

## Market Review and Outlook

**U.S. Economy:** The US economy is projected to grow 3.8% in the second half of the year. The Conference Board's Consumer Confidence Index remains at its highest level since 2000. Strong sentiment, continued support from tax cuts, strong job growth and modestly accelerating wage growth are supporting the growth of the US economy. In the second quarter, corporate profits reached record highs on a before and after tax basis and are projected to remain elevated due to strong consumer demand. With the Federal Reserve expected to raise interest rates three to four more times by the end of next year, growth is projected to encounter more headwinds in 2019. GDP growth is forecasted to drop to 2.2% by the end of 2019 due to the withdrawal of stimulus support and the effect of higher capital costs. The new US-Mexico-Canada Agreement reduced trade policy uncertainty in North America and cleared the way for deferred investments to proceed. Even though the agreement largely keeps provisions governing commerce between the three countries the same, one notable exception is the auto industry. The industry is expected to struggle with continued steel tariffs, stepped up requirements on wages and the use of components from outside the three countries. (The Conference Board Economic Forecast for the U.S. Economy, October 10, 2018)

**Texas Real Estate Market:** Dallas Fort Worth (DFW) home builders initiated construction on 8,973 units in Q3 2018, increasing the annual rate by 10.14% (Q4 2017-Q3 2018) to 35,733 new homes and setting another housing cycle record. Even though there was a modest uptick in start activity, builders reported a choppy quarter from a sales perspective. In Q3 2018, builders have noted that new home sales pace has moderated as increasing mortgage rates, inflated house prices driven by increases in construction costs and land prices amplified the challenges many households face with housing affordability. This year's decline has been more pronounced even after adjusting for the normal seasonal slow-down in house sales in late summer. New home closings increased to 8,676 units in Q3 2018, an increase of 7.8% over Q3 2017. The annual closing rate stands at 33,668 units. Existing home sales have remained flat over the past year. The strength of the housing market remains firmly in the \$251,000 to \$350,000 price range, representing 89.7% of the growth in home starts in the market. According to the Texas Workforce Commission, 114,900 net new jobs have been created in the 12-month period ending in August 2018. DFW continues to lead the state with respect to job growth and ranks second in the nation behind New York City area (+136,000). The unemployment rate was reported at 3.6% in August 2018. The unemployment rate has now been under 4%, which is considered full employment, for 18 months. (RSI DFW Initial 3Q18 Market Review)

## Fund Commentary

Trez Capital Yield Trust US ("TCYTUS") was created for the purpose of preserving capital, while delivering an attractive rate of income in U.S. dollars by investing in a portfolio of mortgages, and mortgage participations secured primarily by residential lot development projects in the State of Texas. Up to 20% of net assets may be allocated to equity positions, and up to 10% to mezzanine loans.

### Quarter 3 Key Points:

- TCYTUS paid a Q3 distribution of 2.0% and 1.75% for F Series and A Series units, respectively.
- During the quarter ended September 30, 2018, the mortgage portfolio increased by 15.0% from \$81.3 million to \$93.5 million.
- Eleven new mortgages totaling \$13.3 million were funded and six mortgages were paid out totaling \$7.9 million during the quarter. There were net advances on existing mortgages of \$4.2 million and \$2.9 million was transferred out to related entities. In addition, there were two mortgages of \$5.5 million which were previously shown as Limited Partnership Investments, resulting in a net increase to the mortgage portfolio of \$12.2 million.
- Units issued increased by 6.2% to 10.4 million units.
- Weighted average LTV ratio increased from 70.0% to 72.6% with a weighted average term to maturity of 22.1 months.
- An affiliated company to the Trust foreclosed on the property that was in default in the previous year. The Trust now holds an unsecured note from the affiliated company in the amount of US\$0.7 million.
- All mortgage assets were performing at September 30, 2018.
- During the quarter ended September 30, 2018, the Trust complied with all investment objectives and restrictions set out in the Offering Memorandum dated May 1, 2018.

# Quarterly Report

September 30, 2018

## Fund Overview (USD)

Unaudited and Non-Consolidated, as at September 30, 2018

|  |                       |
|--|-----------------------|
| <b>Total Fund Assets Before Loan Syndication</b> | <b>\$ 107,321,851</b> |
| Mortgage Loan Portfolio                          | \$ 93,490,823         |
| Cash (and Equivalents)                           | \$ 4,712,500          |
| Limited Partnership Investments                  | \$ 5,522,724          |
| Other Receivables                                | \$ 3,595,804          |
| No. of Mortgage Investments                      | 56                    |
| Average Mortgage Size                            | \$ 1,669,479          |
| Average Loan-to-Value (LTV) <sup>1</sup>         | 72.6%                 |
| Total Units Outstanding                          | 10,406,767            |
| Net Assets per Unit                              | US\$10.00             |

<sup>1</sup> LTV is based on initial underwriting or renewal, and is subject to variation during the term of the loans.

## Fund Description

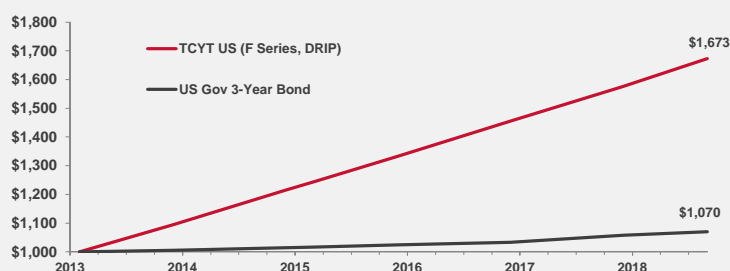
|                         |   |
|-------------------------|---|
| Fund Manager            | Trez Capital Fund Management Limited Partnership  |
| Asset Class             | Open-ended pooled mortgage fund   |
| Inception Date          | January 2013  |
| New Investments         | Open  |
| Minimum Investment      | 500 units (USD \$5,000)   |
| RRSP/RRIF/TFSA Eligible | Yes   |
| Retraction Rights       | Retractable on demand (with 30 days written notice) at 99% of the subscription price up to the first anniversary of the investment, and the full subscription price thereafter. |

## Distribution History (\$ per Unit)

|                               | 2018     |          | 2017     |          | 2016     |          |
|-------------------------------|----------|----------|----------|----------|----------|----------|
|                               | A Series | F Series | A Series | F Series | A Series | F Series |
| <b>Quarter 1</b>              | \$0.175  | \$0.200  | \$0.175  | \$0.200  | \$0.175  | \$0.200  |
| <b>Quarter 2</b>              | \$0.175  | \$0.200  | \$0.175  | \$0.200  | \$0.175  | \$0.200  |
| <b>Quarter 3</b>              | \$0.175  | \$0.200  | \$0.175  | \$0.200  | \$0.175  | \$0.200  |
| <b>Quarter 4</b>              |          |          | \$0.175  | \$0.200  | \$0.175  | \$0.200  |
| <b>Quarterly Distribution</b> | \$0.525  | \$0.600  | \$0.700  | \$0.800  | \$0.700  | \$0.800  |
| <b>Top-up<sup>2</sup></b>     |          |          | -        | -        | \$0.095  | \$0.098  |
| <b>Total Distribution</b>     | \$0.525  | \$0.600  | \$0.700  | \$0.800  | \$0.795  | \$0.898  |

<sup>2</sup> Based on a weighted average return to Unitholders, this amount is an estimate of the average top up distribution paid. Those invested for less than a full one year period will receive a prorated allocation, and those invested in the dividend reinvestment plan will receive a slightly higher top up due to the effects of compounding. Top-up distributions are paid following the conclusion of the annual audit, to all registered unitholders on the record date December 31.

## Comparative Investment Growth (DRIP) F Series<sup>3</sup>, Since Inception



<sup>3</sup> Reflects the total return on Series F units, assuming that distributions are reinvested. Investment growth on Canadian dollar units is calculated in Canadian dollars.

## Fund Performance (DRIP)

|   | Q3 2018 | 2018 YTD <sup>6</sup> | 2017 | 2016 | 2015 |
|---|---------|-----------------------|------|------|------|
| Trez Capital Yield Trust US (F Series)              | 2.0%    | 6.1%                  | 8.2% | 9.3% | 9.7% |
| Trez Capital Yield Trust US (A Series) <sup>5</sup> | 1.8%    | 5.3%                  | 7.2% | 8.2% | 8.4% |
| <b>Fixed Income</b>                                 |         |                       |      |      |      |
| US Gov 3-yr Benchmark Bond Yield                    | 0.7%    | 1.9%                  | 1.6% | 0.9% | 1.0% |
| <b>Cash</b>   |         |                       |      |      |      |
| Inflation (US CPI)                                  | 0.2%    | 2.4%                  | 2.1% | 2.1% | 0.7% |

<sup>5</sup> A Series unit returns are reported as F Series returns, less the 100bps trailer fee.

The US Government 3-year Treasury rate is provided as an example of the risk free return during the period. The yield is the average monthly yield, pro-rated for the period.

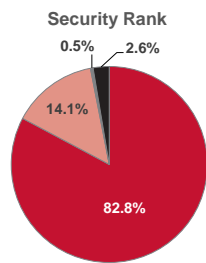
Data Sources: US Department of the Treasury, Trez Capital Fund Management Limited Partnership.

<sup>6</sup> Based on distributions paid year-to-date.

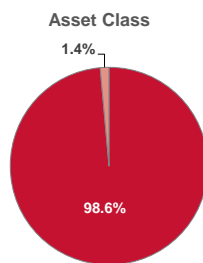
## TOP 25 HOLDINGS (USD)

| CITY             | STATE     | BALANCE     | LTV  | TYPE        | INTEREST RATE | RANK   | % NAV |
|------------------|-----------|-------------|------|-------------|---------------|--------|-------|
| Houston          | Texas     | \$9,616,532 | 82%  | Residential | 10.0%         | First  | 9.3%  |
| Houston          | Texas     | \$6,925,041 | 76%  | Residential | 12.0%         | First  | 6.7%  |
| Houston          | Texas     | \$4,876,716 | 77%  | Residential | 12.0%         | First  | 4.7%  |
| Dallas/Ft. Worth | Texas     | \$4,533,921 | 70%  | Residential | 12.0%         | First  | 4.4%  |
| Dallas/Ft. Worth | Texas     | \$4,413,854 | 72%  | Residential | 10.0%         | First  | 4.3%  |
| Dallas/Ft. Worth | Texas     | \$4,320,006 | 69%  | Residential | 13.0%         | Second | 4.2%  |
| Dallas/Ft. Worth | Texas     | \$3,978,343 | 92%  | Residential | 10.4%         | First  | 3.8%  |
| Dallas/Ft. Worth | Texas     | \$3,426,358 | 67%  | Residential | 10.3%         | First  | 3.3%  |
| Dallas/Ft. Worth | Texas     | \$3,298,964 | 85%  | Residential | 12.4%         | First  | 3.2%  |
| Sarasota         | Florida   | \$3,230,056 | 64%  | Residential | 12.8%         | First  | 3.1%  |
| Dallas/Ft. Worth | Texas     | \$3,154,582 | 71%  | Residential | 10.0%         | First  | 3.0%  |
| Dallas/Ft. Worth | Texas     | \$3,000,000 | 75%  | Residential | 12.0%         | First  | 2.9%  |
| San Antonio      | Texas     | \$2,673,488 | 72%  | Residential | 12.0%         | First  | 2.6%  |
| Lake Charles     | Louisiana | \$2,500,000 | 61%  | Residential | 11.3%         | First  | 2.4%  |
| Dallas/Ft. Worth | Texas     | \$2,471,234 | 59%  | Residential | 12.5%         | Equity | 2.4%  |
| Houston          | Texas     | \$2,324,864 | 73%  | Residential | 11.0%         | First  | 2.2%  |
| Dallas/Ft. Worth | Texas     | \$2,159,848 | 71%  | Residential | 13.0%         | Second | 2.1%  |
| Denver           | Colorado  | \$2,033,932 | 42%  | Residential | 13.7%         | First  | 2.0%  |
| Houston          | Texas     | \$1,996,369 | 59%  | Residential | 12.0%         | First  | 1.9%  |
| Houston          | Texas     | \$1,271,314 | 102% | Residential | 11.0%         | Second | 1.2%  |
| Sarasota         | Florida   | \$1,180,658 | 64%  | Residential | 12.0%         | First  | 1.1%  |
| Dallas/Ft. Worth | Texas     | \$1,175,320 | 78%  | Residential | 15.5%         | First  | 1.1%  |
| Orlando          | Florida   | \$1,162,735 | 69%  | Residential | 10.0%         | First  | 1.1%  |
| San Antonio      | Texas     | \$1,151,544 | 80%  | Residential | 15.0%         | Second | 1.1%  |
| Tampa            | Florida   | \$1,073,114 | 83%  | Residential | 15.0%         | Second | 1.0%  |

## MORTGAGE PORTFOLIO DIVERSIFICATION

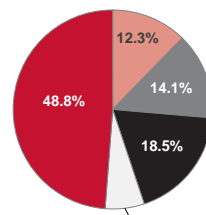


- First Mortgages (82.8%)
- Second Mortgages (14.1%)
- Third Mortgages (0.5%)
- Preferred Equity Loan (2.6%)



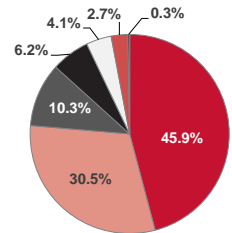
- Residential (98.6%)
- Retail (1.4%)

**Weighted Average Term to Maturity**



- Zero to 6 Months (12.3%)
- 6 Months - 12 Months (14.1%)
- 12 Months - 18 Months (18.5%)
- 18 Months - 24 Months (6.3%)
- 24 Months over (48.8%)

**Geographic Region**



- Dallas/Ft. Worth (45.9%)
- Houston (30.5%)
- Florida (10.3%)
- United States - Other (6.2%)
- San Antonio (4.1%)
- Denver (2.7%)
- Austin (0.3%)

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