Fundamental Research Corp.
Investment Analysis for Intelligent Investors

December 2, 2020

Three Point Capital Corp.

Minimally Impacted by COVID-19

Target Yield (2021): 6.0% - 6.5%
Rating*: 2-
Risk*: 3

Sector / Industry: Mortgage Investment Corporation

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Head of Research

Highlights

- Despite the pandemic, Three Point expanded its gross mortgage receivables by 20% YTD (year-to-date) to $92M, across 314 properties, by the end of Q3-2020. Three Point advanced $53M in mortgages in 2020 (9M) vs $45M in 2019 (9M).
- **The MIC's portfolio remains healthy with below sector-average delinquency rates.**
- As a precautionary measure, the MIC lowered its monthly dividend starting March 2020. In 2020 (9M), the payout ratio was just 71% vs 96%+ historically. The MIC intends to make a bonus dividend payment at year-end, which will likely increase the 2020 yield to over 6%, up from 4.6% in 2020 (9M). Management's target yield for 2021 is 6.0% - 6.5%.
- **Three Point remains focused on first mortgages on single family residential properties.** At the end of Q3, first mortgages accounted for 93% of the total portfolio. The loan-to-value ("LTV") remains low at just 55%. The MIC has been diversifying its portfolio into Ontario ("ON"). **At the end of Q3, B.C. accounted for 62%, and ON accounted for 29%.**
- Despite the recent surge in COVID-19 cases in Canada, our outlook on the economy has improved considering the recent announcements surrounding vaccines. We also feel that businesses are now better equipped to handle the second-wave. That said, we expect a gradual recovery as the rollout of vaccines is expected to take six to months.

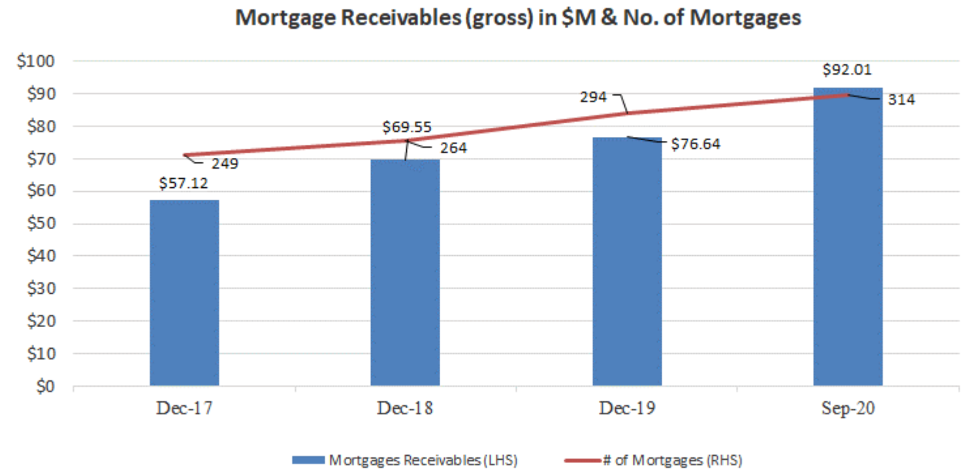
Offering Summary	
Issuer	Three Point Capital Corp.
Date of OM	31-Mar-20
Securities Offered	Class A Shares
Unit Price	$1
Minimum Subscription	N/A
Distribution to Investors	Monthly
Redemption (penalties)	n/a
Management Fee	1.95% p.a. of NAV (AUM <$100M) 1.75% p.a. ($100M <AUM < $150M) 1.50% p.a. (AUM >$150 million)
Sales Commissions	up to 1% p.a.
Auditor	Grant Thornton

Financial Summary	2017	2018	2019	2020 (9M)
Mortgage Investments (net)	$57,125,378	$69,167,136	$76,376,262	$91,331,742
Debt as a % of Mortgage Outstanding	25%	15%	0%	13%
Revenues	$2,577,701	$5,778,729	$7,085,110	$5,585,793
Net Income	$1,480,316	$3,659,283	$5,106,979	$3,876,436
Net Asset Value	$0.998	$0.993	$0.992	$1.005
Investors' Returns (% of Invested Capital)	6.88%	7.06%	7.21%	4.69%

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

Portfolio Update

Gross mortgage receivables up 20% YTD to $92M



Debt to capital of 13% the end of Q3; Interest coverage increased to 39x; MICs of comparable size have a debt to capital between 10% and 20%

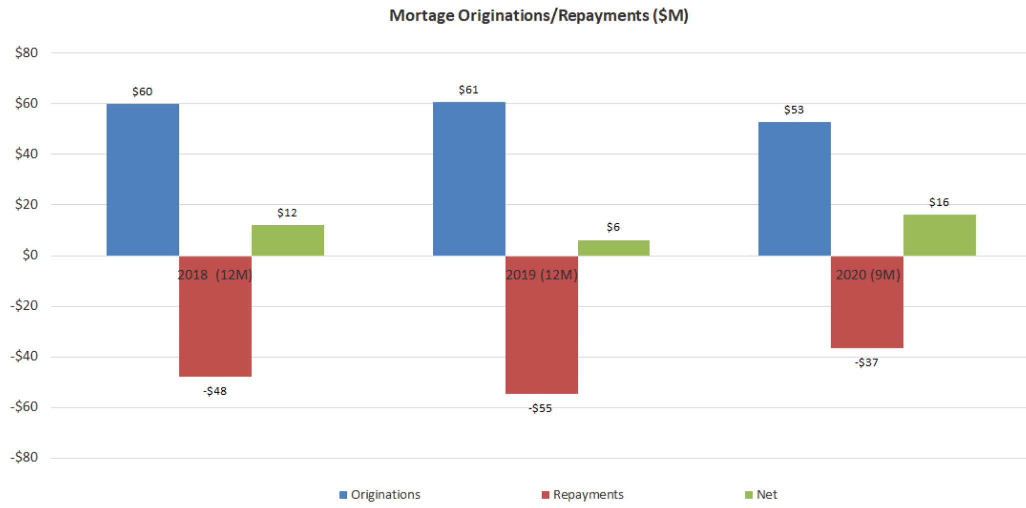
Balance Sheet	2017	2018	2019	Q3-2020
Assets				
Cash	-	-	2,239,159	-
Accounts Receivable	$139,830	$0		
Prepaid Expense	$22,509	$20,596	16,722	13,998
Mortgage Investments (net)	$57,125,378	$69,167,136	76,376,262	91,331,742
Total Assets	**$57,287,717**	**$69,187,732**	**$78,632,143**	**$91,345,740**
Liabilities				
Loan Payable and accruals	$11,052,914	$7,581,036		
LOC				$12,171,645
Promissory Notes	$3,429,664	$3,036,033		
A/P & Accrued Liabilities	$259,956	$173,059	$194,630	$212,777
Dividends payable		$573,106	$736,725	
Total Liabilities	**$14,742,534**	**$11,363,234**	**$931,355**	**$12,384,422**
Net Asset	$42,545,183	$57,824,498	$77,700,788	$78,961,319
SE + Liabilities	**$57,287,717**	**$69,187,732**	**$78,632,143**	**$91,345,740**
Debt to Capital	25%	16%	0%	13%
Debt as a % of Mortgage Outstanding	25%	15%	0%	13%
Interest Coverage Ratio	7.0	8.3	20.3	39.2

Source: Company / FRC

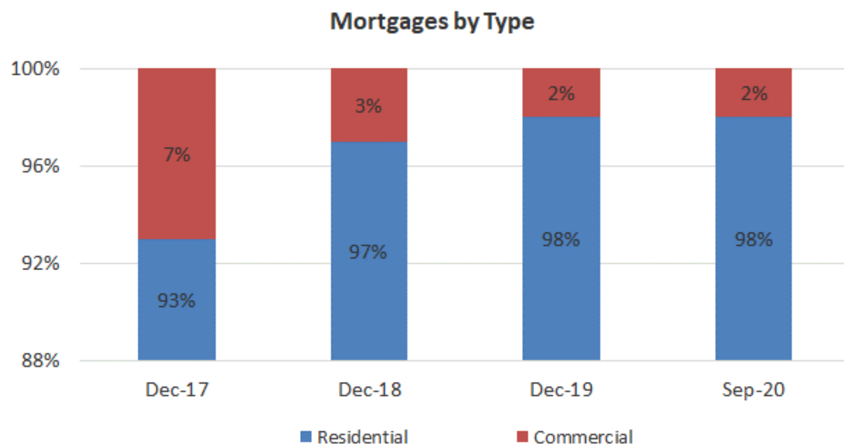
Management's estimate for 2020 year-end portfolio size is $96M.

As a result of the pandemic, the MIC offered mortgage payment deferral plans to 17 mortgages, accounting for 4% of its portfolio. Currently, none are on deferral.

$53M in mortgages advanced in 2020 (9M) vs $45M in 2019 (9M)



Focus remains on single family residential properties



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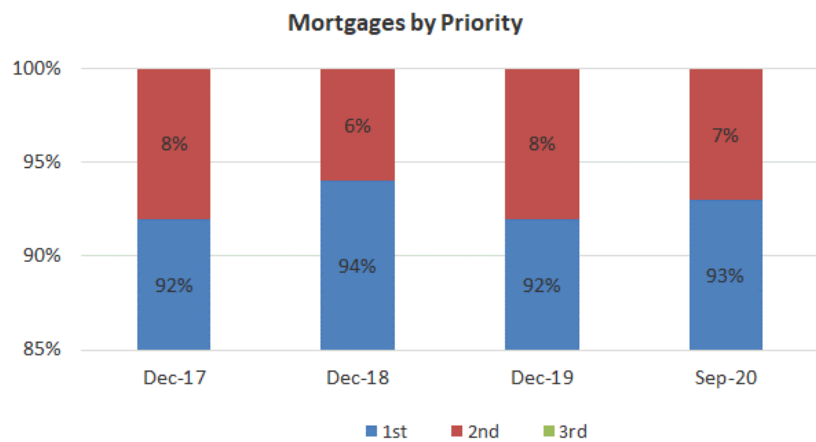
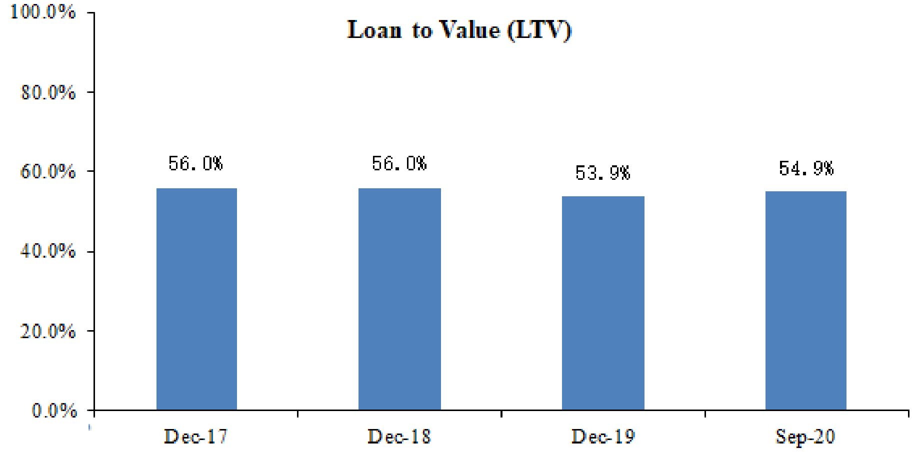
Exposure to first mortgages increased from 92% to 93%

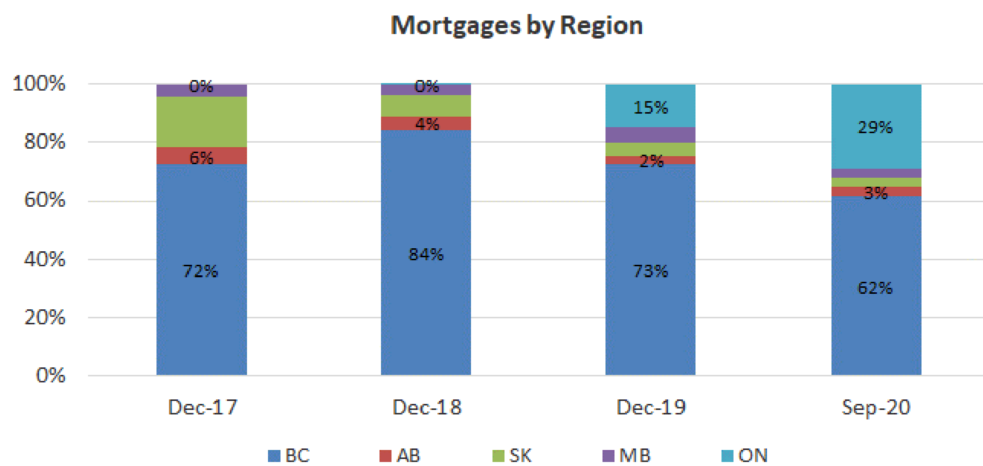


Source: Company / FRC

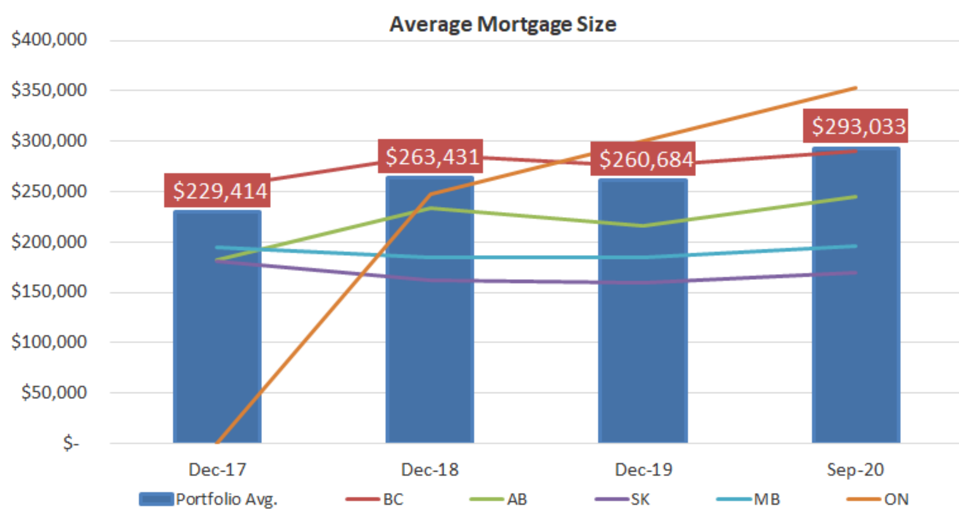
LTV increased from 54% to 55%



Diversifies portfolio to ON, while lowering exposure to B.C.; management estimates B.C. and ON account for approximately 90% of portfolio

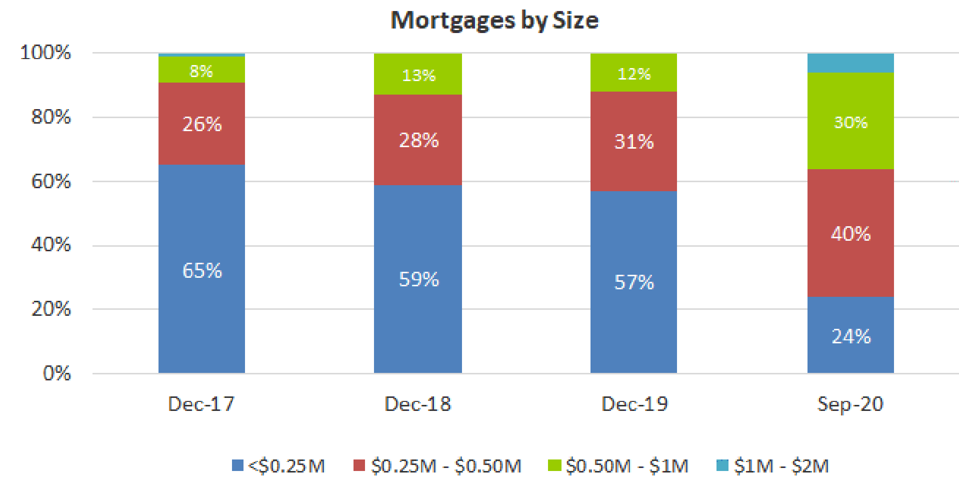


Average mortgage size rising due to an increase in first mortgages, and larger mortgages in ON

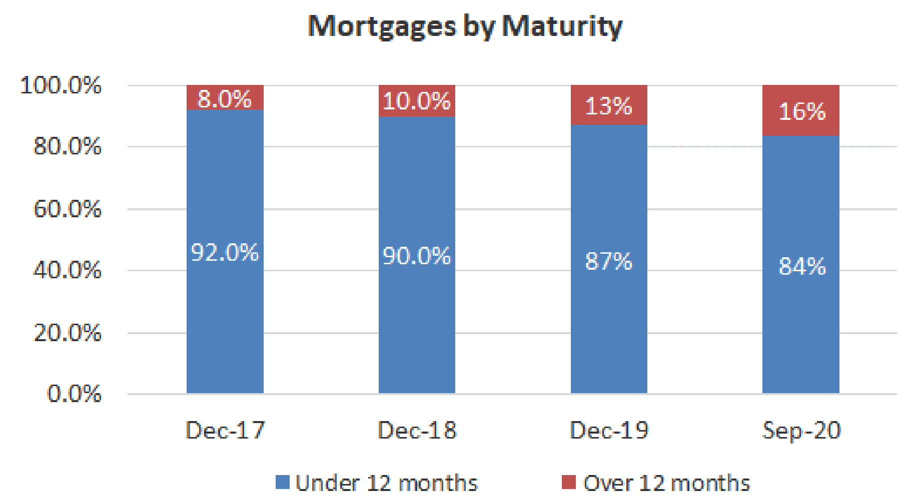


Source: Company / FRC

Increasing exposure to larger size mortgages



Duration increased, but most mortgages are due within 12M



Lending rates declined with market rates; note that lending rates of MICs are typically more stable as the market is less competitive relative to conventional lenders

	Dec-17	Dec-18	Dec-19	Sep-20
Weighted Average Interest rate	**8.35%**	**8.59%**	**8.66%**	**8.18%**

We expect market rates to remain low; management expects the MIC's rates to stay flat over the next 12M

No realized losses in 2020, but loan loss provision increased from 0.58% at the end of 2019, to 0.75% by the end of Q3

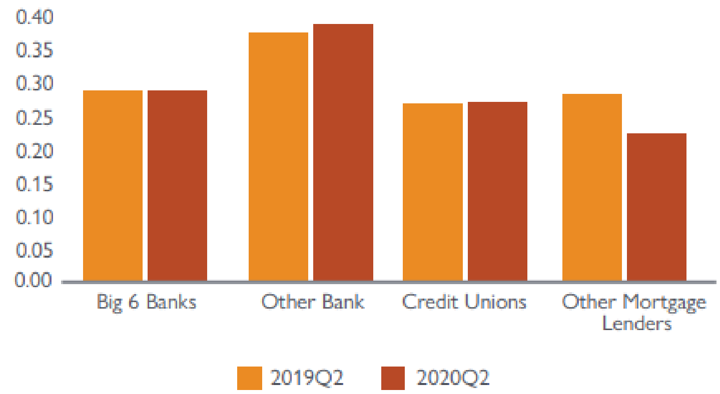
	2017	2018	2019	2020 (9M)
Actual Losses	-	17,239	9,852	-
Actual Losses (% of mortgage receivable)	0.00%	0.03%	0.02%	0.00%
Loan loss reported	$185,833	$210,175	$75,966	$235,766
Loan loss provision (year/quarter ended)	$185,833	$378,769	$444,883	$680,649
Provision % of Receivable	0.33%	0.55%	0.58%	0.75%

Source: Company / FRC

At the end of Q3, 4% of the portfolio, or 15 mortgages ($3.5M) were in default (60+ days delinquent) vs 3%, or 10 mortgages ($2.4M) at the end of 2019. Management does not expect any losses from the mortgages in default. We estimate that Three Point's default rate is slightly lower than than the sector average of 4.2%.

We also note that mortgage delinquency rates have remained relatively stable across financial institutions in Canada during the pandemic, due to mortgage deferral programs offered by banks, and other government benefits provided to consumers.

90-Day Delinquency Rates Across Canadian Mortgage Lenders



Source: CMHC

Overall, we believe Three Point portfolio's risk profile has marginally increased; the positive impact from enhanced diversification and higher percentage of first mortgages, were more than offset by higher average mortgage size, LTV, and defaults. The following chart summarizes the change in risk levels based on YoY changes in key parameters.

Risk profile marginally higher

Parameter	Risk Profile
Total Portfolio Size	↑
Average Mortgage	↑
Diversification	↑
Duration	↑
Priority	↑
Property Type	-
LTV	↑
Default	↑

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

Source: FRC

Revenue up 5% YoY, and net income up 2% in 2020 (9M)

Due to lower lending rates, higher loan loss provisions, and lower use of debt, net profit as a percentage of mortgage receivable declined 0.9 percentage points in 2020 (9M)

As a precautionary measure, the MIC lowered monthly dividends starting March 2020, resulting in a net annualized yield of 4.6% in 2020 (9M) vs 7% in 2019 (full year).

The payout ratio in 2020 (9M) was just 71% in 2020 (9M) vs 96%+ historically. If the payout was 96%, 2020 (9M) the yield would have been 6.3%; the MIC intends to make a bonus dividend payment at year-end, which will likely increase 2020 total dividends to over 6%

Financials

Income Statement	2017	2018	2019	2020 (9M)
	Feb 22 - Dec 31 (operations started in June)	Jan 1 - Dec 31	Jan 1 - Dec 31	Jan 1 - Sept 30
Revenues				
Interest Income	$2,305,911	$5,197,158	$6,355,245	$5,071,011
Fees & penalties	$271,790	$581,571	$729,865	$501,770
Interest re: investments and bank accounts				$13,012
	$2,577,701	**$5,778,729**	**$7,085,110**	**$5,585,793**
Expenses				
G&A	$95,762	$125,187	$117,499	$128,708
Management Fees	$570,923	$1,281,610	$1,519,888	$1,243,355
Loan Loss Provision	$185,833	$210,175	$75,966	$235,766
Interest on Loan Payable	$244,867	$502,474	$264,778	$101,528
	$1,097,385	**$2,119,446**	**$1,978,131**	**$1,709,357**
Net Income	**$1,480,316**	**$3,659,283**	**$5,106,979**	**$3,876,436**
Dividends	$1,466,796	$3,558,899	$4,923,754	$2,761,952
Net Asset Value	$0.998	$0.993	$0.992	$1.00
Shares Outstanding	42,610,755	58,212,515	78,319,904	78,569,395
Payout Ratio	99%	97%	96%	71%

% of Mortgage Receivable	2017	2018	2019	2020 (9M)*
Interest Income	8.07%	8.23%	8.73%	8.06%
Fees & penalties	0.95%	0.92%	1.00%	0.80%
Interest Income + Others	**9.02%**	**9.15%**	**9.74%**	**8.88%**
Less:				
Management Fee	-2.00%	-2.03%	-2.09%	-1.98%
G&A Expenses	-0.34%	-0.20%	-0.16%	-0.20%
Loan Loss Provision	-0.65%	-0.33%	-0.10%	-0.37%
Interest	-0.86%	-0.80%	-0.36%	-0.16%
Trailer				
Net	**5.18%**	**5.79%**	**7.02%**	**6.16%**
Investors' Returns (% of Invested Capital)	**6.88%**	**7.06%**	**7.21%**	**4.69%**
Actual Dividends	**7.08%**	**7.17%**	**7.03%**	**4.61%**

* annualized

Note that the above figures may be slightly different from the figures reported by Three Point 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 / FRC

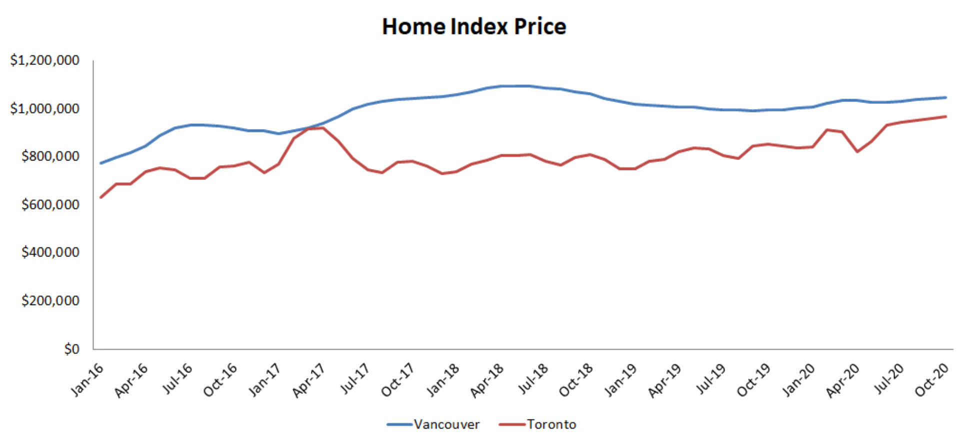
Management's target yield for 2020 and 2021 are 6.0%, and 6.0%-6.5%, respectively, which we believe are realistic.

Market Update

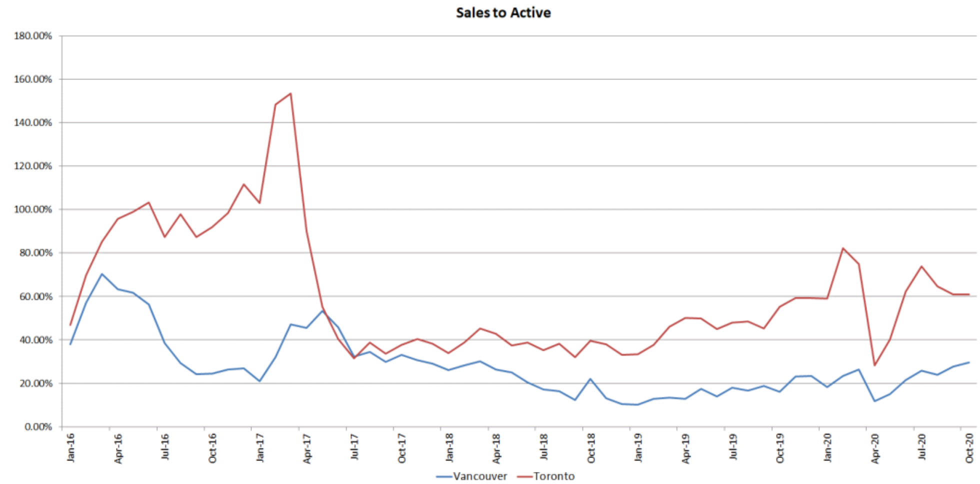
Sales of residential units in Toronto and Vancouver have rebounded sharply, with double digit YoY growth rates every month since July 2020. Prices were up 14% YoY in Toronto, and 5% in Vancouver in October 2020. The sales to active ratios in both cities are also up YoY. The following charts show average home prices in Vancouver and Toronto.

Toronto	May-19	May-20	YoY	Jun-19	Jun-20	YoY	Jul-19	Jul-20	YoY
Residential Sales	9,989	4,606	-54%	8,860	8,701	-2%	8,595	11,081	29%
New Listings	19,386	9,104	-53%	15,816	16,153	2%	14,393	17,956	25%
Active Listings	20,017	11,484	-43%	19,655	14,001	-29%	17,938	15,018	-16%
Sales to Listings	49.90%	40.11%		45.08%	62.15%		47.92%	73.78%	
MLS Home Price Index	$838,540	$863,599	3%	$832,703	$930,869	11.8%	$806,755	$943,710	17%
Toronto	**Aug-19**	**Aug-20**	**YoY**	**Sep-19**	**Sep-20**	**YoY**	**Oct-19**	**Oct-20**	**YoY**
Residential Sales	7,711	10,775	40%	7,825	11,083	42%	8,491	10,563	24%
New Listings	11,789	18,491	57%	15,611	20,420	31%	13,050	17,802	36%
Active Listings	15,870	16,662	5%	17,254	18,167	5%	15,375	17,313	13%
Sales to Listings	48.59%	64.67%		45.35%	61.01%		55.23%	61.01%	
MLS Home Price Index	$792,611	$951,404	20%	$843,115	$960,772	14%	$852,142	$968,318	14%

Metro Vancouver	May-19	May-20	YoY	Jun-19	Jun-20	YoY	Jul-19	Jul-20	YoY
Residential Sales	2,578	1,485	-42%	2,077	2,443	18%	2,557	3,128	22%
New Listings	5,861	3,684	-37%	4,751	5,787	22%	4,613	5,948	29%
Active Listings	14,685	9,927	-32%	14,968	11,424	-24%	14,240	12,083	-15%
Sales to Listings	17.56%	14.96%		13.88%	21.38%		17.96%	25.89%	
MLS Home Price Index	$1,006,400	$1,028,400	2%	$998,700	$1,025,300	3%	$995,200	$1,031,400	4%
Metro Vancouver	**Aug-19**	**Aug-20**	**YoY**	**Sep-19**	**Sep-20**	**YoY**	**Oct-19**	**Oct-20**	**YoY**
Residential Sales	2,231	3,047	37%	2,333	3,634	56%	1,966	3,687	88%
New Listings	3,747	5,813	55%	4,866	6,402	32%	4,074	5,571	37%
Active Listings	13,396	12,803	-4%	12,439	13,096	5%	12,236	12,416	1%
Sales to Listings	16.65%	23.80%		18.76%	27.75%		16.07%	29.70%	
MLS Home Price Index	$993,300	$1,038,700	5%	$990,600	$1,041,300	5%	$992,900	$1,045,100	5%

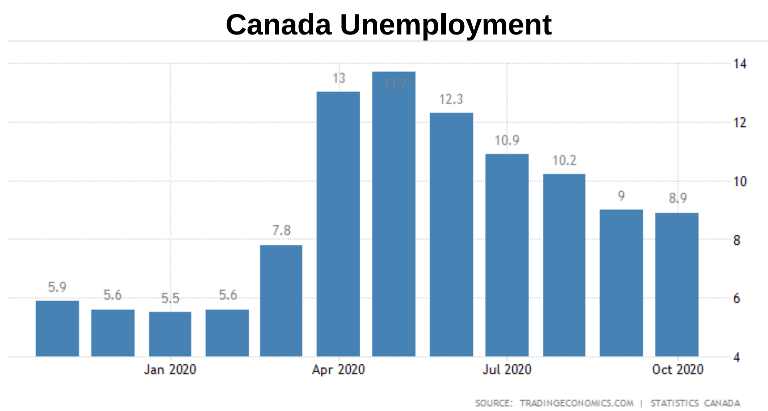


Source: TREB and REBGV



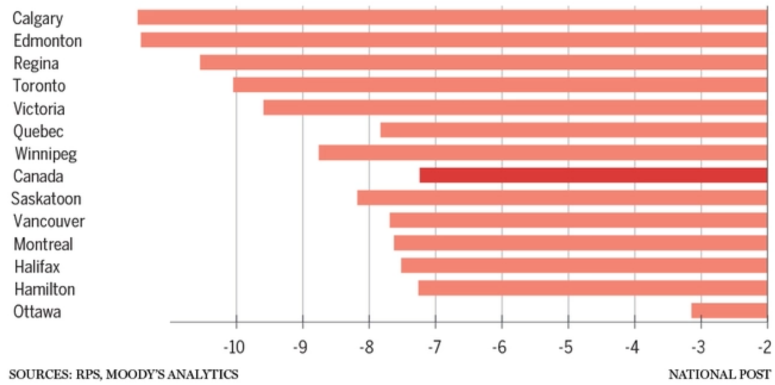
Source: TREB and REBGV

Despite the recent surge in COVID-19 cases in Canada, our outlook on the economy has improved considering the recent announcements surrounding vaccines. We also feel that businesses are now better equipped to handle the second-wave. Unemployment rates are also declining.



That said, we expect a gradual recovery as the rollout of vaccines is expected to take six months. As shown below, Moody's estimates housing prices to decline 7% in 2021. **We believe Three Point's low LTV of 55% implies they have a good cushion, and can handle up to a 45% decline in property valuations (a highly unlikely scenario).** As work-from-home culture is prompting people to move out of downtown areas, we expect stronger demand and price growth in suburban areas. This will benefit Three Point as their primary target is suburban areas in B.C and ON.

Moody's and RPS Housing Price Forecast for 2021



Source: National Post, RPS Real Property & Moody's

Risks

Investors of Three Point are exposed to the following 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, as the value of collateral decreases.
- Shareholders' principal is not guaranteed, as the NAV per share could decrease from current levels (as a result of loan losses). Shareholders 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.
- Although the MIC's primary focus is on first mortgages, it may invest in second mortgages that carry higher risk.
- Annual redemptions may be limited to 10% of the total invested capital.

Rating

We are maintaining our overall rating at 2-, but raising our risk rating from 2 to 3 due to systematic risks related to the pandemic. With interest rates expected to remain low over the next six to 12 months, we believe that Three Point's 6.0% - 6.5% yield from a portfolio dominated by first mortgages on single family properties, with a low portfolio average LTV of 55%, offers an attractive risk adjusted return.

FRC Rating	
Yield (2021)	6.0% - 6.5%
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	30%	Risk - 2	8%
Rating - 3	47%	Risk - 3	40%
Rating - 4	9%	Risk - 4	34%
Rating - 5	4%	Risk - 5	8%
Rating - 6	1%	Suspended	10%
Rating - 7	0%		
Suspended	10%		

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