# 2020 Vision – Looking Forward and Setting Expectations

As we look to close out 2019, we are pleased to report that we fully expect to achieve our target dividend of 7% for 2019. Our portfolio has never been stronger or as well-positioned. Our weighted average loan-to-value of the portfolio remains low at 53%, our concentration in secure 1st position mortgages remains high at 94% and 98% of the portfolio is secured against modestly priced, marketable residential homes from BC to Ontario. We have minimal levels of missed or late payments within the portfolio and we have only one non-guaranteed mortgage in arrears. We continue to manage this portfolio with great discipline and care.

As we look to forecast 2020, we are sharply aware that the markets we operate in are becoming more competitive. Overall mortgage activity in Canada has slowed while the supply of capital for investment in mortgages has increased. As a result, we are seeing increased competition for the higher quality mortgage business that ThreePoint targets. We have also experienced a remarkable uptick in the quality of borrower we finance. One of the side-effects of this higher quality borrower is that they tend to only require our funds for a short period of time; this has dramatically increased the volume of payouts for all lenders in our space.

When there is increased competition to place mortgage funds, there is downward pressure on interest rates. To continue to earn mortgage business, we expect that we will likely be required to sharpen our rates to remain competitive. Currently, this downward pressure on interest rates is mainly attributable to excess capital supply in the marketplace, but, when we add to this the possibility of one, perhaps two Bank of Canada interest rate cuts, we have a potential compounding, negative effect on interest rates in 2020.

We don't fear this competitive market, but we certainly must account for it. We deliver significant value to the mortgage industry and provided we remain competitive with our interest rates, we will continue to lead and not follow, but this competitive environment does stand to modestly impact our projected target dividend for 2020. There are situations in mortgage lending when default within the portfolio, or poor performance, results in a declining dividend. This is not that situation. As mentioned, our portfolio has never been stronger or as well-positioned. As markets become more competitive and supply outpaces demand, the price at which we can "sell" our product goes down, not the quality. The price of our product directly impacts the dividend provided by the company.

We also face this shifting market at a very unique time in our industry as we transition to the Exempt Market Dealer (EMD) requirement, which is expected to go live as of Feb 1st, 2020. Because of this, we have made a business decision to grow our capital base now, prior to this transition, to permit those that might be prevented from investing under the new rules, an opportunity to do so. This intended capital increase prior to February 1st, 2020 will continue to have the company in a cash position for a period of time.

To be clear, we have options in our strategy for how we respond to this shifting market. The most impactful way is for us to make better use of leverage with our TD Bank line of credit throughout the year. We can counter the effects of this highly competitive market and downward pressure on rates by utilizing leverage in a more robust way. Leverage provides a boost to the dividend and will be a priority of the company after the January intake of new share capital. In order to do this, our new mortgage fundings must outpace mortgage repayments in a significant way. Generally, there are two ways to accomplish this. One way is to attract more mortgage business from a broader base of brokers through investment in business development efforts while slightly adjusting our interest rates down to remain competitive. Another approach is to broaden our mortgage appetite within our disciplined underwriting guidelines to permit a slightly larger mortgage size, a slightly higher loan-to-value or a higher concentration of 2nd position mortgages to increase volume. As these mortgages are considered higher risk they also command a slightly higher interest rate.

With the addition of Loren Hawkins as our new National Manager, Broker Relations, the management company has prioritized investment in business development as our primary initiative in response to this shifting market. This effort to attract significantly more high-quality mortgage business will also involve a slight reduction in interest rates to remain competitive and combined, should result in more effective use of our TD Bank line of credit and positive impact on dividend.

We can further compliment this strategy by also incorporating a very modest amount of broadening in mortgage appetite without sacrificing our disciplined underwriting. To provide context to this approach, our current average portfolio loan-to-value (LTV) is 53% and our average mortgage size is $260,000. Permitting mortgage approvals at a slightly higher loan-to-value and larger mortgage size, potentially increasing our average portfolio loan-to-value from 53% to 58% LTV over the year and the average mortgage size from $260,000 to $325,000 over the year, can counter the overall decrease in interest rates without materially impacting the overall security of the portfolio. At this time, we don't feel it is required or prudent to chase higher yielding 2nd position mortgages simply to enhance the dividend. We currently target 8% - 10% of the portfolio in 2nd position mortgages and intend to maintain that position in 2020.

With prudent management, given the shift in market already at play, the increased competition in the industry, the possibility of Bank of Canada interest rate cuts, our limited use of leverage until our mortgage production increases and, most importantly, our commitment to remain dedicated to our disciplined underwriting, we should expect downward pressure on interest rates and therefore dividend. With that said, we will maintain our monthly annualized dividend for 2020 at 6% annually, paid monthly, but we will adjust our target top-up dividend forecast for the end of next year down from a 1% top-up forecast to a 0.5% top-up forecast for year-end 2020. This represents an overall target dividend for 2020 of 6.5%.

We hope this proactive approach to portfolio management and transparent approach to performance expectations is encouraging to you as shareholders. Our ultimate priority is the security of your capital while ensuring we generate the highest possible return without sacrificing the disciplined lending that you have come to expect from ThreePoint Capital.

We look forward to reporting ThreePoint's 2019 year-end results in January and would like to take this opportunity to wish each of you an early Merry Christmas and Happy Holiday Season.

Respectfully,

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