Tri City Fund Management Ltd.

HARBOUR PARK
CAPITAL PARTNERS

Dear Investor ,

October of 2021 marked the 10th year anniversary of the first investment into our first mortgage mutual fund, Tri City Mortgage Investment Fund (**TCMIF**). For over ten years TCMIF has distributed excellent returns. For 8 of those years the annual returns were 8.0%* or better. In August of 2020, TCMIF was under significant pressure due to falling interest rates, so we reduced our returns to 7.5%*. And in 2021, with continuing rate compression, we reduced the returns further down to 7.0%*.

The Tri City Group Monthly Income Mortgage Trust (**TCGMIMT**), our 2nd fund, was launched in 2015 and integrated many changes based on client feedback. The first major change was to start paying distributions monthly instead of quarterly, which most MIC's do. This was to accommodate demand from clients who were looking for monthly income. The second major change was the creation of additional P-units (aka "preferred units") for those clients looking for a more conservative priority position of payout.

As of the end of 2021, we believe we have delivered stellar returns in each of our unit types: series A-1 units (6% redemption penalties; no longer offered but still generating an 8.00%* annual return since 2018;) series A-3 units (1% redemption penalties; &currently offered) generated a 7.00% return since 2019; and series P-1 (6% redemption penalties; returns reset annually with the Bank of Canada bond yields) generated annual returns between 5.00% – 6.65% since 2018. For 2022, these units are targeted for a 5.81%* distribution.

You no doubt realize we are in a competitive business, and we need to keep our lending rates competitive to continue generating deal flow from our mortgage broker network who must also deliver market rates to their clients. By contrast we note that Capital Direct advertises in the Globe and Mail frequently and their target rate is 6.5% as does Firm Capital and their advertised rate was recently 6.4%. Although TCMIF is closed to new investments, TCGMIMT is our open-ended fund that is still taking in new investments. The current offering of A-3 units generated distributions of 7.0%* in 2021 and is thus far, tracking similarly to start the new year.

Not only have we managed to deliver excellent returns, but we continue to stick to our core financing principals by investing in what we believe are safe and secure mostly residential short-term mortgages which we believe will return our capital and pay interest with minimal issues. That is not the case with a lot of our competition who do much riskier loans to generate higher returns. Higher returns always "look good" on paper, but we know from hard won experience that higher risk loans eventually come back to haunt you. As an apple-to-apples comparison of risk/reward, we believe the mortgages we choose carry less risk than many of stocks one might pick and other Mortgage Investment Corp's (**MIC's**) and Mortgage Trusts who are generating similar or higher returns. From those criteria we believe we are performing very well in the marketplace when risk and reward are factored in. In our view all portfolios should carry some mortgage funds, particularly with those investors who are seeking higher distributions either by way of cash or building in registered accounts (i.e. - RRSP/TSFA).

Speaking of RRSP's the deadline for investment of this year's contributions is just around the corner. Come in and see us at our new offices to discuss new RRSP contributions.

Sharon has been urging us to finance more waterfront property so we placed a million-dollar mortgage on this lovely waterfront home.

More Regulations which Effect US & Yourselves

The other day we had a very financially savvy doctor come in to see us wanting to make his 4th investment in the mortgage fund, as he was pleased with the returns he had received. However, he became very angry when we were required to ask him about the particulars of his financial affairs (i.e. – his specific cash, investment, other asset positions). We had to tell him his anger was misplaced. It is a requirement of the security regulators to obtain detailed financial information on all investors (even those who are repeat investors). The fact is, if you want to make an investment in alternative and exempt market products or stocks via brokerage house you must go through a registered security seller. In our case we have set up Harbour Park which is an Exempt Market Dealer (**EMD**). The exempt market financial advisor and other types of security sellers are now required to ask very detailed and personal questions about your finances and required to make a recommendation to the investor on whether and how much investment is suitable for you to purchase. In some cases, that will lead to a smaller or rejected new investment. The regulator is telling us, we cannot even accept the direction to purchase from client no matter how well informed they are if they are overly concentrated. It is our view that mortgage funds are different than other types of stocks, as the underlying asset is real property and its value is more transparent.

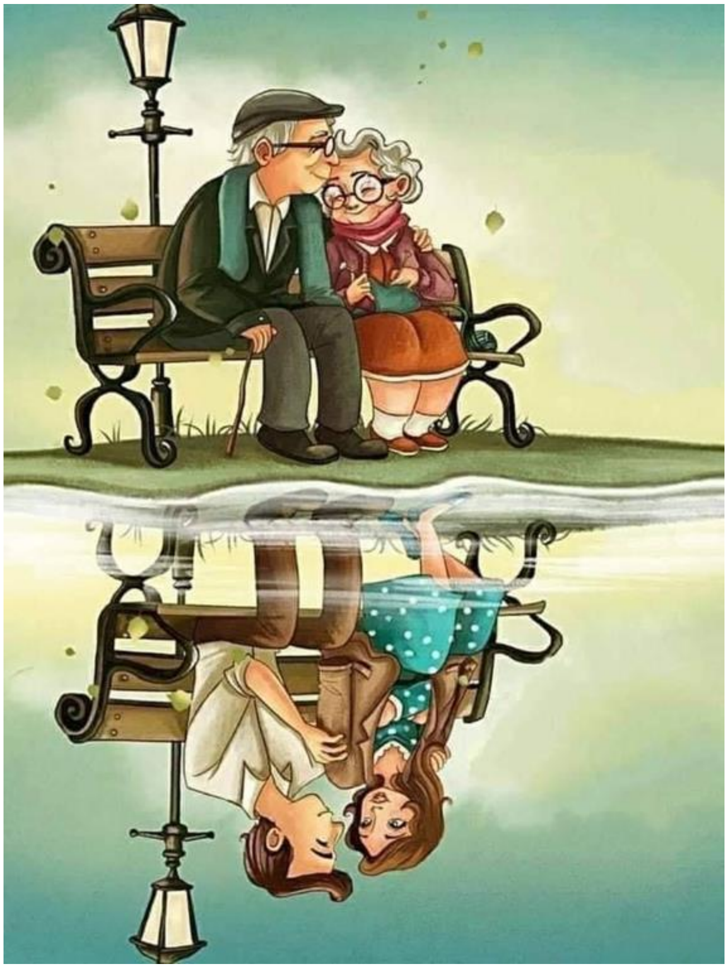
Consolidation of the Financial Investment Advisors and Borrowing Markets

In Canada, each province has a regulatory authority that governs how securities can be sold to investors. In B.C, that is the job of the British Columbia Securities Commission (**BCSC**). However, for 40 years federal and provincial regulators have been allowing a situation to develop, where there are fewer and fewer choices for retail investors and borrowers. As you might imagine the banks have gigantic lobbying efforts which they use to influence the regulators and it has been full court press for many years. In the 1980's there were many trust companies which competed with the banks. However, regulations changed, allowing banks to acquire trust companies. Due to that change, the industry lost many competitors through mergers and acquisitions. RBC purchased Royal Trust and TD sucked up Canada Trust as just two examples of what has taken place to the point there are few trust companies left. The result is a near oligopoly of where one can go to borrow money. In 1987, new regulations allowed banks access to the financial service industry and eventually into insurance and investments sales.

Once the flood gates were opened banks and other large corporations started buying up brokerages and wealth management houses at a stunning pace. In 2008, RBC purchased Phillips Hager and North for $1.4 billion. In 2018, MD Financial Management was sold to Scotiabank for $2.6 billion. In 2019, Richardson GMP agreed to sell its capital markets business to Stifel Financial Corp of St. Louis, MO for $70 million. And the list goes on. As smaller independent security dealers started to disappear it has become harder and harder for private issuers with a great track record to sell their products to the public. It is unfortunate that the rules favor publicly traded companies over non-publicly traded investments like our Fund, regardless of the quality of the underlying businesses or the amount of disclosure that is required.

Some of what drives the regulators, is the fear of widespread fraudulent issuers and ponzi schemes coming to market. Of course, we are clearly in favor of getting rid of these scammers in the marketplace. But in trying to protect investors, regulators are making it increasingly difficult for clients to have more choice and control over where they allocate investments. This is particularly felt in exempt markets, where it appears that the regulators are making it harder for non-publicly traded companies to succeed (with increasing costs and regulation), while allowing public companies (including higher risk early-stage companies) to trade on the stock markets with no restrictions as to how much an investor can buy direct. Some parts of what they are trying to do is positive, but we believe it is not likely going to lead to fewer instances of fraud. Instead, it appears to just drive up the costs for the honest companies (like ourselves) that continue to do business in the markets. It is important to note that while the exempt market has fewer requirements than the publicly listed securities, exempt issuers (such as ourselves), are still required to deliver updated offering memorandums (**OMs**) and audited statements each year for public availability. These are significant documents that contain a considerable amount of disclosure for investors and thus blurring the distinction between the two.

When we started TCMIF in 2011, although we still had to file an OM and audited financials, there were fewer selling/dealing regulations in place. Since TCMIF was a “mortgage product” and was less speculative in nature than other types of businesses, the regulators allowed the products to be sold without a securities registration provided certain conditions were met. Those regulations made a lot of sense, as Mortgage Funds and MIC’s have a business model that is more mature and less speculative than a technology or mining company for example.



<u>More Changes!</u>

Which brings us to 2022. Recently new set of guidelines have been introduced which sellers need to heed called “Client Focused Reforms” (**CFRs**). The objective was to ensure that dealers were more closely examining a client’s financial and personal situation with respect to new investments. Part of these regulations required the seller to become more educated about what they sell. This sounds good on paper but the first reaction of the banks was we are only going to sell our own bank created financial products because it is too much trouble to learn about other financial products in market created by others. The regulators have since told the banks hey you cannot do that, but can you imagine walking into RBC and them telling you to buy a BMO created fund because it performs better anyway?

This also means that dealers now need to be extra mindful about a client’s concentration and diversification and that clients might need to limit their investments in exempt products if they can find them, because big banks do not sell them. This will have the effect of "pushing" clients into the arms of larger dealers such as the banks which now control a very large part of the market. They have bigger product offerings and can manage your complete portfolio. Of course, if your portfolio is not of sufficient size, $500k - $1M, you may end up with a robo-advisor or none at all or mutual fund advisor disguised as financial advisor who can only sell mutual funds. Good luck finding an a true wealth manager if you have less than $500k! Of course, many of the larger dealers are also owned by the banks, who have the added advantage of knowing the client's financial history. Have you been to the bank recently when the teller notices how much is in your account and then suggests you might want to meet with one of their financial advisors?

So, the next time you go into any bank or investment dealer, be prepared for an extensive Know Your Client (KYC) interview followed by a lengthy discussion on your suitability. You will likely be encouraged to spread your investments around like "fairy dust," hoping at least a few will pay off. And if you need monthly income, pay close attention to the returns, as many public company issuers generally do not deliver strong dividends or distributions like Mortgage Trusts/MIC's can. And in general, Mortgage Trusts/MIC's beat bonds and GIC's. Of course, each has a different risk profile.

When I set the mortgage trusts up, it was partly on the advice of my father who said to be weary of investing in the stock markets. And every time I invested in stocks, I lost money. Maybe I am just a very bad stock picker (or is it like going to Las Vegas where a few people win, but most lose?) And when I invested $6 million with HSBC and National Bank, I lost again. My returns were barely 1%! The threshold for investment in the mortgage trusts was set low at $10,000 dollars so small investors with a little savings could take advantage of what we were offering. We still want to help the little investor and hope we can continue doing so in this heavily regulated environment.

<u>In Other News:</u>

I recently ran across the article the other day which I thought was fantastic. It appeared on Globe and Mail Retired Generals Warn of US Coup as ho hum just another day at the office. It took me back to the Pierre Poutine days of burner phones and trying to direct the electorate to wrong polling stations, and the shenanigans of those in Canada who were trying to illegally manipulate our elections. This article reminded me we must remain vigilant about our democratic system, as imperfect as it is.

And finally, work smarter not harder.

Hug your loved ones and keep smiling as the pandemic does not seem to be going away anytime soon.

Warmest regards,

Michael Goodman
Chairman, Tri City Group

Michael Goodman
Founder, Tri City Mortgage Funds Permitted
Individual and Major Shareholder
Harbour Park Capital Partners Ltd
michael@tricitygroup.ca
L: 604-569-2015 ext 222
M: 778-895-5365

Sandy Oh
President, Tri City Fund Management Ltd
Head of Loans Approval Committee
sandy@tricitygroup.ca
L: 604-569-2015 ext 238
M: 604-836-7095

Janet Crawford
Chief Compliance Officer and Sales Representative
Harbour Park Capital Partners

For investment purchases and information contact Janet:
Janetc@hpcpl.ca
604-428-9964
www.hpcpl.ca

** E. & O. E. Return figures are calculated using annual figures and assuming reinvestment of distributions. This newsletter does not represent an offering. Sales are subject to all applicable securities regulations and exemptions.*
The two trusts managed by Tri City Fund Management Ltd, the Tri City Mortgage Investment Fund Ltd and the Tri City Group Monthly Income Mortgage Trust, consist of separate mortgages. Funds are not commingled. Thus the performance of one is not related to the performance of the other. The same individuals are responsible for managing both trusts and therefore share the same investment philosophies when picking the mortgages for both trusts. In order to save costs, expenses are shared by the management company.
**The distribution numbers expressed as an interest rate in these documents are based on all distributions being reinvested for one year. This is done in order to compare them to how the banks would speak about returns for a one-year GIC. Although in no way are these investments being compared to a GIC. Income not reinvested and paid out monthly would calculate out on a yearly basis in terms of a return, slightly lower. The distributions are not interest; rather, they represent income from a pool of diverse mortgages. Each series and class of units has different characteristics. Therefore, distributions and returns differ unit classes as well. This investment may only be bought through qualified registered investment advisors such as Harbour Park Capital which employs such advisors. The trust is sold via an offering memorandum (OM) exemption which allows it to be sold to the public. Past returns are not indicative of future returns. The business proposition is thoroughly explained in the OM. The communications materials speaking about the investment are simplified explanations of what can be a complicated field of investing. Have your trusted financial advisor go over the pluses and minuses of the investment. Management in the past has waived some of the fees entitled to it as described in the OM in order to provide better returns to investors and reserves the right to do so in the future.*

Harbour Park Capital Partners Ltd, Suite 5
Suite 214-131 Water Street
Vancouver BC. V6B 4M3
Office 604-428-9964
Mobile 604-368-4526
Info@hpcpl.ca