interest rate environment is another factor that is driving lending. The following chart shows the overnight lending rate since 2007. On September 6, 2017, the Bank of Canada announced a 0.25% increase in the overnight lending rate to 1%. The following chart shows the historical overnight lending rate.

We expect this to result in a gradual increase in mortgage rates over the coming quarters. A significant increase in the GOC (1 to 3 year) bond yields confirms this outlook.



Source: Bank of Canada

We believe that all of the above factors indicate strong deal flow and higher rates for private lenders in the next 12 months.

Structure

As of June 30, 2017, the fund had a total of 182.90 million units outstanding. According to management, approximately 35% of the capital is currently raised through IIROC dealers, and the remaining 65% internally.

Distributions to investors are made monthly. However, note that management has total discretion to suspend or accrue distributions, in circumstances that require them to preserve cash flow.

There is no market or exchange that the trust units trade on. **Units may be redeemed by investors at any time at their fair market value.** However, management has the right to limit monthly redemptions to 1% of the outstanding units of the fund. There is a 2% penalty for redemptions within the first year of investment. We consider this reasonable as several comparable funds charge early redemption penalties for up to even 2 to 3 years.

Financials

The fund's financial statements are audited by KPMG.

The following table shows a summary of the fund's balance sheet.

Balance Sheet (000')	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Q2-2017
Assets												
Cash	1,610	2,144	19,410	300	15,673	7,757	6,929	28,210	14,772	12,833	40,139	32,296
Accrued interest receivables	3,255	7,694	13,240	21,961	32,298	30,051	44,635	42,391	41,754	49,392	64,665	76,474
Mortgage investments	300,274	422,898	493,562	475,955	518,951	749,059	995,082	1,153,683	1,179,711	1,339,939	1,414,008	1,557,128
Investment in subsidiaries						-	-	-	144,106	179,811	296,308	308,617
Other Assets			21	1	93	630	4,690	5,227	3,265	3,878	4,404	4,110
	305,139	**432,736**	**526,233**	**498,217**	**567,015**	**787,497**	**1,051,336**	**1,229,511**	**1,383,608**	**1,585,853**	**1,819,524**	**1,978,625**
Liabilities and Unitholders' Equity												
Revolving loan equity	56,157	82,884	78,896	9,958	-	23,500	46,000	99,353	167,611	168,088	155,753	122,305
Accounts payable and accrued liabilities	67	15,421	171	572	4,663	5,054	1,570	1,700	791	1,526	1,562	1,635
Unrealized loss on FOREX							-	1,376	1,073	10,750	6,247 -	9,347
Deferred revenue				921	792	535	175	167	212	67		
Prepaid unit capital				230	5,000	1,224	400	14,325	180	9,060	9,320	11,630
Unitholders distributions payable	2,337	3,037	3,116	3,401	3,898	5,307	6,033	6,679	8,459	8,237	11,451	11,084
	58,561	**101,342**	**82,183**	**15,082**	**14,353**	**35,620**	**54,178**	**123,600**	**178,326**	**197,728**	**184,333**	**137,307**
Units submitted for redemption			38,927	2,185	2,255	3,122	4,978	3,972	34,906	7,230	42,448	18,155
Unitholders equity	246,578	331,394	405,123	480,950	550,407	748,755	992,180	1,101,939	1,170,376	1,380,895	1,592,743	1,823,163
	305,139	**432,736**	**526,233**	**498,217**	**567,015**	**787,497**	**1,051,336**	**1,229,511**	**1,383,608**	**1,585,853**	**1,819,524**	**1,978,625**
NAV	**9.99**	**9.98**	**9.97**	**9.94**	**9.92**	**9.92**	**9.92**	**9.94**	**9.97**	**10.11**	**10.00**	**9.97**
Unitholder value ($/unit)	9.99	9.98	9.97	9.94	9.92	9.92	9.92	9.95	9.97	9.95	9.94	9.94
Debt to Capital	18.5%	20.0%	15.1%	2.0%	0.0%	3.0%	4.4%	8.2%	12.2%	10.8%	8.7%	6.2%

At the end of Q2-2017, the fund had $1.87 billion (net of allowance) in mortgages ($1.56 billion) and investment in subsidiaries ($0.31 billion). Investment in subsidiaries account for the underperforming mortgages that the fund acquires with the intent to hold and/or develop.

Line of credit – The fund has a line of credit at a rate of prime + 1.0% p.a. As of June 30, 2017, the fund had used $122 million, reflecting a total debt to capital of 6.2%. Large lenders, we estimate, tend to use a higher debt to capital in the 20% to 40% range. Management indicated to us, for conservatism, the fund uses leverage just to manage cash flows and not as structural leverage.

The following table shows a summary of the income statement since 2006.

Income Statement ('000)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 (6M)
Revenue												
Mortgage interest	24,225	41,314	49,217	48,345	45,529	58,484	72,527	91,409	112,567	133,908	142,621	79,755
Other	325	837	715	192	1,117	5,857	4,246	1,149	1,668	1,566	6,021	785
Realized gain on FOREX							-	955	2,506	-1,887	970	1,359
Unrealized gain on FOREX							-	3,823	7,898	21,560	-11,718	-2,466
	24,550	**42,151**	**49,932**	**48,537**	**46,646**	**64,341**	**76,773**	**97,336**	**124,639**	**155,147**	**137,894**	**79,433**
Expenses												
Management Fee	2,279	3,818	4,742	4,964	4,920	6,464	8,611	10,711	12,379	14,717	16,759	9,094
Interest	2,033	5,440	4,105	3,403	743	316	627	2,142	3,105	5,056	6,153	2,932
Unrealized loss	1,325	3,550	2,388	2,500 -	5,909	5,667	2,483	4,124	10,283	10,872	8,005	7,000
Realized loss			1,322	513	5,939	294	1,067	1,318	3,243	3,044	4,704	106
Other expenses												
Other gains/losses						-			2,227	-471	-79	-79
Audit fees	26	60	92	92	75	98	124	194	166	197	215	108
Legal fess	98	50	92	94	94	79	71	165	123	91	53	43
Other	-	228	209	246	138	376	683	1,326	1,211	1,453	1,607	960
	124	**338**	**393**	**432**	**307**	**553**	**878**	**1,685**	**3,727**	**1,270**	**1,796**	**1,032**
	5,761	**13,146**	**12,950**	**11,812**	**6,000**	**13,294**	**13,666**	**19,980**	**32,737**	**34,959**	**37,417**	**20,164**
Net earnings	**18,789**	**29,005**	**36,982**	**36,725**	**40,646**	**51,047**	**63,107**	**77,356**	**91,902**	**120,188**	**100,477**	**59,269**
Earnings per Unit	0.94	0.99	0.93	0.80	0.80	0.75	0.71	0.73	0.78	0.93	0.66	0.34

YE – Dec 31st

Revenues grew from $24.55 million in 2006, to $137.89 million in 2016, reflecting a CAGR of 19%. In the first six months of 2017, the fund reported revenues of $79.43 million.

Mortgage interest as a percentage of mortgage receivables and investments were 8.9% p.a. in the first six months of 2017. **The average rate since 2006 was 9.3% p.a. (range: 8.1% to 11.4%).**

% of Mortgages + Investments	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 (6M)
Revenue												
Mortgage interest	8.1%	11.4%	10.7%	10.0%	9.2%	9.2%	8.3%	8.5%	9.1%	9.4%	8.8%	8.9%
Other	0.1%	0.2%	0.2%	0.0%	0.2%	0.9%	0.5%	0.1%	0.1%	0.1%	0.4%	0.1%
Realized gain on FOREX	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	-0.1%	0.1%	0.2%
Unrealized gain on FOREX	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	0.6%	1.5%	-0.7%	-0.3%
Total	**8.2%**	**11.7%**	**10.9%**	**10.0%**	**9.4%**	**10.1%**	**8.8%**	**9.1%**	**10.1%**	**10.9%**	**8.5%**	**8.9%**
Expenses												
Management Fee	0.8%	1.1%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Interest	0.7%	1.5%	0.9%	0.7%	0.1%	0.0%	0.1%	0.2%	0.3%	0.4%	0.4%	0.3%
Unrealized loss	0.4%	1.0%	0.5%	0.5%	-1.2%	0.9%	0.3%	0.4%	0.8%	0.8%	0.5%	0.8%
Realized loss on mortgage investments	0.0%	0.0%	0.3%	0.1%	1.2%	0.0%	0.1%	0.1%	0.3%	0.2%	0.3%	0.0%
Other expenses	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.3%	0.1%	0.1%	0.1%
Other gains/losses	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.0%	0.0%	0.0%
Audit fees	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Legal fess	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other	0.0%	0.1%	0.0%	0.1%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Total	**1.9%**	**3.6%**	**2.8%**	**2.4%**	**1.2%**	**2.1%**	**1.6%**	**1.9%**	**2.6%**	**2.5%**	**2.3%**	**2.3%**
Net earnings	**6.3%**	**8.0%**	**8.1%**	**7.6%**	**8.2%**	**8.1%**	**7.2%**	**7.2%**	**7.4%**	**8.5%**	**6.2%**	**6.6%**
Net earnings as a % of shareholder capital	7.6%	10.0%	10.0%	8.3%	7.9%	7.9%	7.2%	7.4%	8.1%	9.4%	6.8%	6.9%

- *2017 (6M) figures are annualized*
- *Note that the above figures may be slightly different from the figures reported by the fund due to the difference in the method of calculation. We used the average of the opening balance, and year-end balance of the mortgages outstanding, and invested capital, to arrive at the above figures.*

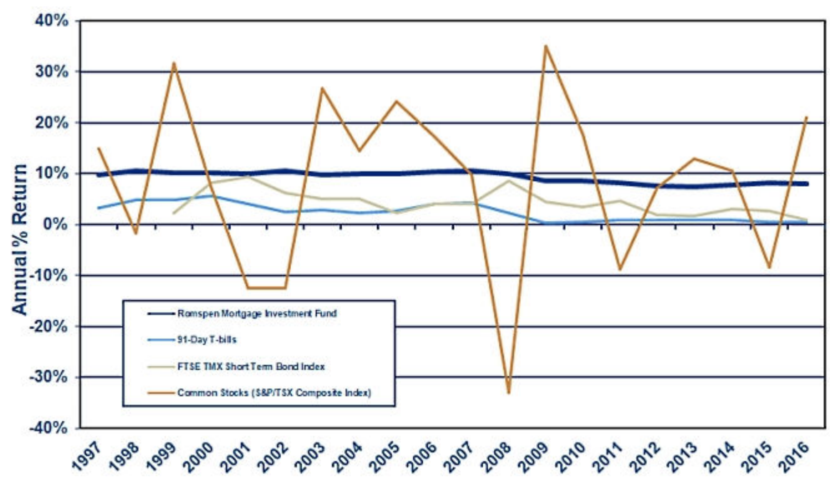
Forward contracts – The fund uses FOREX forward contracts to hedge the exposure to U.S. based loans. In certain cases, the fund includes mortgage contract terms whereby the borrower is responsible for FOREX losses. At the end of Q2-2017, 90% of the fund's US$ exposure was hedged. The following chart shows that the fund has had under 1% in realized gain / loss every year from FOREX.

	2013	2014	2015	2016	2017 (6M)
Realized gain on FOREX ($,000s)	955	2,506 -	1,887	970	1,359
% of U.S. Mortgages	0.6%	0.7%	-0.3%	0.1%	0.2%
Unrealized gain on FOREX ($, 000s)	3,823	7,898	21,560 -	11,718 -	2,466
% of U.S. Mortgages	2.3%	2.2%	3.8%	-1.6%	-0.3%
U.S. Mortgages ($, 000s)	163,773	351,059	560,532	719,797	824,752

As shown in the chart below, the annual return for investors averaged 8.6% since 2006 (range: 7.4% to 10.5%).

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 (6M)
Annual return to investors	10.30%	10.50%	9.90%	8.70%	8.70%	8.20%	7.70%	7.40%	7.80%	8.20%	8.00%	8.00%
Unitholder distribution ($/unit)	0.95	1.00	0.95	0.84	0.84	0.79	0.74	0.72	0.75	0.79	0.77	0.37
Earnings per unit	0.94	0.99	0.93	0.80	0.80	0.75	0.71	0.73	0.78	0.93	0.66	0.34
Payout ratio	100.9%	101.0%	102.1%	104.8%	104.8%	104.7%	104.0%	99.1%	96.0%	84.9%	116.1%	109.6%

The following chart shows the return relative to benchmarks:



Source: Romspen

Management Fees – We estimate that RIC generates approximately $40 - $45 million in annual revenues from managing the fund from the following:

- Management Fees (paid monthly) - 1.0% p.a. of the principal balance of all mortgage investments and the fair market value of all other non-mortgage investments. These fees were $16.76 million in 2016.

- Lender/broker fees – The manager receives fees related to the following from borrowers - origination, commitment, renewal, extension, discharge, participation, NSF and administration fees. These fees, which are not passed on to the fund, were $26.38 million in 2016.

Lender/Broker Fees to Manager as a percentage of Mortgages and Investments

Management does not charge any performance based fee, which we believe is a common practice adopted by managers of low-risk funds focused primarily on first mortgages. Overall, we believe the fees are inline with industry standards.

Loan loss rates - The following chart shows the realized and unrealized losses, and few other key parameters of the portfolio since inception.

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 (6M)
Total Mortgages + Investments (gross)	$301,574	$427,798	$500,862	$485,755	$522,851	$758,559	$1,007,084	$1,169,810	$1,350,227	$1,557,032	$1,755,602	$1,918,029
Mortagages (net)	$300,274	$422,898	$493,562	$475,955	$518,951	$749,059	$995,082	$1,153,683	$1,179,711	$1,339,939	1,414,008	1,557,128
Inv (net)	-	-	-	-	-	-	-	-	$144,106	$179,811	$296,308	$308,617
Total Mortgages + Investments (net)	$300,274	$422,898	$493,562	$475,955	$518,951	$749,059	$995,082	$1,153,683	$1,323,817	$1,519,750	$1,710,316	$1,865,745
Provision for losses ($, 000s)	$1,300	$4,900	$7,300	$9,800	$3,900	$9,500	$12,002	$16,127	$26,410	$37,282	$45,286	$52,284
Provision % of Total Mortgage+Inv (net)	0.4%	1.2%	1.5%	2.1%	0.8%	1.3%	1.2%	1.4%	2.0%	2.5%	2.6%	2.8%
Provision % of Total Mortgage+Inv (gross)	0.4%	1.1%	1.5%	2.0%	0.7%	1.3%	1.2%	1.4%	2.0%	2.4%	2.6%	2.7%
Provision for loss (investments)									$16,422	$24,507	$26,024	$28,605
Investments (gross)									$160,528	$204,318	$322,332	$337,222
% of Investments (gross)									10.2%	12.0%	8.1%	8.5%
Provision for loss (mortgages)	$1,300	$4,900	$7,300	$9,800	$3,900	$9,500	$12,002	$16,127	$9,988	$12,775	$19,262	$23,679
Mortgages (gross)	$301,574	$427,798	$500,862	$485,755	$522,851	$758,559	$1,007,084	$1,169,810	$1,189,699	$1,352,714	$1,433,270	$1,580,807
% of Mortgages (gross)	0.4%	1.1%	1.5%	2.0%	0.7%	1.3%	1.2%	1.4%	0.8%	0.9%	1.3%	1.5%
Realized losses ($, 000s)	-	-	$1,300	$500	$5,900	$300	$1,100	$1,300	$3,200	$3,000	4,704	106
Realized losses as a % mortgage receivables (total)	0.0%	0.0%	0.3%	0.1%	1.2%	0.0%	0.1%	0.1%	0.3%	0.2%	0.3%	0.0%
Redemptions ($, 000s)	$2,037	$14,260	$21,184	$33,683	$47,455	$25,219	$23,681	$70,027	$56,293	$56,561	$74,739	$51,060
Redemption (% of invested capital)	1%	5%	6%	8%	9%	4%	3%	7%	5%	4%	5%	3%

At the end of Q2-2017, the fund had assigned a provision for losses of $23.68 million, or 1.5% of the gross mortgages. This is a conservative rate as most large lenders assign a provision of 0.75% to 1.25% of their portfolios. The fund also assigned a provision for loss of $28.61 million, or 8.5% of the investment in subsidiaries.

The realized loss has averaged 0.2% since 2006 (range: 0% to 1.2%).

Risk

We believe the following are the key risks of this offering (most of the risks mentioned below are industry specific and impact comparable lenders as well):

- There is no guaranteed return on investment.
- Loans are short term and need to be sourced and replaced quickly.
- Timely deployment of capital is crucial.
- Volatility in real estate prices - a drop in real estate prices will result in higher LTVs, and higher default risk as the value of collateral decreases.
- At the end of Q2-2017, investment in subsidiaries (underperforming mortgages) accounted for approximately 16.5% of the total of mortgages and investment in subsidiaries.
- Although the fund hedges most of its US$ dollar exposure, it has exposure to exchange rate risks.
- High average loan size.
- Investors' principal is not guaranteed, as the NAV per unit could decrease from current levels (as a result of loan losses).
- Loans are primarily interest only loans.
- Although the focus is on first mortgages, the fund may invest in second and third mortgages which carry higher risk.
- Redemptions are not guaranteed.

Rating

We are initiating coverage with an overall rating of 2 and risk rating of 3.

FRC Rating	
Estd. Yield (2017)	8% p.a.
Rating	2
Risk	3

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	27%	Risk - 2	6%
Rating - 3	48%	Risk - 3	39%
Rating - 4	9%	Risk - 4	35%
Rating - 5	4%	Risk - 5	9%
Rating - 6	1%	Suspended	11%
Rating - 7	0%		
Suspended	10%		

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