

Capital Direct I Income Trust

Benefiting From Rising Demand for Alternative Lending

Target Yield (2022):
6.25% - 6.50%

Rating*: 2-

Risk*: 3

Sector / Industry: Mortgage Investment Entities

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Highlights

- Despite the pandemic, Capital Direct expanded its mortgage receivables by 32% YTD to \$324M, across 1,748 properties, by the end of Q3-2021. We estimate that the company is currently the **ninth (previously twelfth) largest mortgage investment entity** in Canada.
- Due to lower lending rates, yields declined in 2021 (9M) to 6.5%, from 6.9% in 2020 (full year). We are expecting 6.4% in 2022.
- We believe the portfolio's risk profile has declined due to a significant increase in first mortgages (47% to 60%). **The company remains focused on single family residential properties.** Loan-to-Value ("LTV") remains low at just 53%. At the end of Q3, B.C. accounted for 55%, and ON accounted for 37%.
- Although the Bank of Canada is expected to start raising rates in the coming months, we are expecting yields to remain relatively low this year. **We believe investors' appetite for high-yield investments (such as Capital Direct's offerings) will remain strong.**
- We maintain a positive outlook on the residential real estate market. The CMHC has a low-risk rating for 'overvaluation' on both Vancouver and Toronto. Although Omicron has increased uncertainties, we are **expecting a surge in new immigrants and international students** once conditions normalize. Note that Canada is one of the most highly vaccinated countries in the world, and one of the most preferred destinations for immigration.
- We are **expecting a rise in demand for alternative lending**, especially due to the pandemic-induced rise in self-employment and entrepreneurship. We are also seeing a rise in home ownership among millennials. Demand for alternative lending is higher among millennials, self-employed individuals, and entrepreneurs, as these groups have difficulty obtaining loans/mortgages from conventional lenders.

Sid Rajeev, B.Tech, CFA, MBA
Head of Research

Offering Summary	
Issuer	Capital Direct I Income Trust
Securities Offered	Classes A, C, and F Trust Units
Unit Price	\$10
Minimum Subscription	\$5,000
Hurdle Rate	N/A
Distribution to Investors	80% of net income on a quarterly basis
Redemption	Class A - a fee of 5% of NAV in year 1, decreasing by 1% every year; no fee after year 5 / Class C & Class F - a fee of 2% within 6 months and no fee after that
Management Fee	2.0% p.a. of NAV on Classes A and C units / 1.0% p.a. of NAV on Class F units
Auditor	Johnsen Archer LLP

Financial Summary	2019	2020	2021E	2022E
Mortgage Investments (net)	\$200,483,054	\$259,760,322	\$338,300,000	\$373,125,000
Debt as a % of Mortgage Outstanding	11%	24%	28%	31%
Revenues	\$21,100,094	\$22,192,821	\$25,482,381	\$30,312,666
Net Income	\$15,372,537	\$16,193,008	\$17,043,939	\$20,157,557
Net Asset Value	\$10.00	\$10.00	\$10.00	\$10.00
Investors' Returns (% of Invested Capital)	7.62%	6.87%	6.31%	6.38%

***See last page for important disclosures, rating and risk definitions. All figures in C\$ unless otherwise specified.**

In a study conducted for the Canada Mortgage Housing Corporation/CMHC, we estimated that assets held by MICs across the country grew 3% YoY to \$13.2B by the end of 2020, vs 7% for residential mortgages nationwide. At the end of 2020, MICs accounted for 0.80% of residential mortgages in Canada (\$1.6T).

The following table shows how Capital Direct's portfolio compares to its direct comparables (lenders focused on mortgages on single-family residential units). All these entities have over \$100M in assets, with mortgages focused almost exclusively on individual borrowers.

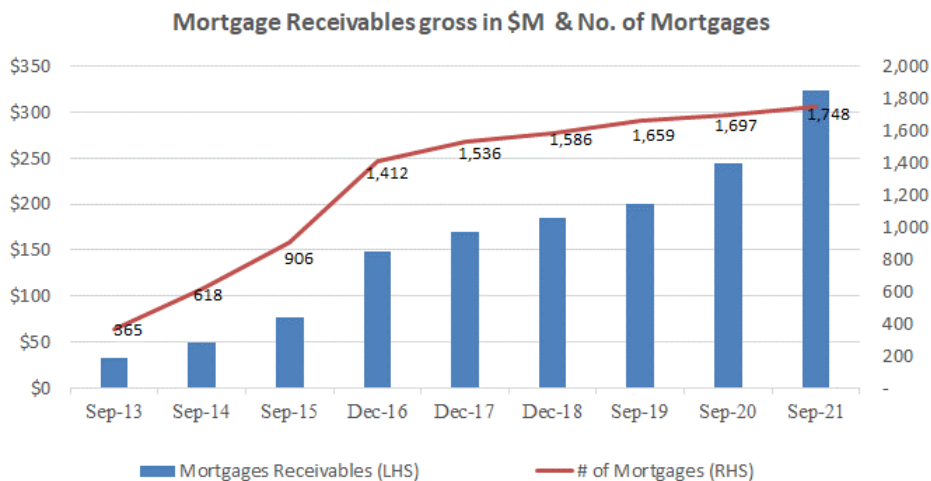
Capital Direct has lower first mortgages, mortgage size, and LTV; yield is almost in line with comparables

	Capital Direct	Average
First Mortgage	60%	81%
B.C.	55%	36%
ON	37%	49%
AB	6%	8%
Others	2%	7%
LTV	53%	58%
Yield	6.5%	6.9%
Debt to Capital	28%	17%
Average Loan Size	\$185,431	\$512,666
Delinquent/Foreclosures	N/A	2.6%
Actual Loss	0.1%	0.2%
Provision	0.4%	0.6%

Source: FRC / Various

Portfolio Update

Gross mortgage receivables were up 32% YoY, to \$324M, by the end of Q3



Source: Company / FRC

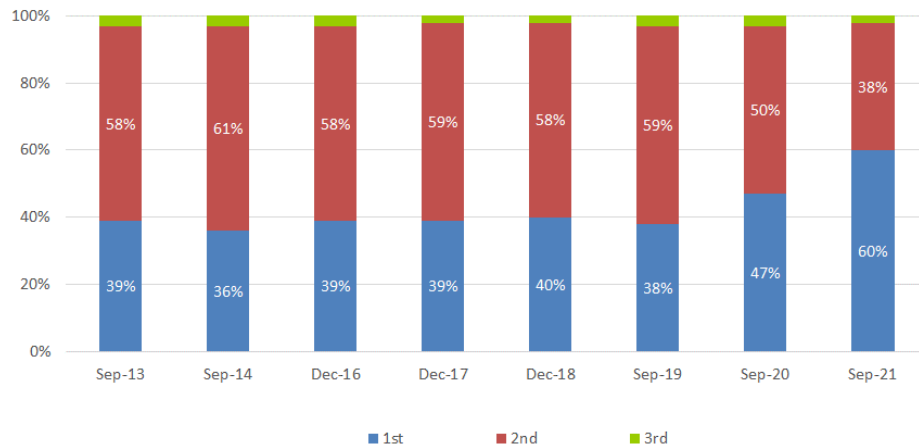
Debt to capital of 28% at the end of Q3 (vs 23% at the end of 2020), in line with the 10-year average; we believe MICs of comparable size have a debt to capital between 20% and 40%

Exposure to first mortgages increased 13 ppt to record levels, implying a lower risk profile; management has indicated that they do not expect any material changes in exposure to first mortgages this year

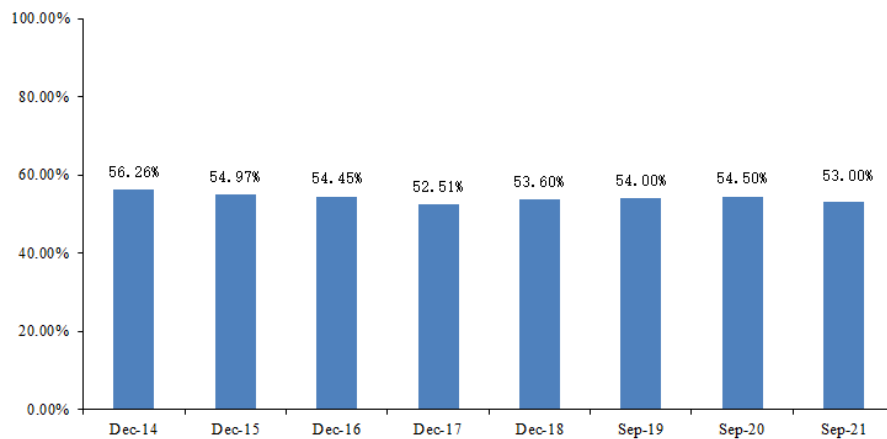
LTV declined 1.5 ppt

Balance Sheet	2016	2017	2018	2019	2020	Q3-2021
Assets						
Cash	\$1,982,407	\$4,004,562	\$8,052,977	\$14,405,424	\$10,020,064	\$7,141,836
Accounts Receivable	\$5,226,932	\$3,223,329	\$2,524,347	\$4,004,506	\$5,100,374	\$6,895,563
Prepaid Expense						
Due from Related Party						
Assets held for sale		\$88,282		\$834,499		
Mortgage Investments (net)	\$147,121,047	\$165,613,676	\$182,156,694	\$200,483,054	\$259,760,322	\$321,713,809
Total Assets	\$154,330,386	\$172,929,849	\$192,734,018	\$219,727,483	\$274,880,760	\$335,751,208
Liabilities						
Loan Payable	\$44,018,502	\$38,915,187	\$35,524,445	\$22,355,427	\$62,380,903	\$91,813,699
Accounts Payable & Accrued Liabilit	\$3,606,666	\$5,242,910	\$7,927,563	\$13,726,639	\$7,791,655	\$3,430,372
Total Liabilities	\$47,625,168	\$44,158,097	\$43,452,008	\$36,082,066	\$70,172,558	\$95,244,071
Net Asset	\$106,705,218	\$128,771,752	\$149,282,010	\$183,645,417	\$204,708,202	\$240,507,137
SE + Liabilities	\$154,330,386	\$172,929,849	\$192,734,018	\$219,727,483	\$274,880,760	\$335,751,208
Debt to Capital	29%	23%	19%	11%	23%	28%
Debt as a % of Mortgage Outstanding	30%	23%	20%	11%	24%	29%
Interest Coverage Ratio	7.3	7.8	9.3	10.9	16.8	9.0

Mortgages by Priority

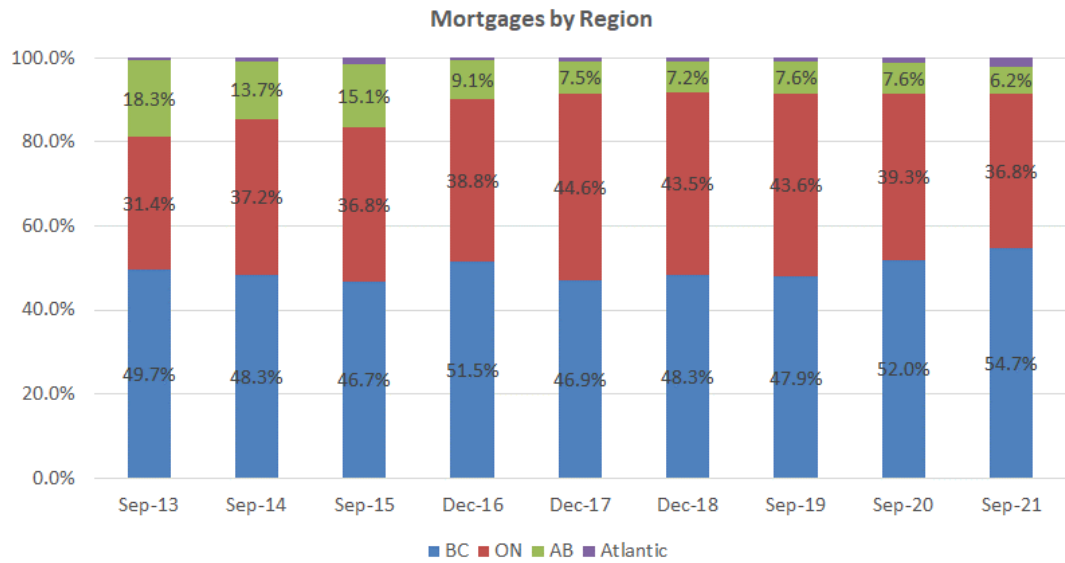


Loan to Value (LTV)

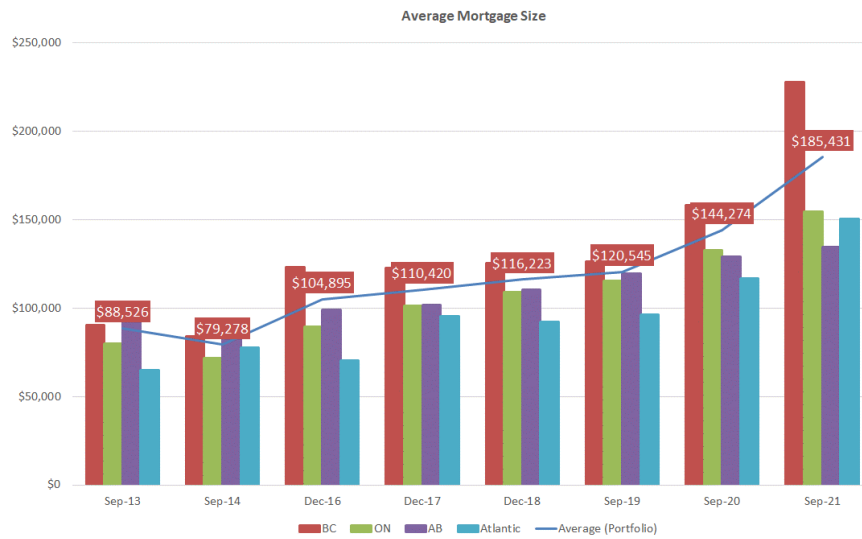


Source: Company / FRC

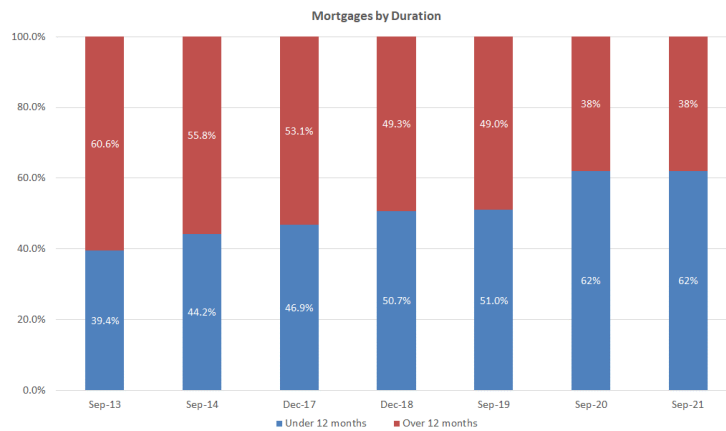
Exposure to B.C. increased, while exposure to ON and AB declined



The average size of a mortgage increased 29% YoY due to increased exposure to first mortgages



Duration remained flat



Source: Company / FRC

Realized loss of 0.06% of mortgages in 2021 (9M) vs the 10-year average of 0.39% p.a.

	2016	2017	2018	2019	2020	2021 (9M)
Actual Losses	\$654,748	\$494,257	\$424,021	\$452,974	\$666,711	\$177,611
Actual Losses (% of mortgage receivable)	0.56%	0.32%	0.24%	0.24%	0.29%	0.06%
Distributions	\$6,075,876	\$9,251,666	\$10,652,543	\$12,687,277	\$13,340,835	\$10,821,756
Reinvested	\$3,739,538	\$5,554,651	\$6,430,896	\$7,575,654	\$8,571,974	\$7,256,732
Reinvested (as a % of Distributions)	62%	60%	60%	60%	64%	67%
Redemptions	\$3,210,287	\$7,408,860	\$7,157,098	\$19,721,850	\$20,027,958	\$9,019,080
Redemption (% of invested capital)	4%	6%	5%	12%	10%	4%
Loan loss reported	\$477,919	\$971,133	\$613,053	\$221,274	\$494,703	\$706,336
Loan loss provision (year/quarter ended)	\$536,762	\$1,013,638	\$1,202,670	\$970,970	\$798,962	\$1,327,687
Provision % of Receivable	0.36%	0.61%	0.66%	0.48%	0.31%	0.41%

Source: Company / FRC

In summary, we believe the portfolio's risk profile has declined due to the significant increase in first mortgages

Parameter	Risk Profile
Undeployed Capital	↓
Average Mortgage	↑
Diversification	↓
Duration	-
Priority	↑
LTV	↓
Property Type (lower-risk properties)	-
Default	-
Debt to Capital	↑

- red (green) indicates an increase (decrease) in risk level

Source: FRC

Financials

Income Statement	2018	2019	2020	2020 (9M)	2021 (9M)	YoY
Revenues						
Interest Income	\$16,839,706	\$19,334,213	\$20,608,320	\$14,310,262	\$16,236,383	13%
Other Income	\$1,772,579	\$1,765,881	\$1,584,501	\$2,053,710	\$2,533,064	23%
Total Revenue	\$18,612,285	\$21,100,094	\$22,192,821	\$16,363,972	\$18,769,447	15%
Expenses						
G&A	\$898,249	\$506,435	\$593,682	\$443,447	\$484,691	9%
Bank Charges	\$423,218	\$376,095	\$416,125	\$322,625	\$348,093	8%
Interest on Loan Payable	\$1,604,631	\$1,584,010	\$1,044,810	\$716,462	\$1,627,650	127%
Loss		\$374,005	\$351,247			
Management Fees	\$2,180,673	\$2,665,738	\$3,099,246	\$2,309,558	\$2,621,288	13%
Loan Loss Provision	\$613,053	\$221,274	\$494,703	\$717,752	\$706,336	-2%
Total Operating Expenses	\$5,296,606	\$5,727,557	\$5,999,813	\$4,509,844	\$5,788,058	28%
Net Income	\$13,315,679	\$15,372,537	\$16,193,008	\$11,854,128	\$12,981,389	10%
Net Asset Value	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00	0%
Units Outstanding	14,928,201	18,364,542	20,469,383	19,935,372	24,050,714	21%
Distributions						
Investors	10,652,543	12,687,277	13,340,835	\$9,869,731	\$10,821,756	10%
Management	2,663,136	2,685,260	2,852,173	\$1,984,397	\$2,159,631	9%
Investors' Share	80.0%	82.5%	82.4%	83.3%	83.4%	
% of Mortgage Receivable						
Interest Income	9.68%	10.11%	8.96%	8.61%	7.45%	
Other Income	1.02%	0.92%	0.69%	1.24%	1.16%	
Interest Income + Others	10.70%	11.03%	9.64%	9.84%	8.61%	
Less:						
Management Fee	-1.25%	-1.39%	-1.35%	-1.39%	-1.20%	
G&A Expenses	-0.52%	-0.46%	-0.44%	-0.46%	-0.38%	
Loan Loss Provision and Others	-0.35%	-0.31%	-0.37%	-0.43%	-0.32%	
Interest	-0.92%	-0.83%	-0.45%	-0.43%	-0.75%	
Net	7.66%	8.03%	7.04%	7.13%	5.95%	
Investors' Returns (% of Invested Capital)	7.66%	7.62%	6.87%	6.87%	6.48%	

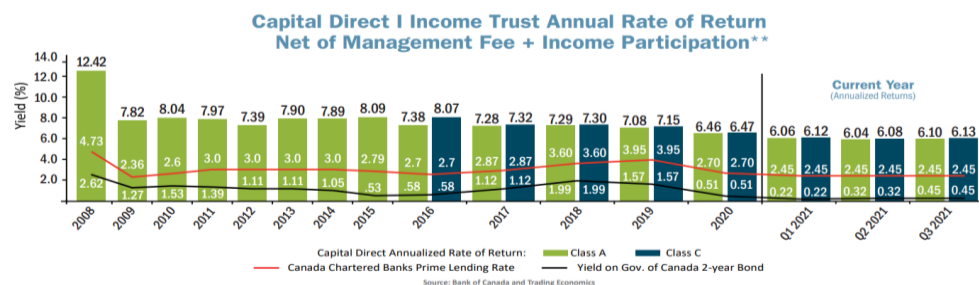
* annualized

Revenue up 15% YoY, and net income up 10% in 2021 (9M), due to higher mortgages receivables, partially offset by lower lending rates

Due to lower lending rates, dividends as a percentage of invested capital declined from 6.9% in 2020 (full-year) to 6.5% in 2021 (9M)

We were expecting 7.2% in 2021 (full-year); 2021 (9M) yield was lower due to lower than expected lending rates amid an increase in first mortgages, and low market lending rates

Note that the above figures may be slightly different from the figures reported by Capital Direct 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.



Source: Company

Units Outstanding and Ownership

24M units outstanding at the end of Q3, up 21% YoY

Units Outstanding	30-Sep-20	30-Sep-21	% of Total
Class A	7,683,458	8,531,794	35.5%
Class C	4,114,171	6,035,648	25.1%
Class F	8,137,743	9,483,271	39.4%
Total	19,935,372	24,050,713	100.0%

Source: Company

- Class A (since inception) - offered to investors directly
- Class F (introduced in 2014) - offered to funds managed by portfolio managers, and other fee-based investment advisors.
- Class C (introduced in 2016) - offered to investors who purchase units through dealers (IIROC and Exempt Market Dealers).

Rating

We are projecting a 6.4% yield in 2022, assuming no material changes in exposure to first mortgages; the yield will be lower (higher) if first mortgages increase (decrease)

Financial Summary	2018	2019	2020	2021E	2022E
Mortgage Investments (net)	\$182,156,694	\$200,483,054	\$259,760,322	\$338,300,000	\$373,125,000
Debt as a % of Mortgage Outstanding	20%	11%	24%	28%	31%
Revenues	\$18,612,285	\$21,100,094	\$22,192,821	\$25,482,381	\$30,312,666
Net Income	\$13,315,679	\$15,372,537	\$16,193,008	\$17,043,939	\$20,157,557
Net Asset Value	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00
Investors' Returns (% of Invested Capital)	7.66%	7.62%	6.87%	6.31%	6.38%

Source: Company/FRC

We are maintaining our overall rating at 2-, and risk rating at 3. As interest rates are expected to remain relatively low this year, we believe high-yield investments (such as Capital Direct) offer an attractive value proposition.

FRC Rating	
Expected Yield (2022)	6.4%
Rating	2-
Risk	3

Risks

- Loans are short term and need to be sourced and replaced quickly.
- Timely deployment of capital is crucial.
- A drop in housing prices will result in higher LTVs, and higher default risk.
- Unit holders' principal is not guaranteed, as the NAV per share could decrease from current levels (as a result of loan losses). Unit holders are also not guaranteed minimum distributions.

- The fund has the ability to use leverage, which would increase the exposure of the fund to negative events.

APPENDIX

Income Statement	2018	2019	2020	2021E	2022E
Revenues					
Interest Income	\$16,839,706	\$19,334,213	\$20,608,320	\$22,043,361	\$26,221,766
Other Income	\$1,772,579	\$1,765,881	\$1,584,501	\$3,439,020	\$4,090,900
Total Revenue	\$18,612,285	\$21,100,094	\$22,192,821	\$25,482,381	\$30,312,666
Expenses					
G&A	\$898,249	\$506,435	\$593,682	\$623,366	\$654,534
Bank Charges	\$423,218	\$376,095	\$416,125	\$457,738	\$480,624
Interest on Loan Payable	\$1,604,631	\$1,584,010	\$1,044,810	\$2,832,856	\$3,780,000
Loss		\$374,005	\$351,247		
Management Fees	\$2,180,673	\$2,665,738	\$3,099,246	\$3,774,482	\$4,489,950
Loan Loss Provision	\$613,053	\$221,274	\$494,703	\$750,000	\$750,000
Total Operating Expenses	\$5,296,606	\$5,727,557	\$5,999,813	\$8,438,442	\$10,155,109
Net Income	\$13,315,679	\$15,372,537	\$16,193,008	\$17,043,939	\$20,157,557
Net Asset Value	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00
Units Outstanding	14,928,201	18,364,542	20,469,383	24,396,367	26,137,617
Balance Sheet	2018	2019	2020	2021E	2022E
Assets					
Cash	\$8,052,977	\$14,405,424	\$10,020,064	\$2,873,394	\$4,724,109
Accounts Receivable	\$2,524,347	\$4,004,506	\$5,100,374	\$6,375,468	\$7,969,334
Prepaid Expense					
Due from Related Party					
Assets held for sale		\$834,499			
Mortgage Investments (net)	\$182,156,694	\$200,483,054	\$259,760,322	\$338,300,000	\$373,125,000
Total Assets	\$192,734,018	\$219,727,483	\$274,880,760	\$347,548,862	\$385,818,444
Liabilities					
Loan Payable	\$35,524,445	\$22,355,427	\$62,380,903	\$95,000,000	\$115,000,000
Accounts Payable & Accrued Liabilit	\$7,927,563	\$13,726,639	\$7,791,655	\$8,570,821	\$9,427,903
Total Liabilities	\$43,452,008	\$36,082,066	\$70,172,558	\$103,570,821	\$124,427,903
Net Asset	\$149,282,010	\$183,645,417	\$204,708,202	\$243,978,041	\$261,390,541
SE + Liabilities	\$192,734,018	\$219,727,483	\$274,880,760	\$347,548,862	\$385,818,444
Debt to Capital	19%	11%	23%	28%	31%

Cash Flow Statement	2020	2021E	2022E
Operating Activities			
Net Income	\$16,193,008	\$17,043,939	\$20,157,557
Loan Loss Provision			
	\$16,193,008	\$17,043,939	\$20,157,557
Chnges in non-cash Working Capital			
Accounts Receivable	-\$261,369	-\$1,275,094	-\$1,593,867
Accounts Payable and Accrued Liabilities	-\$5,934,984	\$779,166	\$857,082
Interest Payable			
Deferred Mortgage Income			
Prepaid Expenses			
	-\$6,196,353	-\$495,928	-\$736,785
Cash from Operating Activities	\$9,996,655	\$16,548,011	\$19,420,772
Investing Activities			
Net Purchase of Mortgage Investments	-\$59,277,268	-\$78,539,678	-\$34,825,000
Cash from Investing Activities	-\$59,277,268	-\$78,539,678	-\$34,825,000
Financing Activities			
Repayment of Loan Payable			
Distribution to unitholders (net of reinvestments)	-\$13,340,835	-\$14,146,469	-\$16,126,046
Distribution to Manager	-\$2,852,173	-\$2,897,470	-\$4,031,511
Cash Received on Subscription			
Redemption	\$21,062,785	\$39,269,839	\$17,412,500
Advances from Related Parties			
Loan Payable	\$40,025,476	\$32,619,097	\$20,000,000
Cash from Financing Activities	\$44,895,253	\$54,844,997	\$17,254,943
Net Change in Cash	-\$4,385,360	-\$7,146,670	\$1,850,715

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	31%	Risk - 2	8%
Rating - 3	47%	Risk - 3	40%
Rating - 4	8%	Risk - 4	33%
Rating - 5	4%	Risk - 5	8%
Rating - 6	1%	Suspended	10%
Rating - 7	0%		
Suspended	9%		

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