Fundamental Research Corp.
Investment Analysis for Intelligent Investors

September 12, 2024

AWM Diversified Mortgage Investment Corporation

FY2024 Breaks Records; Lower Rates Enhance Appeal

Expected Yield (FY2024): 9.1%
Rating*: 2
Risk*: 2

Sector: Mortgage Investment Corporations

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Highlights

- AWM Diversified MIC is **one of the larger** Mortgage Investment Corporations (MICs) in Canada. The MIC is **focused on first/second mortgages** on single family residential units.
- In FY2024 (12 months ended March 2024), mortgage receivables were up 9% to $243M (**the highest in AWM's history)** vs our forecast of $250M.
- The **yield increased** from 8.1% in FY2023, to 8.7% in FY2024 vs our forecast of 8.3%.
- In FY2024, the MIC achieved record revenue and net income. Net income was up 20% YoY, **beating our estimate by 2%**, due to higher lending rates.
- As of June 2024, 58% of mortgages were in ON, 26% in AB, and 16% in B.C. First mortgages accounted for 64% of the portfolio.
- In FY2024, **stage three (impaired) mortgages increased** 0.6 pp YoY to 8.2% of mortgages. Loan loss allowances were raised by 0.3 pp to 0.7% of mortgages. We believe the fund is **comfortably positioned** with a low LTV of 68%.
- Lending rates have started declining following the Bank of Canada's recent rate cuts. With cooling inflation and a softer jobs market, we expect further rate cuts, and **a boost in AWM's transaction volumes in the coming 12 months.**
- Anticipating lower rates, we find high-yielding funds, such as AWM, increasingly appealing. We are **projecting a yield of 9.1% in FY2025** (FY2024: 8.7%) vs management's guidance of 9.0-9.5%.

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

Offering Summary	
Issuer	AWM Diversfied MIC
Securities Offered (FundSERV Code: BEL 1801)	Class B Non-Voting Shares
Unit Price	$100
Minimum Subscription	$10k
Distribution to Investors	Monthly, plus potential for year-end top up
Redemption Fees	n/a
Management Fee	2% p.a. of share capital + up to 100% of lending/placement fees from borrowers
Sales Commissions	up to 5%, none paid since fund inception
Auditor	Czechowsky, Graham & Hanevelt CPAs

Key Financials	2021	2022	2023	2024	2025E	2026E
Mortgage Receivables	$145,927,974	$185,840,848	$223,206,672	$243,452,776	$260,000,000	$275,000,000
Debt to Capital	31%	39%	41%	42%	41%	40%
Revenue	$11,066,099	$12,723,579	$18,432,420	$24,349,104	$25,424,365	$25,145,000
Net Profit (before paying investors)	$5,233,631	$8,661,145	$9,799,201	$11,721,659	$13,477,782	$13,829,003
Dividend Yield	5.6%	7.5%	8.1%	8.7%	9.1%	8.6%

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

AWM has lower exposure to first mortgages, significantly smaller loan sizes, and higher debt/capital, LTV, and defaults

AWM's yield, which have historically been higher than the sector average, were in line with the sector average in FY2024, due to higher loan loss provisions

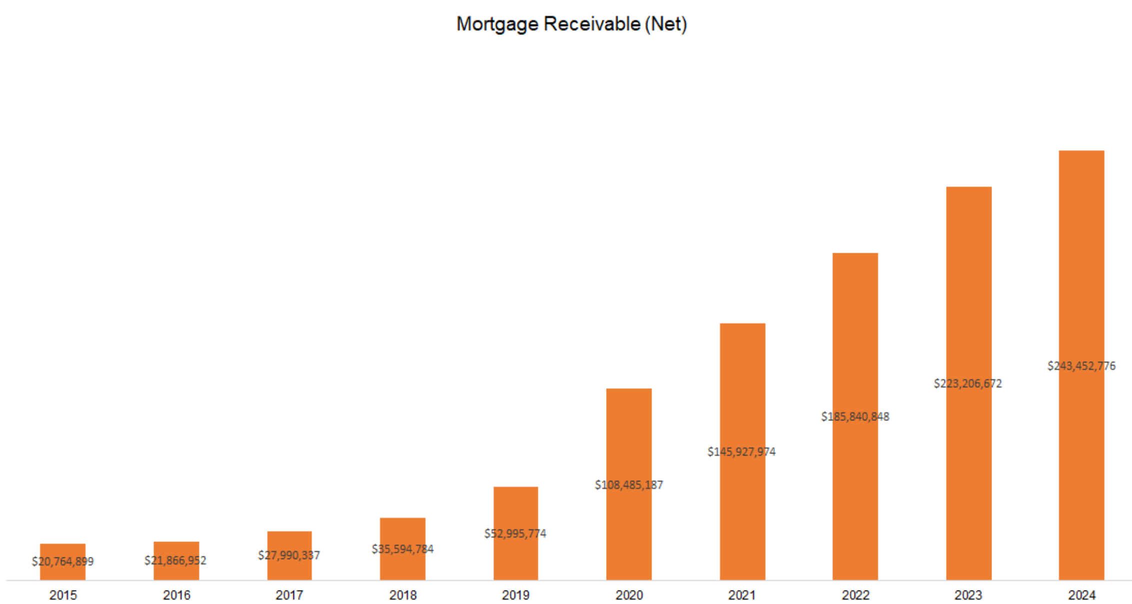
The following table shows how AWM's portfolio compares to that of other MICs (with AUM of $100M+) focused on single-family residential units.

June 2023	AWM	Average
First Mortgage	64%	74%
B.C.	16%	40%
ON	58%	49%
AB	26%	7%
Others	0%	4%
LTV	68%	58%
Yield	8.7%	8.7%
Debt to Capital	42%	23%
Average Loan Size	$232,409	$498,158
Impaired Mortgages % of Total	8.2%	4.8%
Allowances % of Mortgages	0.7%	0.7%

Source: FRC / Various

Portfolio Details (YE – March 31st)

In FY2024, mortgage receivables were up 9% YoY to $243M vs our estimate of $250M



Source: Company / FRC

In FY2024, mortgage advancements were down 21% YoY; payouts were up 19% YoY

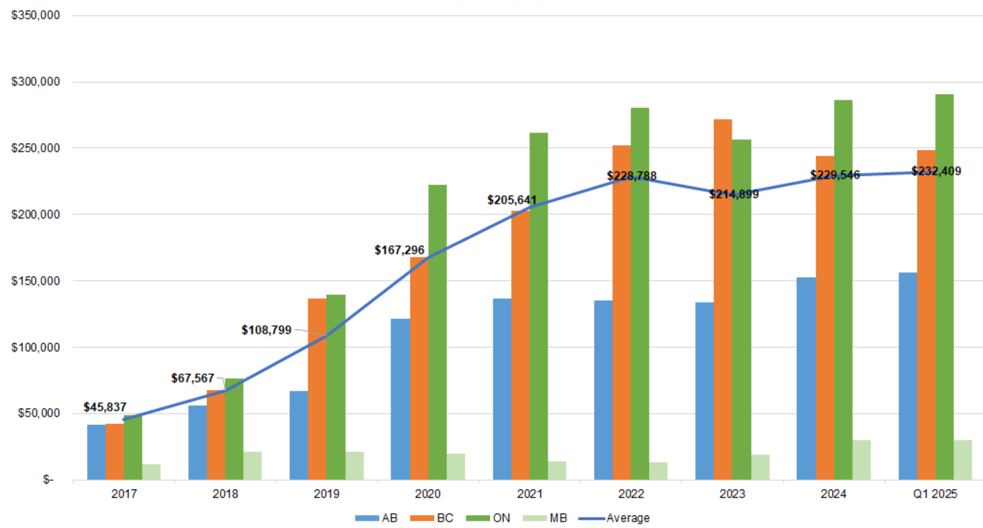
In Q1-FY2025, mortgage advancements were up 9% YoY; payouts were down 9% YoY

Mortgage Originations / Payouts ($M)

*Note that the MIC's manager originates, and sell mortgages, to third-parties as well.

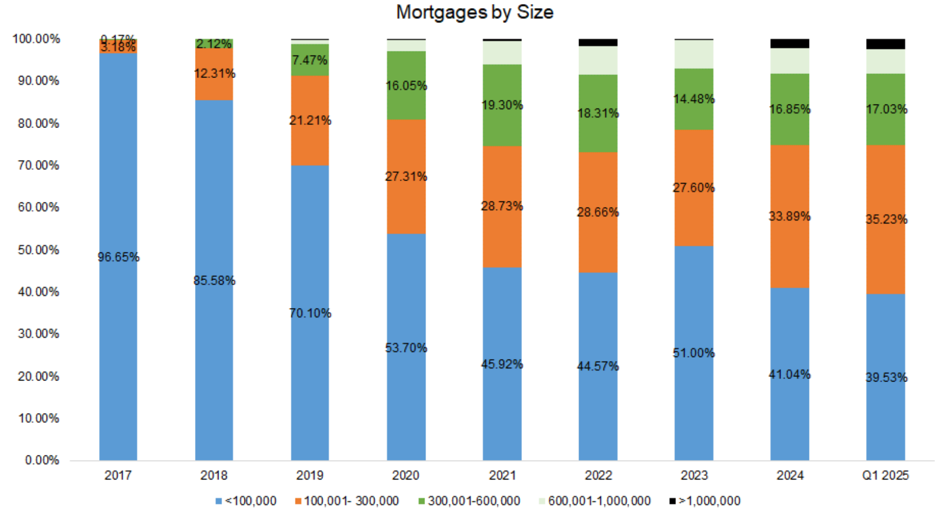
In FY2024, the average mortgage size was up 7% YoY to $230k

Average Mortgage Size



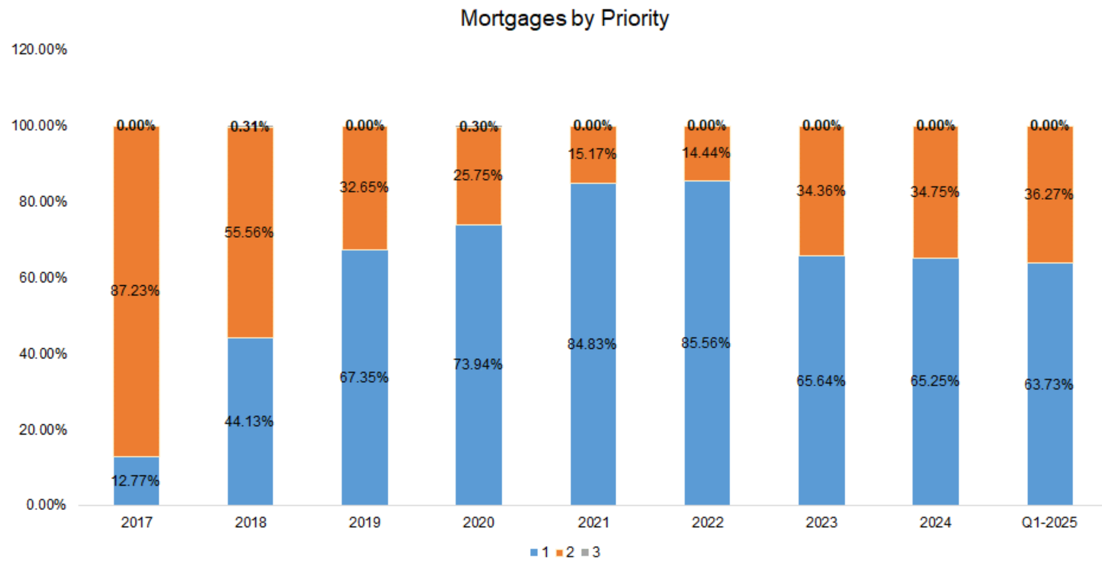
75% of mortgages are <$300k

Mortgages by Size



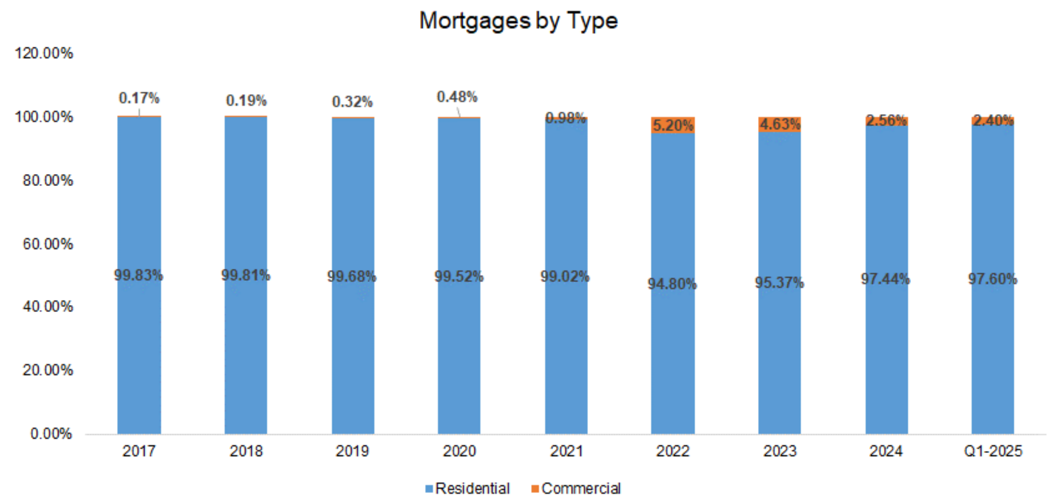
Source: Company / FRC

Exposure to first mortgages were down 1 pp to 65%



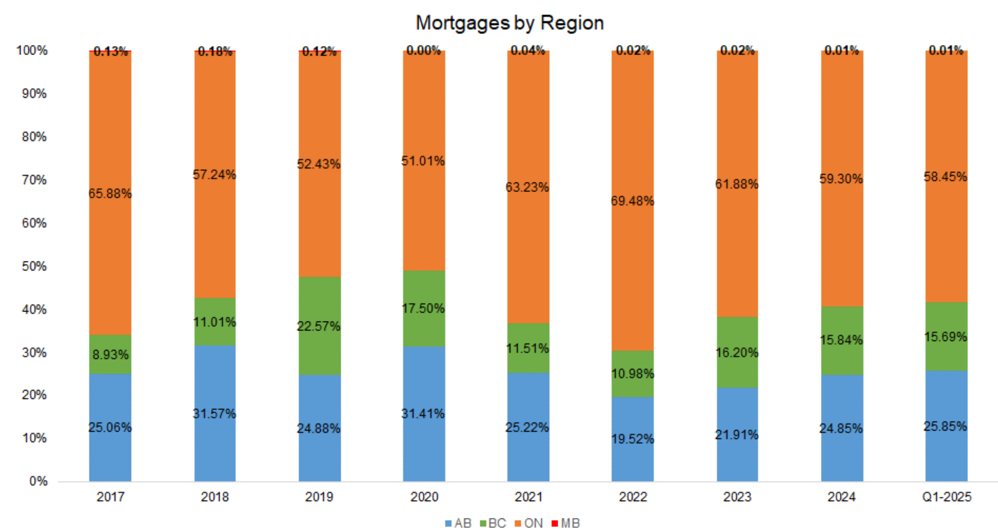
Increased exposure to residential properties

Focus remains on already-built residential properties



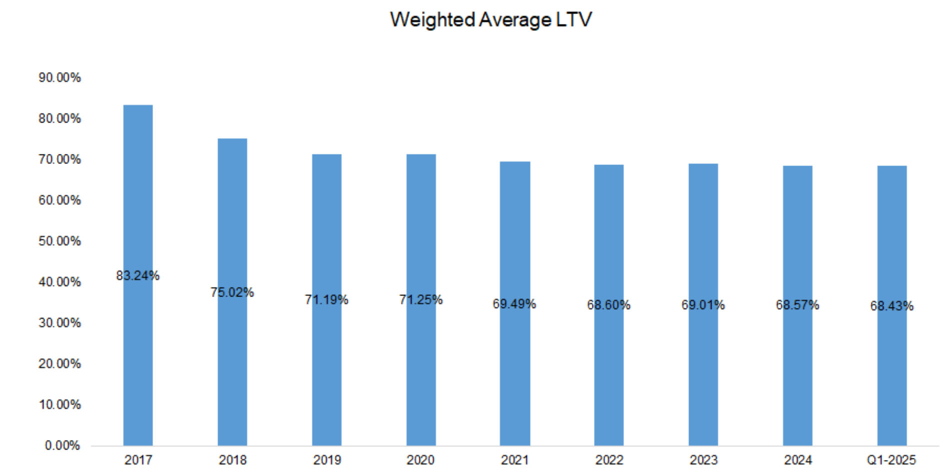
Enhanced geographical diversification by lowering exposure to ON

Focus remains on urban areas



Source: Company / FRC

LTV was down slightly



Impaired mortgages increased by 0.6 pp YoY to 8.2% of total mortgages

Loan loss allowances were raised by 0.25 pp to 0.69%

	2018	2019	2020	2021	2022	2023	2024
Loan loss allowances (end of period)	$683,166	$1,105,526	$758,983	$1,797,375	$1,196,105	$1,000,272	$1,670,652
% of Total Mortages	1.92%	2.09%	0.70%	1.23%	0.64%	0.45%	0.69%
Actual/Realized Losses	$48,434	$0	$423,390	$653,370	$75,258	$11,523	$697,497
% of Total Mortages	0.2%	0.0%	0.5%	0.51%	0.05%	0.01%	0.30%
Impaired Mortgages	$1,080,667	$1,189,799	$5,670,851	$6,732,514	$7,734,025	$16,899,428	$19,879,046
% of Total Mortages	3.0%	2.2%	5.2%	4.6%	4.2%	7.6%	8.2%

Source: Company / FRC

In summary, we believe the portfolio's risk profile has increased, despite an equal number of red and green signals, primarily due to higher impaired mortgages

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

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

Source: FRC

Financials

Investors hold Class B shares, **allowing them to request redemptions monthly** without incurring fees, or facing a lock-up period. It is noteworthy that many MICs typically impose lock-up periods, and early redemption fees. That said, redemptions are not guaranteed.

In FY2024, revenue was up 32% YoY, beating our estimate by 4%

Net income (before paying investors) was up 20% YoY, beating our estimate by 2%

Income Statement (YE - Mar 31)	2021	2022	2023	2024
Interest	$10,634,816	$11,897,883	$17,602,235	$22,742,841
Lender Fees	$431,283	$825,696	$830,185	$1,606,263
Revenue	**$11,066,099**	**$12,723,579**	**$18,432,420**	**$24,349,104**
G&A and Others	$221,293	$305,625	$576,830	$867,055
Manager's fees	$2,112,076	$2,287,158	$2,465,432	$2,849,176
Interest	$1,217,297	$1,628,976	$5,775,267	$7,543,336
Interest (Investors)	$4,530,441	$8,639,501	$9,776,858	$11,660,381
Loan loss provision	$2,281,802	-$159,325	-$184,310	$1,367,878
Expenses	**$10,362,909**	**$12,701,935**	**$18,410,077**	**$24,287,826**
Net Income (Loss) - before paying inves	**$5,233,631**	**$8,661,145**	**$9,799,201**	**$11,721,659**
Net Income (after paying investors)	$703,190	$21,644	$22,343	$61,278

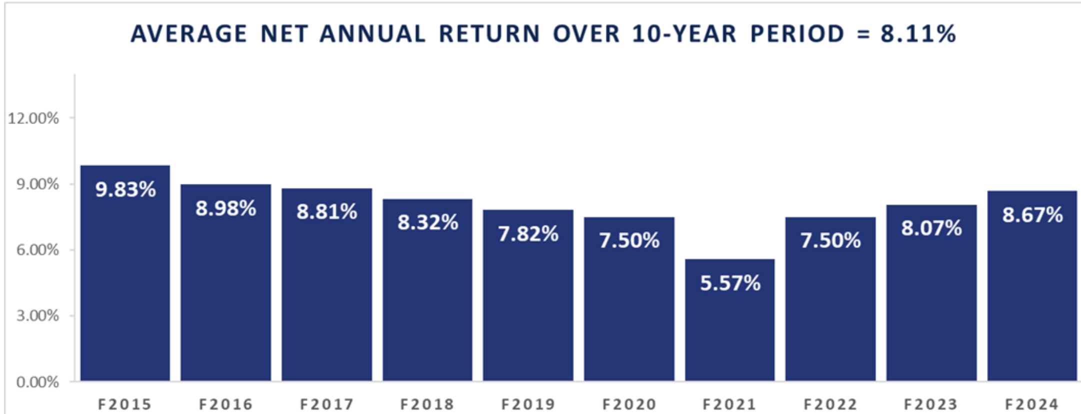
The yield increased by 0.6 pp to 8.7% vs our forecast of 8.3%

% of Mortgage Receivables (net)	2021	2022	2023	2024
Revenues	8.70%	7.67%	9.01%	10.44%
Less:				
G&A and Others	0.17%	0.18%	0.28%	0.37%
Manager's fees	1.66%	1.38%	1.21%	1.22%
Interest	0.96%	0.98%	2.82%	3.23%
Loan loss provision	1.79%	-0.10%	-0.09%	0.59%
Net Income (before paying investors)	**4.11%**	**5.22%**	**4.79%**	**5.02%**
Investors' Returns (% of Invested Capital)	4.6%	8.1%	8.0%	8.6%
Dividends	**5.6%**	**7.5%**	**8.1%**	**8.7%**

Note that the above figures may be slightly different from the figures reported by the MIC 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: FRC

Dividends are paid monthly



Source: Company

$243M in mortgages at the end of FY2024, up 9% YoY

Increased debt to capital by 1 pp to 42%, which we note is on the higher-end among comparables

Management anticipates maintaining debt to capital between 35% and 45%

Balance Sheet (YE - Mar 31)	2020	2021	2022	2023	2024
Cash and Equivalents	$1,497,822	$3,557,128	$11,884,344	$13,321,354	$3,241,559
Interest and other receivables	$819,074	$992,575	$1,096,375	$1,620,149	$2,013,407
Prepaid	-	$33,390	$133,841	$158,521	$93,230
Mortgage Receivables (net)	$108,485,187	$145,927,974	$185,840,848	$223,206,672	$243,452,776
Total Assets	**$110,802,083**	**$150,511,067**	**$198,955,408**	**$238,306,696**	**$248,800,972**
Accounts Payable and Accrued liabilities	$55,702	$202,752	$1,208,664	$1,314,026	$1,681,723
Debt	$15,184,805	$49,514,217	$83,739,426	$104,595,783	$104,359,173
Related Parties	$125,353	$174,988	$197,998	$434,169	$248,151
Total Liabilities	**$15,365,860**	**$49,891,957**	**$85,146,088**	**$106,343,978**	**$106,289,047**
Share Capital	$95,329,909	$99,809,606	$112,978,172	$131,109,227	$141,597,156
Retained Earnings (Defecit)	$106,314	$809,504	$831,148	$853,491	$914,769
Total SE	$95,436,223	$100,619,110	$113,809,320	$131,962,718	$142,511,925
Total Liabilities and SE	**$110,802,083**	**$150,511,067**	**$198,955,408**	**$238,306,696**	**$248,800,972**
Debt to Capital	13%	31%	39%	41%	42%

*MICs generally do not hold significant cash, and instead use excess cash to pay down debt. In our discussions with management, the high cash position at year-end was merely due to timing differences, as the MIC had to hold cash to fund mortgages.

Source: Company / FRC

As lending rates have been higher than expected YTD, we are raising our FY2025 yield forecast from 8.5% to 9.1%

With rates expected to trend downward, we foresee yields peaking in FY2025 and then declining in FY2026

FRC Rating

	FY2025E (Old)	FY2025E (New)	FY2026E (Introducing)
Mortgage Receivables (net)	$275,000,000	$260,000,000	$275,000,000
Revenue	$23,940,000	$25,424,365	$25,145,000
Net Income	$12,770,031	$13,477,782	$13,829,003
Debt/Capital	43%	41%	40%
Dividend Yield	8.52%	9.09%	8.62%

Source: FRC

Our estimate for the FY2025 yield varies between 7.9% and 9.7% using various YoY increases in loan loss allowances

Loan Loss Allowances (X% Increase in FY2024/FY2025)	FY2025 Yield
0%	9.69%
50%	9.39%
100%	9.09%
200%	8.48%
300%	7.88%

Source: FRC

We are reiterating our overall rating of 2, and risk rating of 2. With the Bank of Canada implementing three rate cuts since June 2024, and more expected amid easing inflation, we anticipate a decline in defaults in the coming quarters. In light of these anticipated lower rates, we find high-yielding funds, such as AWM, increasingly attractive.

FRC Rating	
Expected Yield (FY2025E)	9.1%
Rating	2
Risk	2

Risks

We believe the MIC is exposed to the following key risks:

- Rapid sourcing and timely replacement are vital for short-term loans
- Concentration risk – over 55% of mortgages are in ON
- Lower housing prices will result in higher LTVs
- **Shareholders' principal is not guaranteed**
- The MIC utilizes leverage, amplifying exposure to adverse events
- Second mortgages carry higher risk
- **Default rates can rise during recessions**

APPENDIX

Income Statement (YE - Mar 31)	2021	2022	2023	2024	2025E	2026E
Interest	$10,634,816	$11,897,883	$17,602,235	$22,742,841	$23,898,903	$23,636,300
Lender Fees	$431,283	$825,696	$830,185	$1,606,263	$1,525,462	$1,508,700
Revenue	**$11,066,099**	**$12,723,579**	**$18,432,420**	**$24,349,104**	**$25,424,365**	**$25,145,000**
G&A and Others	$221,293	$305,625	$576,830	$867,055	$881,042	$936,250
Manager's fees	$2,112,076	$2,287,158	$2,465,432	$2,849,176	$3,073,817	$3,266,427
Interest	$1,217,297	$1,628,976	$5,775,267	$7,543,336	$7,099,622	$6,169,750
Interest (Investors)	$4,530,441	$8,639,501	$9,776,858	$11,660,381	$13,410,393	$13,759,858
Loan loss provision	$2,281,802	-$159,325	-$184,310	$1,367,878	$892,102	$943,570
Expenses	**$10,362,909**	**$12,701,935**	**$18,410,077**	**$24,287,826**	**$25,356,976**	**$25,075,855**
Net Income (Loss) - before paying investors	**$5,233,631**	**$8,661,145**	**$9,799,201**	**$11,721,659**	**$13,477,782**	**$13,829,003**
Net Income (after paying investors)	$703,190	$21,644	$22,343	$61,278	$67,389	$69,145

Balance Sheet (YE - Mar 31)	2021	2022	2023	2024	2025E	2026E
Cash and Equivalents	$3,557,128	$11,884,344	$13,321,354	$3,241,559	$381,305	$28,142
Interest and other receivables	$992,575	$1,096,375	$1,620,149	$2,013,407	$2,114,077	$2,219,781
Prepaid	$33,390	$133,841	$158,521	$93,230	$97,892	$102,786
Mortgage Receivables (net)	$145,927,974	$185,840,848	$223,206,672	$243,452,776	$260,000,000	$275,000,000
Total Assets	**$150,511,067**	**$198,955,408**	**$238,306,696**	**$248,800,972**	**$262,593,274**	**$277,350,710**
Accounts Payable and Accrued liabilities	$202,752	$1,208,664	$1,314,026	$1,681,723	$1,765,809	$1,854,100
Debt	$49,514,217	$83,739,426	$104,595,783	$104,359,173	$106,000,000	$108,600,000
Related Parties	$174,988	$197,998	$434,169	$248,151	$248,151	$248,151
Total Liabilities	**$49,891,957**	**$85,146,088**	**$106,343,978**	**$106,289,047**	**$108,013,960**	**$110,702,251**
Share Capital	$99,809,606	$112,978,172	$131,109,227	$141,597,156	$153,597,156	$165,597,156
Retained Earnings (Defecit)	$809,504	$831,148	$853,491	$914,769	$982,158	$1,051,303
Total SE	$100,619,110	$113,809,320	$131,962,718	$142,511,925	$154,579,314	$166,648,459
Total Liabilities and SE	**$150,511,067**	**$198,955,408**	**$238,306,696**	**$248,800,972**	**$262,593,274**	**$277,350,710**
Debt to Capital	31%	39%	41%	42%	41%	40%

- **Even though the Manager has rights to 100% of lender fees, they have historically paid a portion of the fees to the fund, which we believe is a good sign for investors. We also understand that there is no guarantee that management will do so going forward.**

Cash Flow (YE - Mar 31)	2025E	2026E
Net Income (Loss)	$67,389	$69,145
Non-Cash Items		
Change in WC	-$21,246	-$22,308
Cash from Operating Activities	**$46,143**	**$46,837**
Equity	$12,000,000	$12,000,000
Debt	$1,640,827	$2,600,000
Cash from Financing Activities	**$13,640,827**	**$14,600,000**
Increase in mortgage loans (net)	-$16,547,224	-$15,000,000
Cash from Investing Activities	**-$16,547,224**	**-$15,000,000**

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	33%	Risk - 2	10%
Rating - 3	45%	Risk - 3	41%
Rating - 4	8%	Risk - 4	32%
Rating - 5	4%	Risk - 5	8%
Rating - 6	1%	Suspended	10%
Rating - 7	0%		
Suspended	9%		