Investment Update — Second Quarter 2020

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Letter From Trez Capital's Vice President, Strategy and Corporate Finance

Over Trez Capital's 20+ year history, we have forged a tremendous network of relationships with high-quality partners across Canada and the U.S. One of the primary factors driving the success of these relationships is the strength of our loan sharing, which has been an integral part of our origination process since Trez' inception and provides our investors with enhanced yields, greater diversification and risk mitigation.

Reducing Risk, Enhancing Yields through Loan Sharing
Loan sharing plays a key role in financing larger projects. 'Sharing' the loan with a reputable partner keeps risk at a level that aligns with the objectives of our investors. Further, based on our position in the capital structure, Trez can earn at a higher interest rate than our partners, ensuring we generate enhanced yields across our portfolios.

Symbiotic Relationship Benefiting All Parties Involved
For our lending partners – usually made up of banks or other financial institutions – loan sharing provides exclusive access to real estate projects that these partners may not otherwise be privy to and enables them to expand their opportunity set by leveraging Trez' strong deal flow. Ultimately, it's a chance for them to deploy capital in a more conservative way, while benefiting from Trez' trusted origination, due diligence and underwriting processes.

Typically, our partners prefer to take a more senior position in the lending arrangement, which provides them with a greater claim to liquidated capital in the event of a default and, therefore, more security and downside protection. Trez may choose to assume a more junior position, which represents a lesser claim to assets but is accompanied by higher return potential.

Success Through Uncertainty Validates Our Approach
Loan sharing added significant value throughout the first and second quarters of 2020, as it has enabled all parties to capitalize on strong real estate opportunities while mitigating and diversifying risk amidst a deeply uncertain period. The fact that we have sustained and, in some cases, grown our loan sharing portfolio through a downturn is a testament to the trust our partners have in us.

In the coming quarters, we anticipate our partner relationships will continue to expand as we seek to manage our investors' exposure to any individual loan or borrower, and that our partners will continue to value the senior position and the expertise that Trez offers.

Sincerely,

Kathy Kozak
Vice President, Strategy and Corporate Finance

TREZ CAPITAL

Trez Capital
Announces New High Yield Fund

Trez Capital has completed two closings totalling in excess of $40 million for its new Trez Capital High Yield #1 (2020) Fund (High Yield Fund). The new fund enables investors to share in a portfolio of loans consisting of predominately high yielding single-family lot development financing loans which are targeted to deliver net returns in excess of 10% per annum. The investments will specifically focus on junior positions in first ranking single-family lot development loans in Texas, a state experiencing job growth and strong demand for affordable housing.

Trez Capital
Re-Opens Temporarily Paused Funds

Since the novel Coronavirus outbreak, Trez Capital has worked diligently to manage its investments in the most prudent and responsible manner possible. Preserving investor capital and providing a reliable income stream have remained top priorities. Throughout this period, distributions have continued to be paid at the historical distribution rate.

Given that circumstances have sufficiently stabilized since March, the firm has re-opened Trez Capital Prime Trust, Trez Capital Yield Trust and Trez Capital Yield Trust U.S. (CAD) to limited redemptions.

Feature Project:
Customs House, Victoria, British Columbia
A Future Built in the Past

How does a developer unite history and the pristine British Columbia ("B.C.") shoreline, while ensuring modern living and luxury? The answer: Customs House.

Developed by Cielo Properties, Customs House is so named as the foundations and façade were used by the Government of Canada for Victoria's original customs house and post office. That history is at the heart of this project. Specialized masons from across Canada were brought in to painstakingly preserve the building's historic original façade.

This approach is clearly successful. The development is approximately 75% presold with a diverse selection of buyers who are looking for an opportunity to own a piece of this picturesque and historic location.

Cielo Properties is an award-winning developer with numerous heritage conversion projects on its roster. Trez Capital recognized the unique potential of preserving a historic landmark and Cielo Properties' reputation for excellent work, leading the two parties to explore a partnership. Trez Capital's relationship with Cielo Properties began as an acquisition loan in 2015, and transitioned to a mezzanine loan in 2017, followed by a construction loan in 2018-2019.

The Customs House loan is a $65 million construction facility and a $30.9 million mezzanine facility with construction scheduled for completion in April 2021.

Trez Capital is well established in the B.C. market, and this loan highlights the continued desire to execute only the best. This project represents 6% of Trez Capital's B.C. portfolio and is a foothold in the heart of B.C.'s beautiful capital city.

Touted as one of the three grande dames of downtown Victoria's iconic Inner Harbour, the project features almost 100,000 square feet of unobstructed views of the City of Victoria, the Strait of Georgia and the Olympic Mountains. It also features 57 residential condo units, 15,440 square feet of ground floor retail space and three levels of underground parking.

TREZ CAPITAL PRIME TRUST

A conservative short-term commercial mortgage strategy

Total Fund Assets	**$388,900,875 CAD**
Average Mortgage Size	**$4,876,866 CAD**
Average Loan to Value	**53.1%**
Average Term-to-Maturity (Months)	**11.0**
Percent of First Mortgages	**100%**

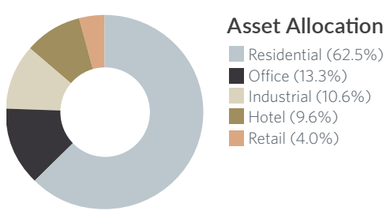
Trez Capital Prime Trust's ("Trust") U.S. exposure approached the 50% limit at the end of the second quarter. Given the strength of the U.S. real estate market and the outsized number of quality loan opportunities in the U.S., an information circular was distributed to unitholders on July 20 to propose the removal of the U.S. restriction limit in the Trust. If approved, the removal will allow the Trust to allocate any portion of its assets to loans in the U.S. which, the Portfolio Manager believes, will allow the Trust to participate in additional high-quality financing opportunities.

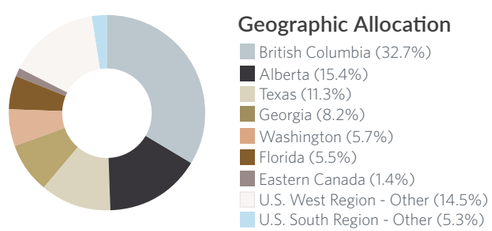
As lending was proactively halted late in the first quarter, the focus in the second quarter was on continuing to service funding obligations to borrowers and building up liquidity in the Trust. Liquidity was enhanced with the completion of two notable loan sharing transactions, which generated an inflow of over $16 million in proceeds to the Trust, as well as through strong loan paydown and payoff activities. Some of the notable payoffs included two loans on industrial properties in Alberta totalling over $17 million as well as an apartment construction loan in Washington of over US$7 million. The most notable portfolio change was correspondingly the decrease in Alberta exposure to 15.4% (-6.4%).

As a result of this activity, on July 3, all the pending redemptions in the Trust prior to the March 23 gating were paid out to unitholders. Additionally, on August 5, 100% of the new redemption requests in the Trust were paid out to unitholders. The Trust will continue to accept new redemption requests subject to a limit of $3 million per month.

As of quarter end, the Trust had a defaulted $5.8 million mixed-use development loan in the western U.S. as well as an investment in a foreclosed property relating to a $4.7 million Quebec mortgage. The total value of these challenged loans in the Trust was approximately $10.5 million or 3.2% of unitholder capital. The Portfolio Manager believes the value of the underlying security is sufficient to ensure that no losses will be incurred on these mortgages. However, there are two performing Fort McMurray loans on which a write-down is anticipated this year. The amount of the potential provision has yet to be ascertained. All other mortgage assets were performing as at June 30, 2020.

During the quarter ended June 30, 2020 the Trust complied with all investment objectives and restrictions set out in the Offering Memorandum dated April 30, 2020.





TREZ CAPITAL YIELD TRUST

A diversified, balanced short-term commercial mortgage strategy

Total Fund Assets	**$1,263,042,425 CAD**
Average Mortgage Size	**$5,229,020 CAD**
Average Loan to Value	**70.5%**
Average Term-to-Maturity (Months)	**10.1**
Percent of First Mortgages	**70.9%**

Trez Capital Yield Trust's ("Trust") U.S. exposure steadily increased to nearly 37% at the end of the second quarter. Overall, the portfolio did not see any significant shifts in its composition. As with all the trusts, the focus has been on continuing to service ongoing funding obligations to borrowers as well as building up liquidity. The most notable changes were decreases in geographic concentrations to British Columbia ("B.C.") and Oregon. These changes were driven by the successful completion of two loan sharing transactions, one on a multi-family residential inventory loan in B.C. and another on a multi-family residential bridge loan in Oregon, along with the payoff of three B.C. loans. On a combined basis, these transactions generated over $90 million in proceeds to the Trust.

As a result of the gradual accumulation of liquidity in the Trust, on August 5 all the pending redemptions in the Trust prior to the March 23 gating were paid out to unitholders. Additionally, the Trust will continue to accept new redemption requests subject to a limit of $5 million per month with the first series of new redemptions to be paid out on August 17.

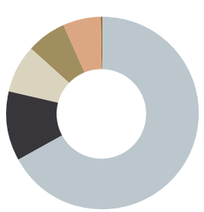
As of quarter end, the Trust had the following eight defaulted mortgages totalling approximately $40.8 million:

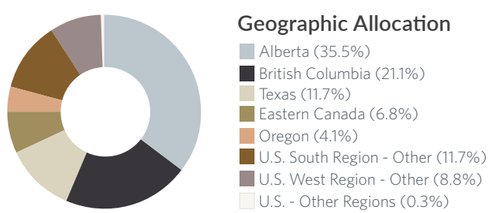
- $27.0 million relating to six Strategic Group loans (of which one loan for a gross value of $8 million was written down to a net value of $4 million at the end of 2019);
- $10.2 million in a multi-family rental construction loan in the southern U.S.; and
- $3.6 million mixed-use development loan in the western U.S.

Additionally, the Trust had an investment in a foreclosed property relating to a $0.8 million Texas lot development loan.

The total value of these challenged loans in the Trust was approximately $41.6 million or 3.6% of unitholder capital. The Portfolio Manager believes the value of the underlying security is sufficient to ensure that no additional losses will be incurred on these mortgages. However, there are two performing Fort McMurray loans on which a write-down is anticipated this year. The amount of the potential provision has yet to be ascertained. All other mortgage assets were performing as at June 30, 2020.

During the quarter ended June 30, 2020 the Trust complied with all investment objectives and restrictions set out in the Offering Memorandum dated April 30, 2020.





TREZ CAPITAL YIELD TRUST U.S. (USD)

An opportunistic, short-term commercial financing strategy denominated in USD focused on U.S. markets

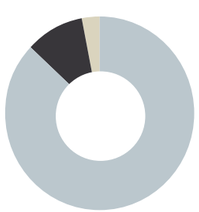
Total Fund Assets	**$189,527,882 USD**
Average Mortgage Size	**$1,852,305 USD**
Average Loan to Value	**69.4%**
Average Term-to-Maturity (Months)	**12.6**
Percent of First Mortgages	**79.1%**

Trez Capital Yield Trust U.S. ("Trust") continued to be primarily weighted in single-family lot development loans (55.4%) with multi-family residential exposure increasing to 31.8% of the total asset composition. The single-family lot development loans were concentrated in Texas (76.2%) with increasing exposures in Georgia (11.9%) and Arizona (6.7%), which provided some geographic diversification in the asset class.

The portfolio did not see any significant shifts in its composition as the Trust continued to service ongoing funding obligations to borrowers and focus on building up the cash position in the Trust. These priorities will continue to be the focus in the third quarter. The most notable change was a decline in Texas (-4.6%) exposure resulting primarily from loan paydown proceeds generated by lot takedown activity from homebuilders. The record low mortgage rates drove demand for new home sales, which surged back in the second quarter and have created additional demand for lots from homebuilders in the U.S.

As of quarter end, the Trust had a defaulted US$0.8 million multi-family residential loan in the southern U.S. as well as an investment in a foreclosed property relating to a US$0.7 million Texas lot development loan. The total value of these challenged loans in the Trust was approximately 1.0% of unitholder capital. All other mortgage assets were performing as at June 30, 2020.

During the quarter ended June 30, 2020 the Trust complied with all investment objectives and restrictions set out in the Offering Memorandum dated April 30, 2020.



Asset Allocation

- Residential (87.2%)
- Office (10.0%)
- Other (2.8%)

Geographic Allocation

- Texas (54.4%)
- Florida (13.2%)
- Georgia (8.4%)
- Washington (5.8%)
- U.S. South Region - Other (10.0%)
- U.S. West Region - Other (8.1%)

TREZ CAPITAL YIELD TRUST U.S. (CAD)

An opportunistic, short-term commercial financing strategy denominated in CAD focused on U.S. markets

Total Fund Assets	**$868,425,495 CAD**
Average Mortgage Size	**$4,812,142 CAD**
Average Loan to Value	**70.0%**
Average Term-to-Maturity (Months)	**12.5**
Percent of First Mortgages	**79.0%**

Trez Capital Yield Trust U.S. (CAD) ("Trust") continued to be primarily weighted in single-family lot development loans (54.6%) with multi-family residential exposure increasing to 31.5% of the total asset composition. Texas continued to lead geographic exposures with over 65% at the end of the second quarter.

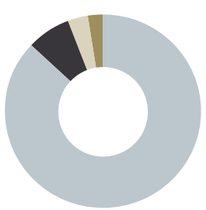
As lending was proactively halted late in the first quarter, the Trust did not see any significant shifts in its composition in the second quarter as the emphasis was on continuing to service ongoing funding obligations to borrowers as well as generating liquidity in the Trust, both through repayments on loans and the closing of loan sharing transactions. The payoff of several multi-family residential loans generated over US$26 million in proceeds to the Trust. Robust paydown activity was also seen across the lot development loan portfolio as lot takedowns by homebuilders continued to be strong during the quarter. Additionally, the closing of a loan sharing transaction on a retail loan in Texas also brought in additional cash to the Trust.

The combination of the paydown and payoff activity on loans, as well as the closing of additional loan sharing, allowed the Trust to announce that pending redemptions prior to the March 23 gating will be processed on August 17.

Additionally, the Trust will continue to accept new redemption requests subject to a limit of $5 million per month with the first series of new redemptions to be paid out on September 3.

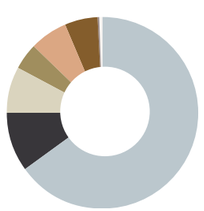
As of quarter end, the Trust had the following two defaulted mortgages: a $5.4 million multi-family residential loan in the southern U.S. and a $3.4 million mixed-use development loan in the western U.S. Additionally, the Trust has an investment in a foreclosed property relating to a $1.2 million Texas lot development loan. The total value of these challenged loans in the Trust was approximately $10.0 million or 1.4% of unitholder capital. The Portfolio Manager believes the value of the underlying security is sufficient to ensure that no losses will be incurred on these mortgages. All other mortgage assets were performing as at June 30, 2020.

During the quarter ended June 30, 2020 the Trust complied with all investment objectives and restrictions set out in the Offering Memorandum dated April 30, 2020.



Asset Allocation

- Residential (87.2%)
- Office (7.1%)
- Retail (3.3%)
- Other (2.4%)



Geographic Allocation

- Texas (65.4%)
- Florida (9.9%)
- Washington (8.0%)
- South Carolina (4.4%)
- U.S. South Region - Other (6.3%)
- U.S. West Region - Other (5.6%)
- U.S. Northeast Region - Other (0.4%)

Economic Update

Canadian Economy and Real Estate Market

The COVID-19 lockdown measures took a toll on all sectors of Canada's economy. Gross domestic product ("GDP") fell by 11.6%, annually, in April. The retail and consumer sectors were significantly impacted by these measures, which contributed to the loss of nearly three million jobs over the last two months of the second quarter. However, April appeared to be the low point of the COVID-19 crisis, as indicators in May and June revealed "green shoots" pointing towards a modest recovery. GDP increased by an estimated 3.0% in May, while labour market indicators turned positive as lockdowns eased. Employment in Canada increased by 289,600 jobs (1.8%) in May, followed by a much stronger 952,900 gain (5.8%) in June. Despite these gains, employment remained 1.762 million below the February peak, and the June unemployment rate of 12.3% was well above February's 5.6%. Canada's success in managing the COVID-19 infection rate should allow for additional normalization of economic activity. However, certain sectors will likely face a slower recovery, such as those related to Canada's summer tourism industry as travel restrictions will remain in place. In addition, aggressive monetary policy from the Bank of Canada and government stimulus measures – estimated at 16.5% of GDP – may further help the economy along the path to recovery.

The fallout from the sharp economic contraction and reduction in employment had an immediate effect on commercial real estate demand in the second quarter. Preliminary figures from CBRE indicated that office and industrial demand turned negative during the second quarter. In the office sector, the overall national vacancy rate rose to 10.8% from 10.3% in the first quarter. Across markets, vacancy ranged from a low of 4.6% in Vancouver to a high of 24.5% in Calgary. The overall national industrial availability increased to 3.5% from 3.1% in the first quarter. Availability ranged from a low of 2.1% in Vancouver to 8.7% in Calgary. The residential housing market suffered a sharp drop in sales in April, followed by a partial recovery in May. Home sales for May were down 39.8% from a year earlier. Home prices were largely unchanged between April and May; however, they were up 5.4% from a year earlier.

U.S. Economy and Real Estate Market

The impact of COVID-19 on the U.S. economy has been swift and deep. After a sharp curtailment of activity in March and April, consumer spending and business investment witnessed a faster-than-expected rebound as many states eased lockdown restrictions. However, a recent spike in infections in southern parts of the U.S. may cause some states to hold or reverse re-openings, which may slow the recovery in the second half of 2020. Following a 5.0% annualized decline in the first quarter, GDP growth tracked at a 35% annualized decline in the second quarter. The historic loss of 22.2 million jobs in March and April pushed the unemployment rate up to a new post-war record of 14.7%. However, signs of a strong recovery emerged in June, as 4.8 million jobs were added and the unemployment rate fell to 11.1%. However, with retail and hospitality venues still restricted, employment remained at 14.7 million, or 9.6% below February's peak levels. Federal assistance programs to businesses and workers have been extensive and have helped to soften the blow of the lockdowns.

Typically, U.S. real estate demand follows changes in employment and economic activity with a lag of up to six months. While rent collections for office, industrial and apartment properties were better than expected, the impact on the leasing market was immediate, as businesses were forced to put expansion and reconfiguration plans on hold. National office and retail demand turned negative in the second quarter, resulting in increases in vacancy and availability of 70 and 40 basis points (bps), respectively. Demand for industrial space remained positive, but higher levels of building completions pushed the industrial availability rate up 30 bps in the second quarter. In general, continued work from home and social distancing measures are expected to weigh negatively on office and retail leasing plans over the short term, while the industrial sector continued to benefit from the retail sales shift towards e-commerce.

Sources: Oxford Economics, Statistics Canada, CBRE, CREA, Federal Reserve Bank of Atlanta, Bureau of Labor Statistics

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