



October 2019

Due Diligence

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Frontenac Mortgage Investment Corporation

Investment Objective:

To provide long-term, reasonable returns on real asset-based investments for the investor who values capital preservation through sustainable processes and decisions from competent management.

Target return:

Schedule A Bank 5-Year GIC interest rate + 3%

Results:

- More than 35 consecutive years of positive returns
- Consistent income stream uncorrelated with equity and bond markets

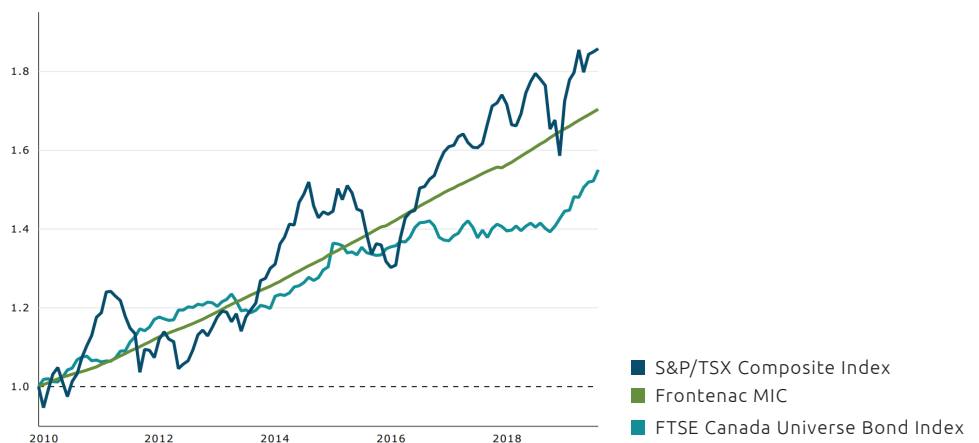
Overview:

- Assets at \$202 million
- Investment strategy – mortgage investment corporation (MIC)
 - Earns income through interest and principal payments
 - Primarily first mortgages on residential, single family dwelling properties in Ontario outside of the Greater Toronto Area
 - No derivatives or mortgage syndications
 - Short-term mortgages (primarily terms of 1 2 years)
 - Target cash (or near cash) position: 5% of total assets
- Pure flow-through of interest income with no intended ongoing use of leverage to inflate assets or return on risk
- Offered as common shares of a corporation holding a pool of mortgages
- MIC pays out 100% of its net income (taxed as interest) to shareholders on a monthly basis
- Qualified for registered plans: RRSP, RRIF, RESP, TFSA and DPSP

Frontenac is a unique product in the MIC space:

- Offered by prospectus in all provinces except PEI & QC
- Distributed by approved IIROC dealers and independent Portfolio Managers across Canada
- Traded on FundSERV under WAR110/WAR111 (F-Class Only)
- No leveraging (line of credit is used for cash management purposes only)
- FundSERV code: WAR 110/WAR111 (F Class only)

35+ consecutive years of positive returns



Source:



FOR INSTITUTIONAL OR
REGISTERED ADVISOR USE ONLY
1/1/2010 - 3/31/2018

Frontenac Investment Strategy

Leadership of Fund:

Matthew Robinson, B.Sc., holds the Certified Investment Manager designation and is registered as an Advising Representative with the Ontario Securities Commission. Matthew is an expert on real estate in Ontario, obtaining his Real Estate Broker license in 2000 and his mortgage broker designation in 2004. As Portfolio Manager and CEO of W.A. Robinson Asset Management Ltd. and Pillar Financial Services Inc., Matthew provides vision and leadership to his team to care for the operations of Frontenac Mortgage Investment Corporation.

Investment Fund Manager

Frontenac retains W.A. Robinson Asset Management Ltd. as its Portfolio Manager and Investment Fund Manager to manage the corporation for a 1% fee of Frontenac assets per annum. W.A. Robinson Asset Management Ltd. is responsible for managing the Frontenac portfolio of mortgages to deliver income for the shareholders of the corporation.

- Registered Portfolio Manager, Investment Fund Manager and Exempt Market Dealer
- Incorporated pursuant to the Ontario Business Corporations Act on September 29, 1980
- Regulated by OSC

Mortgage Operations

Frontenac engages Pillar to source, underwrite and administer a mortgage portfolio for a fee of 1% of Frontenac assets per annum. Pillar has developed a repeatable mortgage approval process to find high-potential mortgages. It is well positioned with mortgage brokerage firms and Schedule A banks to receive referrals.

- Pillar is a licensed mortgage brokerage (licence #10119) and mortgage administrator (licence #11209)
- Incorporated under the Ontario Business Corporations Act on September 17, 1986
- Regulated by the Mortgage Brokerages, Lenders and Administrators Act, 2006 (MBLAA)
- Regulated by the FSRA
- Ensures proper registration of mortgage documents to support approved mortgages
- Collects regular mortgage repayments
- Ensures property taxes are paid and property insurance is maintained
- Actively manages mortgage default files

Repeatable process for investing in mortgages

W.A. Robinson Asset Management Ltd. and Pillar specialize in mortgages and have a particular expertise in open, short-term residential loans across Ontario.

An end-to-end process between Pillar and W.A. Robinson Asset Management Ltd. is designed to provide a consistent yield to investors with prudent risk management.



Frontenac Mortgage Investment Corporation

Mortgages – Known and Understood but, Overlooked

Canadians are familiar with mortgages because home ownership is a core value in the Canadian psyche. However, Canadians are less familiar with holding pooled mortgages in their individual or institutional investment portfolios.

Mortgage-Based Investments: A Useful Asset Class for the Times

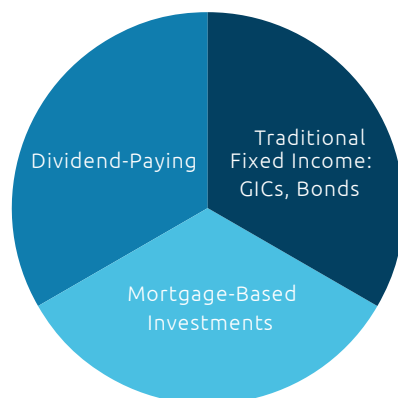
Mortgage-based investments can be a particularly useful asset class for investors. Pooled mortgages allow investors to access higher yielding fixed income investments with minimal risk. Through the pooling of many mortgages into a single fund, investors benefit from diversification across borrowers, regions, local economies and properties/collateral. Furthermore, since the underlying loan portfolio is actively managed with short durations and frequent turnover, performance of the fund is well positioned to benefit from a rising interest rate environment.

Mortgages Complement Traditional Fixed Income

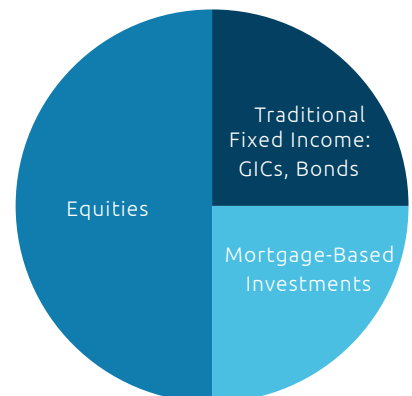
Traditional fixed income provides investors the opportunity to diversify their risk exposure away from equity markets, but it introduces new exposures to interest rate, default and inflation risk. Just as it is appropriate to diversify across asset classes, it is also appropriate to diversify within asset classes. Adding mortgage investments to a portfolio's fixed income allocation offers investors increased yield, reduced volatility, less cyclical default risk and greater protection from inflation.

How mortgage-based investments fit in portfolios as an additional source of income

Income-Generating Portfolio



Balanced Portfolio



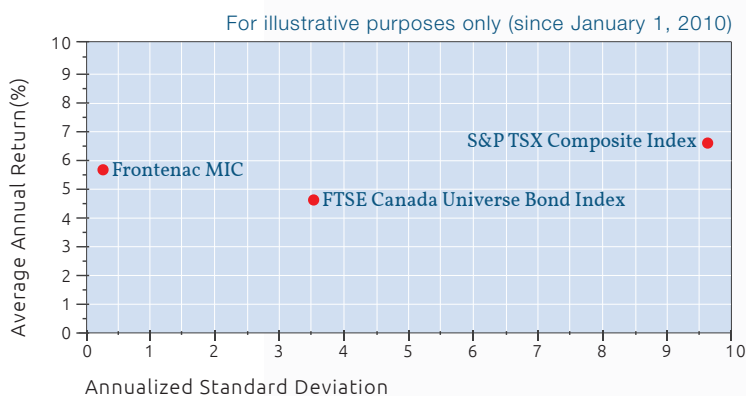
How Risk is Mitigated

Risks Associated with MIC's

Frontenac is suitable for investors who are aware of the risks inherent in the real estate industry, who have the ability and willingness to accept the risk of loss of their investment capital, and who have no immediate need for liquidity. There is no assurance of any return on an investment; however, W.A. Robinson Asset Management Ltd., the manager, has a more than 35-year track record of positive returns in the mortgage business.

Investing in mortgages is less risky than equities; however, there are risks that are specific to both mortgages and pooled mortgages, as well as those specific to the types of mortgages Frontenac holds.

Risk versus reward



1. Risk Associated with Open and Fixed-Rate Mortgages

Frontenac is an actively managed mortgage fund that requires management to accurately estimate future capital demands and repayments. The frequent turnover of the loan portfolio creates reinvestment risk if Pillar is unable to re-loan the principal. Management mitigates this risk through concerted business development efforts across the province of Ontario aimed at cultivating and maintaining a strong network of supporting mortgage brokers.

As manager of the fund, W.A. Robinson Asset Management Ltd. reviews underwriting activity weekly to ensure all mortgages fall within the specified guidelines established for the fund. Typically, the fund will approve and fulfill roughly 10% of the mortgage applications it receives.

2. Sensitivity to Interest Rate Risk

As interest rates rise, the historical performance of the fund may appear less attractive as an unrated fixed income investment when compared to an increasing yield on AAA-rated issues.

Management mitigates this risk through ongoing internal benchmarking of underwriting performance focused on generating a consistent return of at least a 5-year GIC rate from a Schedule A bank + 3% while maintaining the conservative, low-risk mandate of the fund.

As market rates rise, the interest rate benchmarks targeted by the fund rise with them, thus allowing the fund to benefit from a rising rate environment and achieve its return commitment to investors.

3. Risk of Default

Management has a stringent approval process designed to ensure risk is appropriately priced. Not only must loans meet strict quality metrics, but underwriters must also be able to ensure an interest rate that more than compensates for the estimated risk of the borrower. Averaged out over the past 10 years, Fronteac's track record for mortgage write-offs as a percentage of the fund has been less than 1%.

A mortgage holder may default by failing to adhere to the interest and principal repayment schedule. Management mitigates the risk of default by:

- Cultivating relationships with mortgage brokers and known sources
- Evaluating mortgages based on the traditional Four Cs criteria
- Using advanced algorithms to estimate the probability of default for any mortgage application
- Using sophisticated statistical methods to estimate the change in risk of a mortgage after origination
- Taking action on missed payments
- Working with borrowers to help them keep their homes while satisfying the obligations of their mortgage contract

Four C's criteria

1 Credit

Based on applicant's credit rating

2 Collateral

Readily marketable real estate & other assets pledged by borrower to secure the mortgage

3 Character

Based on history, work tenure and employment

4 Cash flow

Based on the applicant's ability to make monthly interest and principal repayments

4. Risk of Investment and Completion Loss

Risk of investment loss refers to financial loss to Frontenac. Terms of the mortgages are calculated based on the value of the land and/or building being sufficient to repay the loan in full. Real estate can fluctuate and can be affected by general economic conditions and local real estate markets. There can be completion risk for development projects including, uncertain construction costs, development and financing uncertainty, and difficulty obtaining required licenses, permits and approvals.

Management mitigates the risk of investment and completion loss for Frontenac by:

- Following the stringent mortgage approval process
- Requiring independent land/property appraisals prior to lending
- Requiring environmental appraisals on commercial properties
- Closely monitoring construction loans through to completion

5. Other Risks Associated with Real Estate Industry/Competition Risk

Theoretically, Frontenac might compete with many third parties, including mortgage brokers and financial institutions seeking similar investment opportunities; upon deeper consideration, however, this threat may not be critical. While the Schedule A banks have retreated from lending in general due to global credit issues, bank lending in rural areas and for specific types of mortgages has been in decline for many years. Mortgage brokers have filled the bank void, and this has served to feed independent mortgage business to Frontenac.

Still, W.A. Robinson Asset Management Ltd. and Pillar are alert to potential competition risks, and they avoid these risks by specializing in specific types of mortgages and specific geographic areas where they have long-term expertise.

6. Environmental Risks

Under various laws, Frontenac could become liable for the costs of remedial work necessitated by the release, deposit or presence of certain materials, including hazardous waste or toxic substances. As administrator, Pillar does not systematically obtain environmental audits on all properties subject to mortgages. Pillar mitigates environmental liability by requiring environmental audits on commercial properties and on other porperties that, in its opinion, may carry some environmental liability.

Further, Pillar has specialized in a specific geographic area for 35+ years, and the company remains alert to environmental problem areas.

Industry Partners and Affiliates

Service Providers:



Legal



Auditor



Registrar



Custodian

Senior Management Team



Matthew J. Robinson, B.Sc, CIM®

CEO & PORTFOLIO MANAGER (AR)



Kevin Cruickshank, CPA, CA

EXECUTIVE VICE PRESIDENT &
CHIEF FINANCIAL OFFICER



Debra Smith, CIM®

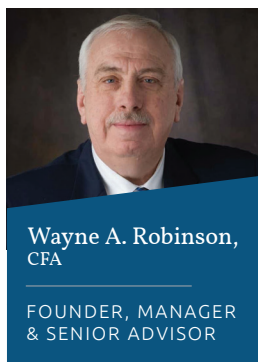
DIRECTOR OF CULTURE & TALENT



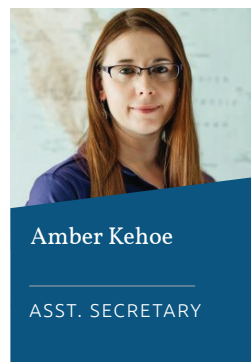
Gord Ross, CFP

SENIOR VICE-PRESIDENT &
CHIEF SALES OFFICER

Senior Investment Counsel



Corporate Secretary



Board of Directors




Robert Barnes

CHAIR



Eric Dinelle

DIRECTOR



Ryan Seeds

DIRECTOR




Jody Becker

DIRECTOR
AND CHAIR



Margaret Kelk

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DIRECTOR



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