

# NEWSLETTER

## FALL 2015

**We are excited to present our first quarterly newsletter with a two-part format. The first is a brief update on AAMIC followed by a second part on mortgage industry and other economic news that may be of interest.**

AAMIC has recently completed its inaugural year of operation ending June 30, 2015 with \$1.3 million in mortgage investment and meeting our 8% p.a. target return for our investors.

Behind this very modest number is a solid yet scalable underpinning on governance, operational policies & procedures and risk oversight

I am pleased to report that as of September 2015, AAMIC mortgage portfolio has reached \$4.6 million.

The executive team embraces the philosophy that every part of AAMIC is critical and intertwined in establishing the culture, reputation and a solid foundation for AAMIC to

grow. This approach extends to our selection of mortgages as well as our accredited investors. For us, they are not just 'transactional' parties with AAMIC but our ambassadors.

Last but not least, I and every AAMIC founder would like to express our sincerest gratitude to all investors, business partners and mortgage clients for their patience, trust and continue participation in helping AAMIC forge ahead in solid footings.

## Investment Nuts & Bolts - MIC verses Private Lenders & Stock Market/Mutual Funds

In 1973, Government of Canada created the Mortgage Investment Corporation (the "MIC") under amendments to the Loan Companies Act and Income Tax Act as an alternative investment vehicle for small (non-institutional) investors into the Canadian mortgage investment market. Similar to a diversified portfolio of stock holdings in a mutual fund, a MIC offers investors a diversified portfolio of Canadian mortgages under a provincially regulated regime. However, unlike a mutual fund which can attract capital gains/losses aside from earning dividends income, an MIC investment (in the form of partnership participation units or ownership in preference shares) does not attract capital gains/losses as all mortgage interests income net of management

fees (MER) and necessary expenses and provisions are 100% distributed to investors. Investment in a MIC can nonetheless potentially incur losses in the principal invested from substantial mortgage write-downs on non-performing loans. Unlike a private mortgage lending arrangement, which is in essence a promissory note between investors and mortgagors on each specific mortgage, a MIC investor is investing into a pool of Canadian mortgages and thereby spreading the risk of mortgage default losses.

Furthermore, investment in MICs is typically a 'stand-alone' investment vehicle in a homogenous pool of mortgage-assets and does not have the operational and trading complexity of a mutual fund which charges additional expenses like front-load fees, back-load fees, transaction fees, fund

exchange fees, and more on top of a complicated MER formula. Conversely, mutual funds are readily traded in the open market whereas the sale of units/shares of a typical MIC investment is limited to redemption back to the MIC itself.

Unlike private mortgage lending arrangements, which is no more than a promissory note arrangement between an investor(s) and mortgagor(s) on any one mortgage, a MIC is a provincially regulated investment vehicle that is subject to regulatory compliance regime and require to issue annual audited financial statements. A MIC is also expected to have management expertise in the underwriting, administration and operation of a mortgage business with appropriate policies and procedures in accounting, finance and risk management.