Antrim Balanced Mortgage Fund Ltd.

Benefiting From Rising Demand for Alternative Lending

Expected Yield (FY2023): 6.1%
Rating*: 2
Risk*: 2

Sector/Industry: Mortgage Investment Corporations

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Highlights

- In FY2022 (year ended June 2022), **mortgage receivables increased 23% YoY to $938M (the highest in Antrim's history) vs our estimate of $800M**. Antrim maintains its spot as the second largest MIC in the country, behind Timbercreek Financial (TSX: TF).
- FY2022 dividend yield was 5.7% vs 5.9% in FY2021 (our estimate was 5.6%). **Focus remains on first mortgages on single-family units.** At the end of FY2022, 19% of mortgages were in Ontario, up from 11% at the end of FY2021. Exposure to B.C. declined YoY from 84% to 72%, implying **enhanced geographical diversification**.
- Although inflation has started to taper, the Bank of Canada (BoC) is expected to continue raising its benchmark rate. Higher lending rates imply higher interest revenue for lenders, but they can potentially slow mortgage originations and increase default rates. However, we believe **alternative lenders, such as Antrim, should experience relatively strong growth,** as they should attract borrowers unable to qualify with traditional lenders. This is evident from our interviews with MIC managers, who have indicated that they have been receiving unusually high loan requests in the past few months.
- We are **expecting lower repayments** as borrowers are likely to renew their loans due to increased difficulty in obtaining loans from traditional lenders. As a result, we believe MICs should be able to expand their loan portfolios in the coming 12 months. Although **Antrim expects to exit FY2023 with $1B+ in mortgages**, we are conservatively modeling $950M.
- Residential real estate prices in Toronto and Vancouver are down 19% and 14%, respectively, from their peaks earlier this year. The CMHC is expecting prices to fall another 5% over the next 12 months, before climbing back. Although **we are expecting near-term weakness in prices amid rising rates**, we have a positive longer-term outlook due to increasing immigration. Canada remains a popular destination for immigrants and international students. The Canadian government is expecting an 8% increase in immigration this year.
- For conservatism, we are **modelling a 200% increase in the provision for loan losses** in the next 12 months. Banks and conventional lenders had raised their provision for credit losses by 100-200% during past recessions.
- Management is targeting a yield of 6.5% in FY2023 vs 5.7% in FY2022. Based on our conservative estimates mentioned above, we are projecting 6.1% in FY2023. **We believe low-duration funds, such as MICs, offer attractive opportunities in a rising interest rate environment.**

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

Dushan Ratkovic, HBCom
Equity Analyst

Offering Summary	
Issuer	Antrim Balanced Mortgage Fund Ltd.
Securities Offered	Preferred Shares
Unit Price	$1
Management Fee	1.0% - 1.5% p.a. depending on the type of Preferred Shares
Distribution to Investors	100% of annual net income, paid quarterly
Auditor	Grant Thornton

Financial Summary – YE: June 30	2022	2023E	2024E
Mortgage Investments (net)	$937,199,422	$950,000,000	$950,000,000
Debt as % of Mortgage Outstanding	15.34%	12.78%	9.07%
Revenue	$56,374,258	$70,839,845	$72,270,340
Net Income	$42,652,362	$49,597,925	$52,377,108
Net Asset Value	$1.0	$1.0	$1.0
Investors' Returns (% of Invested Capital)	5.72%	6.13%	6.20%

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

Antrim maintains its spot as the second largest MIC in the country

Yields are lower as comparable MICs use significantly higher leverage to enhance returns

Although Antrim is expanding its presence in ON, its portfolio remains concentrated in B.C.

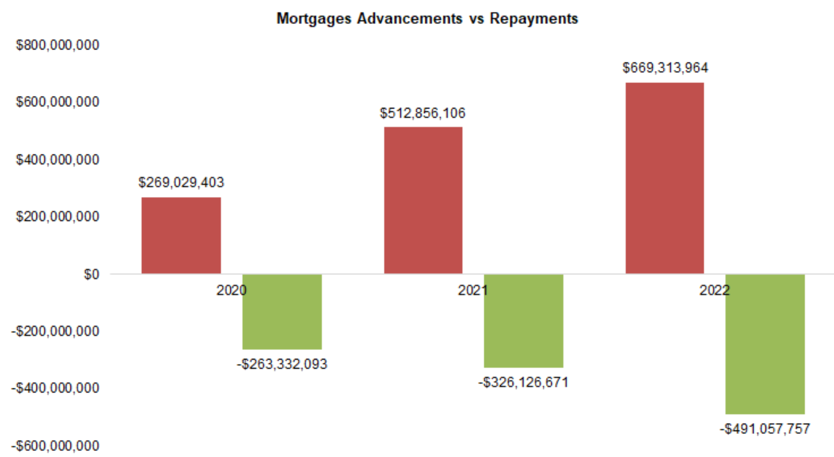
The following table shows how Antrim's portfolio compares to that of other similar MICs (with AUM of over $100M) focused on single-family residential units.

	Antrim	Average
First Mortgage	85%	84%
B.C.	72%	44%
ON	19%	43%
AB	8%	7%
Others	0%	6%
LTV	59%	58%
Yield	5.7%	7.0%
Debt to Capital	15%	35%-45% (MICs with $500M+ in AUM)
Average Loan Size	$462,623	$508,191
Delinquent/Foreclosures	0.8%	2.6%
Provision	0.12%	0.6%

Source: FRC / Various

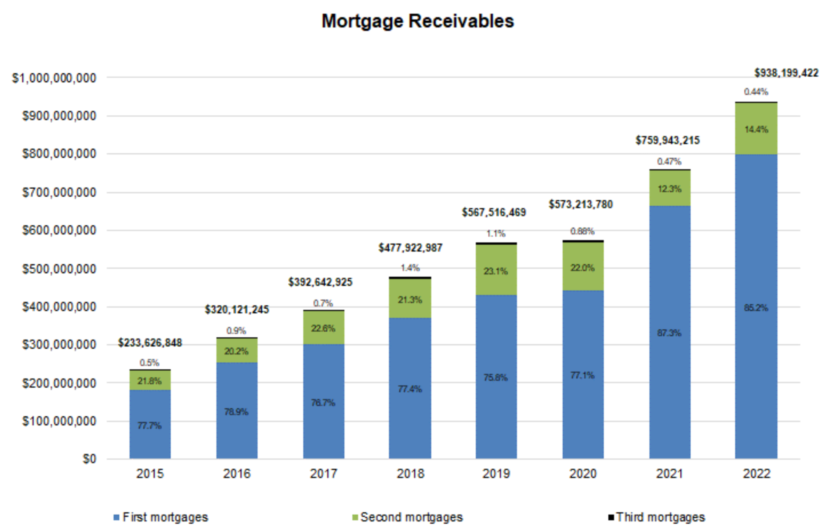
Portfolio Update

In FY2022, mortgages advanced increased 31% YoY



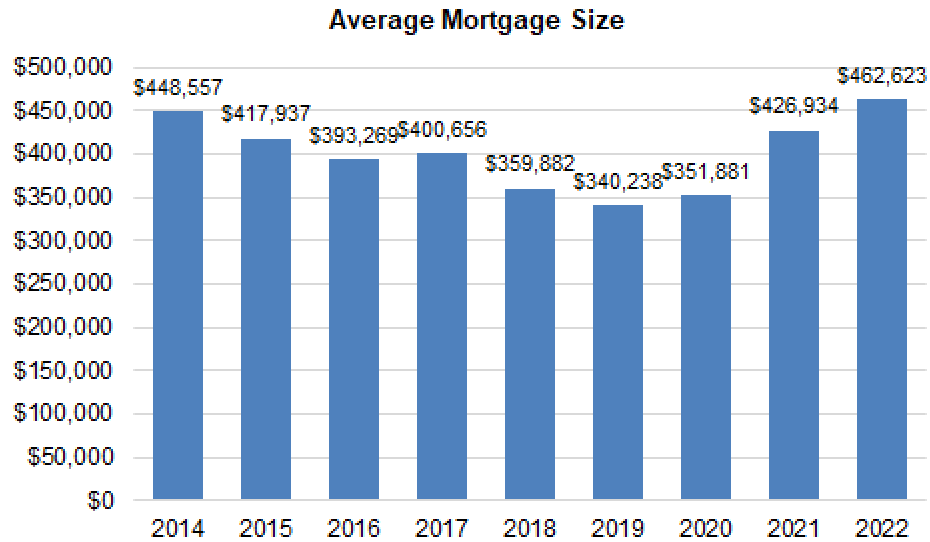
Mortgage receivables were up 23% YoY, to $938M

Exposure to first mortgages declined (87% to 85%), implying higher risk



Source: FRC / Company

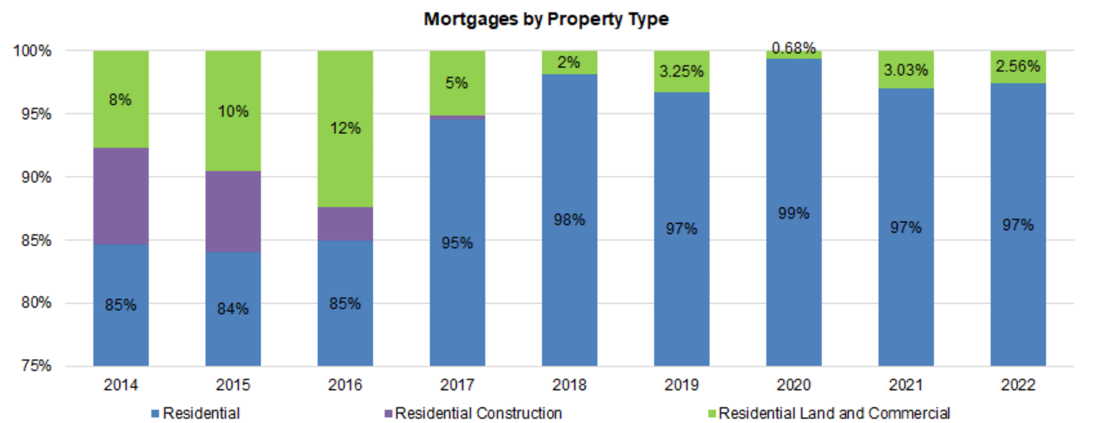
The average mortgage size increased 8% YoY, but remains below the comparables average



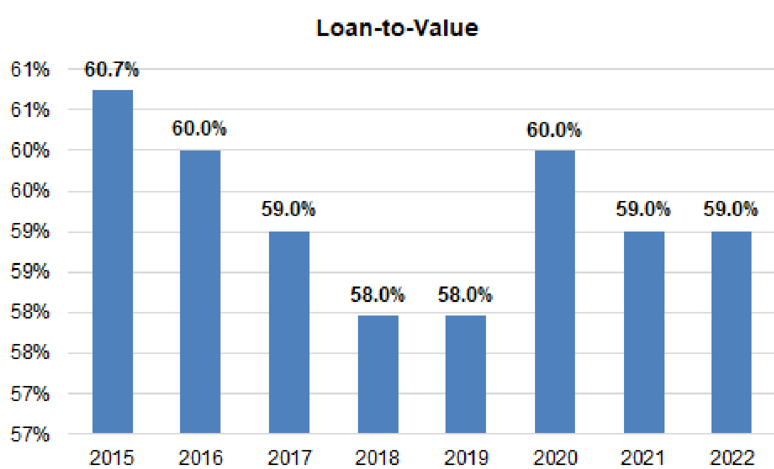
100% of its loans mature within 12 months; low duration funds can adjust to rising rates quickly

Mortgage Terms	2014	2015	2016	2017	2018	2019	2020	2021	2022
Less than 1 year	99%	98%	95%	92%	87%	100%	100%	99%	100%

Remains focused on single-family residential units



LTV remained flat YoY



Source: Company / FRC

Increased exposure to ON, while lowering exposure to B.C., implying enhanced diversification

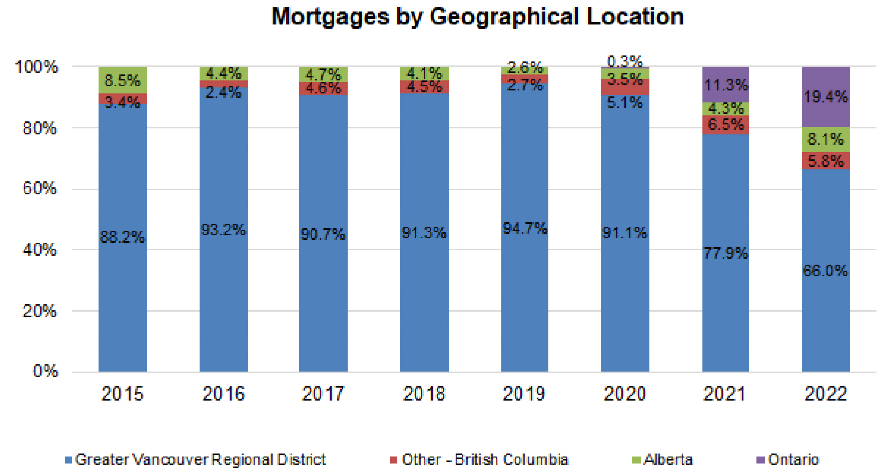
Management's target mix for the end of FY2023 is 65% B.C., 25% ON, 10% AB

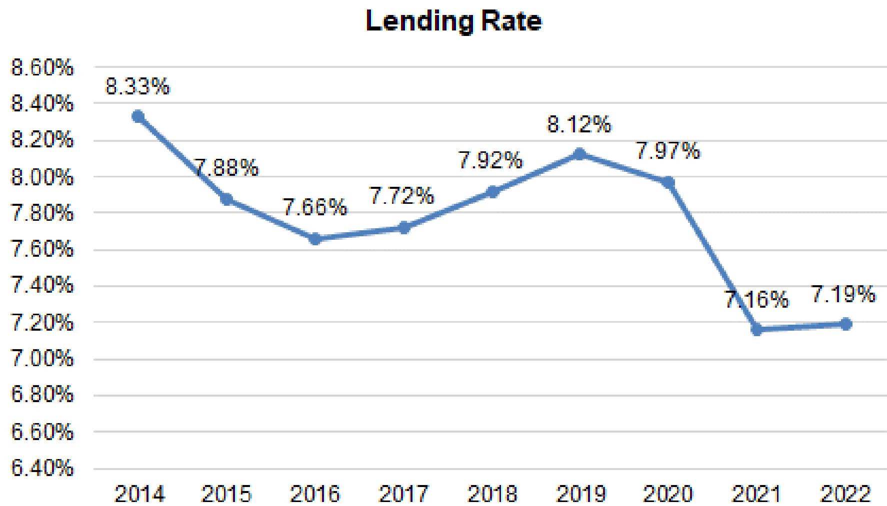
The weighted average lending rate at the end of FY2022 (June 2022), was up slightly YoY; we are projecting a sharp increase in lending rates in FY2023

No realized losses

Foreclosures remained flat at 0.8% of portfolio

For conservatism, we are modeling a 200% increase in provisions in the next 12 months





	2019	2020	2021	2022
No. of Delinquencies	1	0	0	0
Foreclosures	26	25	14	15
Value	$21,526,838	$15,694,567	$6,060,953	$7,806,281
% of Total Mortgages	3.8%	2.7%	0.8%	0.8%
Total reported unrealized and realized losses	$200,000	$200,000	$200,000	$100,000
Total allowance at the end of the year	$500,000	$700,000	$900,000	$1,000,000
Allowance as a % of receivables	0.10%	0.12%	0.14%	0.12%
Realized losses (FRC est.)	$0	$0	$0	$0
Actual Losses (% of mortgage receivable)	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Reinvested	$17,292,623	$19,082,562	$20,937,023	$23,217,743
Reinvested (as a % of Distributions)	51%	51%	57%	54%
Redemptions:	$80,347,804	$112,592,886	$101,872,446	$125,239,122
Redemption (% of invested capital)	15.8%	19.8%	16.3%	16.8%

Source: Company / FRC

Debt to capital increased from 8% to 15%; management does not intend to increase leverage further; we note that comparable MICs tend to use higher leverage (35%-45%) to enhance yields

Balance Sheet	2017	2018	2019	2020	2021	2022
Assets						
Cash & funds held in trust	2,561	1,587	1,988,608	9,992,731	-	-
AR / prepaid expenses	$126,475	$137,388	$871,124	$330,423	$267,151	$4,490,179
Interest receivable	$1,986,649	$2,341,327	$2,973,023	$3,007,521	$3,497,325	-
Mortgages receivable	$392,642,925	$477,922,986	$567,016,469	$572,513,780	$759,043,215	$937,199,422
	$394,758,610	**$480,403,288**	**$572,849,224**	**$585,844,455**	**$762,807,691**	**$941,689,601**
Software		$7,481	$44,555	$107,602	$175,671	$194,111
Total Assets	**$394,758,610**	**$480,410,769**	**$572,893,779**	**$585,952,057**	**$762,983,362**	**$941,883,712**
Liabilities						
Bank indebtedness	$30,359,377	$24,880,974	$9,974,625	$10,000,000	$58,129,011	$143,768,364
Accounts payable & others	$604,846	$747,500	$1,034,828	$985,664	$1,349,519	$456,173
Dividends payable	$4,515,638	$5,512,170	$7,536,775	$7,265,513	$5,609,146	$5,894,055
Total Liabilities	**$35,479,861**	**$31,140,644**	**$18,546,228**	**$18,251,177**	**$65,087,676**	**$150,118,592**
Preferred shares - Class A	$152,076,563	$170,687,771	$182,530,770	$192,186,727	$208,525,471	$214,592,359
Preferred shares - Class B Series B	$60,505,204	$78,033,963	$108,237,001	$110,533,135	$132,841,999	$158,211,550
Preferred shares - Class B Series C	$146,697,752	$200,549,161	$263,880,551	$265,281,788	$356,828,986	$419,261,982
Share capital	$11	$11	$10	$11	$11	$10
Deficit	-$781	-$781	-$300,781	-$300,781	-$300,781	-$300,781
Total Shareholders' Equity	**$359,278,749**	**$449,270,125**	**$554,347,551**	**$567,700,880**	**$697,895,686**	**$791,765,120**
SE + Liabilities	**$394,758,610**	**$480,410,769**	**$572,893,779**	**$585,952,057**	**$762,983,362**	**$941,883,712**
Debt to Capital	7.8%	5.2%	1.8%	1.8%	7.7%	15.4%
Mortgages current + long	**$392,642,925**	**$477,922,986**	**$567,016,469**	**$572,513,780**	**$759,043,215**	**$937,199,422**
Debt as % of Mortgage	7.7%	5.2%	1.8%	1.7%	7.7%	15.3%

Source: Company / FRC

In summary, we believe the portfolio's risk profile has increased slightly (three red vs one green signal)

	Risk Profile
Average Mortgage	↑
Diversification	↑
Debt to Capital	↑
Priority	↓
Property Type	-
LTV	-
Default	-

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

Source: FRC

Antrim's high percentage of first mortgages, and low debt-levels, reflects management's mandate to operate a low-risk portfolio

Revenue and net income increased YoY due to higher mortgage receivables

FY2022 revenue was 4% higher than our forecast, net income was 7% higher

Investors' return as a percentage of invested capital declined 19 bps to 5.72% due to lower lending rates, partially offset by increased leverage

Financials: YE: June 30

Income Statement	2019	2020	2021	2022	YoY
Revenues					
Interest Income	$43,256,237	$46,859,007	$47,282,153	$56,311,461	19%
Fees	$129,111	$198,688	$133,617	$62,797	-53%
Total Financial Income	**$43,385,348**	**$47,057,695**	**$47,415,770**	**$56,374,258**	**19%**
Expenses					
Management fees and trailer fees	$7,308,593	$7,831,330	$8,818,637	$10,778,361	22%
Interest and bank charges	$1,018,998	$622,549	$606,373	$1,944,003	221%
G&A	$855,657	$924,489	$929,544	$899,532	-3%
Mortgage losses (recovery)	$200,000	$200,000	$200,000	100,000	
	$9,383,248	**$9,578,368**	**$10,554,554**	**$13,721,896**	**30%**
Net Income	**$34,002,100**	**$37,479,327**	**$36,861,216**	**$42,652,362**	**16%**

% of Mortgage Receivable	2019	2020	2021	2022
Interest Income	8.28%	8.22%	7.10%	6.64%
Fees	0.02%	0.03%	0.02%	0.01%
	8.30%	**8.26%**	**7.12%**	**6.65%**
Less:				
Management fees and trailer fees	-1.40%	-1.37%	-1.32%	-1.27%
Unrealized losses / Provisions	-0.04%	-0.04%	-0.03%	-0.01%
Interest and bank charges	-0.20%	-0.11%	-0.09%	-0.23%
G&A	-0.16%	-0.16%	-0.14%	-0.11%
Net	**6.51%**	**6.58%**	**5.54%**	**5.03%**
Investors' Returns as a % of Invested Capital	6.69%	6.58%	5.91%	5.72%

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

Investors' Returns	2019	2020	2021	2022
Antrim Class A	6.51%	6.51%	5.79%	5.50%
Antrim Class B Series B	6.01%	6.01%	5.29%	5.00%
Antrim Class B Series C	7.01%	7.01%	6.30%	6.01%

- **Class A** shares are sold directly by the fund to investors.
- **Class B – Series B** shares are sold through financial advisors
- **Class B - Series C** shares are sold through fee-based brokerage accounts

Source: Company / FRC

FRC Rating

Management expects to surpass $1B in AUM this year; their guidance for FY2023 yield is 6.5%; we are projecting 6.1%

Our forecast is conservative as we are assuming a 200% increase in loan loss provisions over the next 12 months

Our estimate for the FY2023 yield varies between 5.9% and 6.3%, using various YoY increases in the provision for loan losses

Financial Summary	2021	2022	2023E	2024E
Mortgage Investments (net)	$759,043,215	$937,199,422	$950,000,000	$950,000,000
Debt as % of Mortgage Outstanding	7.66%	15.34%	12.78%	9.07%
Revenue	$47,415,770	$56,374,258	$70,839,845	$72,270,340
Net Income	$36,861,216	$42,652,362	$49,597,925	$52,377,108
Net Asset Value	$1.0	$1.0	$1.0	$1.0
Investors' Returns (% of Invested Capital)	5.91%	5.72%	6.13%	6.20%

Source: FRC

Provision for Losses (X% Increase)	FY2023 Yield
0%	6.26%
100%	6.20%
200%	6.13%
350%	6.02%
500%	5.92%

We are reiterating our overall rating of 2, and risk rating of 2. Overall, we were pleased to see record loan advancements/revenue/net profit in FY2022. The FY2022 yield was also higher than expected. We are expecting a 7% increase in yield in FY2023. We believe low-duration funds, such as MICs, offer attractive opportunities in a rising interest rate environment.

FRC Rating	
Expected Yield (FY2023/Year-Ending June 2023)	6.1%
Rating	2
Risk	2

Risks

We believe the MIC is exposed to the following key risks (not exhaustive):

- Loans are short term and need to be sourced and replaced quickly
- Concentration risk - 70%+ of its mortgages are in B.C.
- **Lower housing prices will result in higher LTVs**
- Shareholders' principal is not guaranteed
- Timely deployment of capital is critical
- **Default rates can rise during recession**

APPENDIX

Income Statement	2021	2022	2023E	2024E
Revenues				
Interest Income	$47,282,153	$56,311,461	$70,769,978	$72,200,000
Fees	$133,617	$62,797	$69,866	$70,340
Total Financial Income	**$47,415,770**	**$56,374,258**	**$70,839,845**	**$72,270,340**
Expenses				
Management fees and trailer fees	$8,818,637	$10,778,361	$12,266,796	$12,350,000
Interest and bank charges	$606,373	$1,944,003	$6,628,322	$5,188,110
G&A	$929,544	$899,532	$1,226,680	$1,235,000
Mortgage losses (recovery)	$200,000	100,000	$1,120,123	$1,120,123
	$10,554,554	**$13,721,896**	**$21,241,920**	**$19,893,232**
Net Income	**$36,861,216**	**$42,652,362**	**$49,597,925**	**$52,377,108**

Balance Sheet	2021	2022	2023E	2024E
Assets				
Cash & funds held in trust	-	-	0	0
AR / prepaid expenses	$267,151	$4,490,179	$4,939,197	$5,433,117
Interest receivable	$3,497,325	-	-	-
Mortgages receivable	$759,043,215	$937,199,422	$950,000,000	$950,000,000
	$762,807,691	**$941,689,601**	**$954,939,197**	**$955,433,117**
Software	$175,671	$194,111	$175,671	$175,671
Total Assets	**$762,983,362**	**$941,883,712**	**$955,114,868**	**$955,608,788**
Liabilities				
Bank indebtedness	$58,129,011	$143,768,364	$121,364,497	$86,159,892
Accounts payable & others	$1,349,519	$456,173	$501,790	$551,969
Dividends payable	$5,609,146	$5,894,055	$6,483,461	$7,131,807
Total Liabilities	**$65,087,676**	**$150,118,592**	**$128,349,748**	**$93,843,668**
Preferred shares - Class A	$208,525,471	$214,592,359	$224,592,359	$234,592,359
Preferred shares - Class B Series B	$132,841,999	$158,211,550	$163,211,550	$168,211,550
Preferred shares - Class B Series C	$356,828,986	$419,261,982	$439,261,982	$459,261,982
Share capital	$11	$10	$10	$10
Deficit	-$300,781	-$300,781	-$300,781	-$300,781
Total Shareholders' Equity	**$697,895,686**	**$791,765,120**	**$826,765,120**	**$861,765,120**
SE + Liabilities	**$762,983,362**	**$941,883,712**	**$955,114,868**	**$955,608,788**
Debt to Capital	7.7%	15.4%	12.8%	9.1%

Cash Flow Statement	2022	2023E	2024E
Operating Activities			
Net Income	$42,652,362	$49,597,925	$52,377,108
Item non affecting cash: Amortization	-$54,650,597	-	-
	-$11,998,235	$49,597,925	$52,377,108
Changes in non-cash working capital:			
Accounts receivable	$12,435	-$449,018	-$493,920
Interest receivable	$54,173,170	$0	$0
Prepaid Expenses	-$160,711	-	-
Accounts payable	-$893,346	$635,023	$698,525
Dividends Paid	-$19,144,797	-	-
	$33,986,751	$186,005	$204,605
Cash flow from Operating Activities	**$21,988,516**	**$49,783,930**	**$52,581,713**
Investing Activities			
Purchase of software	-$18,440	$18,440	$0
Mortgages	-$669,313,964	-$12,800,578	$0
Mortgages repaid	$491,057,757	-	-
Proceeds on sale of properties	-	-	-
Cash flow from Investing Activities	**-$178,274,647**	**-$12,782,138**	**$0**
Financing Activities			
Common shares issued	-$1	-	-
Class A preferred shares issued, net	-$2,335,827	$10,000,000	$10,000,000
Series B preferred shares issued, net	$20,316,620	$5,000,000	$5,000,000
Series C preferred shares issued, net	$52,670,899	$20,000,000	$20,000,000
Dividends paid in cash		-$49,597,925	-$52,377,108
Bank Debt		-$22,403,867	-$35,204,605
Cash from Financing Activities	**$70,651,691**	**-$37,001,792**	**-$52,581,713**

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	9%
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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