Lanyard Financial Corporation

An Opportunity to Invest Alongside One of The Largest Private Lenders in Western Canada - Initiating Coverage

Target Yield (p.a.): Prime + 4%
Rating*: N/A
Risk*: N/A

Sector/Industry: Real Estate Mortgages

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Investment Highlights

- Lanyard Financial, formed in 1999, is one of the largest private lenders in Western Canada.
- The company offers short-term (one to two years) commercial and residential mortgages.
- Each mortgage is **funded through separate single-purpose limited partnerships.** Lanyard's investors include non-bank lenders, regulated financial institutions, Mortgage Investment Entities ("MIEs"), and accredited investors.
- Since inception in 1999 to November 2021, Lanyard has **originated over $1.7B in mortgages**, including $1.5Bin first mortgages, and $0.2B in second.
- According to management, the average annual return for investors in first mortgages was 8.8% p.a. (range: 6.8% to 10.4%) from inception to November 2021. They have **lost principal on just one first mortgage**, totaling $0.41 million, or 0.03% of the capital deployed since inception.
- Lanyard is **planning to launch a MIC** to enable retail investors to participate in their investments.
- Although the Bank of Canada is expected to start raising rates in the coming months, we are expecting yields to remain relatively low this year. **We believe investors' appetite for high-yield investments (such as Lanyard's offerings) will remain strong.**
- We maintain a positive outlook on the residential real estate market. The CMHC has a low-risk rating for 'overvaluation' on both Vancouver and Toronto. Although Omicron has increased uncertainties, we are **expecting a surge in new immigrants and international students** once conditions normalize. Note that Canada is one of the most highly vaccinated countries in the world, and one of the most preferred destinations for immigration.
- We are **expecting a rise in demand for alternative lending**, especially due to the pandemic-induced rise in self-employment and entrepreneurship. We are also seeing a rise in home ownership among millennials. Demand for alternative lending is higher among millennials, self-employed individuals, and entrepreneurs, as these groups have difficulty obtaining loans/mortgages from conventional lenders.

Risks

- A drop in housing prices will result in higher LTVs.
- **Credit and default risk.**
- Principal is not guaranteed.
- Interest rate risks; although minimal as most of the mortgages are short-term.
- **Second mortgages carry higher risk.**

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

Offering Summary	
Issuer	Lanyard Financial Corporation
OM Date	N/A
Target	Residential & Commercial Mortgages
Min Subscription	$500k
Unit Price	N/A
Distribution to Investors	Monthly
Redemption	Upon maturity of mortgage
Management Fee	0.5% p.a. of AUM
Sales Commission	None
Registered Plans	N/A

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

Background and Management

Formed in 1999, Lanyard has been ranked among the top 10 largest asset-based lenders in B.C. since 2010, by Business in Vancouver.

Shor-term loans secured by real estate

The company provides short-term (typically one to two years) loans secured by real estate. Like most non-bank lenders, Lanyard does not conform within the lending guidelines of banks and traditional lenders. It is more flexible in its lending guidelines, and therefore, can offer individually structured/tailor-made loans to meet the specific requirements of a borrower. Also, banks have lengthy due diligence processes, and are typically not able to meet borrowers' quick capital needs. All the above reasons allow Lanyard, and similar non-bank lenders, to charge a higher interest rate compared to banks/traditional lenders.

Management has extensive experience in real estate development, investment, and lending

Lanyard is controlled by three individuals - Brian Chelin, Benjamin Goldberg, and Samuel Fogell. Brief biographies of the management, as provided by the company, follow:

Brian Chelin – Principal

Brian Chelin provides Lanyard with 30 years of real estate development and finance experience. From 1994 to 1999, Brian was an executive of Hyland Turnkey Limited, an international real estate development, investment and management company based in Vancouver, British Columbia. From 1992 to 1994, he was an account manager with Sun Life Trust of Canada responsible for underwriting and managing a significant commercial mortgage portfolio spanning Western Canada. Prior to this, Brian worked in a variety of roles for several real estate development companies. Brian graduated from the University of British Columbia in 1989 with a Bachelor of Commerce Degree specializing in Urban Land Economics. He also obtained a diploma in International Business Studies from the University of Copenhagen in 1988. Brian is a licensed mortgage broker in B.C. Brian is also actively involved in many charitable organizations. He sits on the Board of Governors for the Camp Hatikvah Foundation and the Board of Directors for the Vancouver Talmud Torah School Association.

Benjamin Goldberg – Principal

Ben Goldberg brings to Lanyard expertise derived from a thirty year career as a corporate lawyer. From 1978 to 1992, Ben was an associate, and later a partner, in the Vancouver law firm of Freeman and Company. In 1992, he *was* a founding partner of the Vancouver based business law firm of Koffman Kalef where his practice areas included business acquisitions, mergers and divestitures, and the structuring of business relations. Ben attended the Hebrew University of Jerusalem, and the University of British Columbia, where he received his Bachelor of Arts degree in 1974. He later attended Dalhousie University in Nova Scotia where he obtained his LLB in 1977 and, as a Commonwealth Scholar, attended Oxford University where he obtained his Masters in Jurisprudence in 1980. Ben is actively involved in many charitable organizations.

Sam Fogell - Principal
Sam Fogell joined Lanyard in 2010. For the three years prior, Sam specialized in investment real estate sales and commercial real estate leasing at Avison Young Commercial Real Estate. Prior to that he worked in office leasing at SAP and as a sales and account manager with a global leader in online marketing. Sam attended McGill University in Montreal, Quebec where he received his Bachelor of Commerce with a major in Finance. He previously sat on the Board of Directors of the Mortgage Investment Association of B. C.

We believe the principals' interest is aligned with investors as they (directly or indirectly) typically invest along with investors in the same mortgages. **At the end of 2020, the principals (directly and indirectly) had approximately $10M invested across first mortgages, or 5% of the portfolio.**

Investment Mandate

Lanyard's key criteria for their mortgages are presented below:

Primary focus on first mortgages on residential properties

Loan Amount: $1M to $55M

Property Types: Residential, office, retail, industrial, mixed-use properties, apartments buildings, and development land.

Markets: Primary and secondary Canadian urban markets.

Loan to Value: Up to 65%

Interest Rates: Starting at 5.50% on first mortgages; generally interest only.

Term: 12-month term with an option to extend for an additional 12 months.

Source: Lanyard

Relatively low management fees

Lanyard typically charges an origination fee of 1% - 2% to borrowers, which we believe is in line with other lenders. **Fees charged to investors include an annual management fee of 0.5%, with no performance fee.** We believe this is on the lower end of fees charged by other lenders.

Track Record & Historical Returns

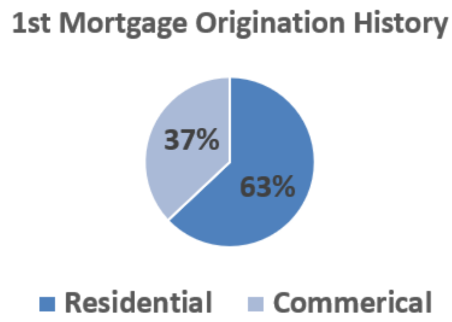
Lanyard currently originates approximately $200M of mortgages per year. Each mortgage is funded through a separate single-purpose LP. The primary sources of capital are Lanyard's principals, friends and families, financial institutions, charitable foundations, family offices, MICs, MIEs, and high net worth accredited investors.

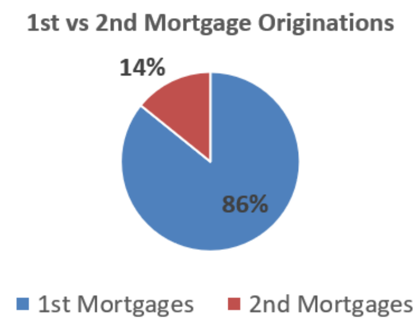
Since 2017, Lanyard has been the exclusive mortgage administrator and originator for Truvera Mortgage Corporation, a $21M fund primarily funded by several B.C. based financial institutions, and accredited investors.

Originated $1.5B first mortgages since 2000

From 2000 to November 2021, **Lanyard has originated over $1.49B first mortgages (382 mortgages/average: $3.9M)**. Loan sizes ranged between $250k and $50M. Loans were primarily secured on residential and commercial real estate in B.C.

Mortgages by property type and priority are shown below. Note the focus on residential and first mortgages.





Source: Lanyard

According to management, the weighted average historical returns to Lanyard's first mortgage investors ranged between 6.8% to 10.4% p.a. **<u>We have not been able to verify the returns as Lanyard does not have audited statements for each LP.</u>** Note that it is not uncommon for private lenders to not have audited statements for each mortgage/investment. Historical returns, as provided by management, are presented below. **We note that these returns are on the higher end of comparable funds focused on first mortgages.**

Attractive historical returns

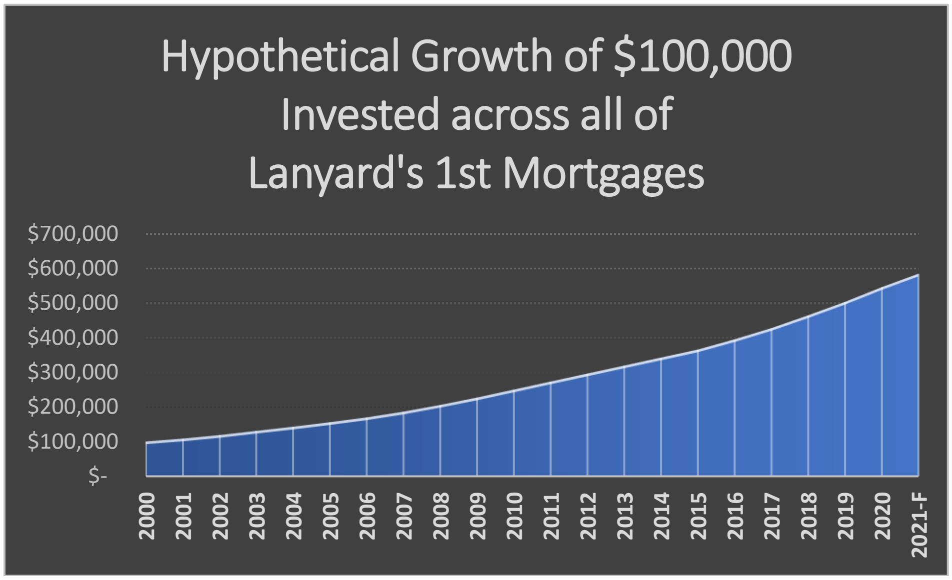
- 1 year: 8.6%
- 3 year (p.a.): 8.5%
- 5 years (p.a.): 8.4%
- 10 years (p.a.): 8.1%
- **<u>Since inception (p.a.): 8.8%</u>**

The following table summarizes the average LTV, term, and returns of first mortgages. **The company has lost capital on just one mortgage, of 382 first mortgages originated since inception.** This mortgage had a principal loss of $0.41M, or 0.03% of the total capital deployed in first mortgages since inception.

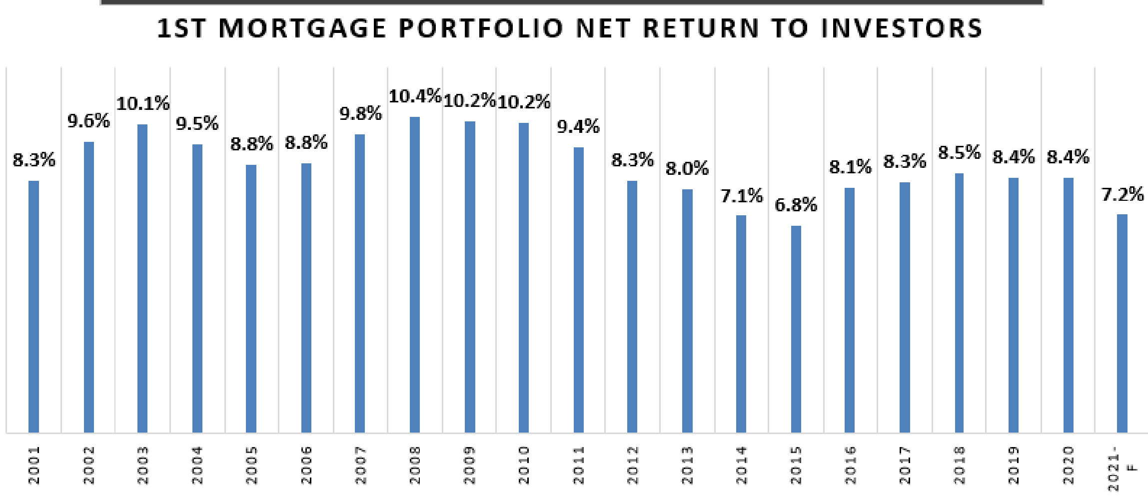
First Mortgages	LTV	Yield (p.a.)	Term (months)
Weighted Average	46.30%	8.80%	12.3
Min	6.60%	-5.10%	0.2
Max	70.50%	13.10%	83.4

Source: Company

$100k invested in 2000 would have grown to over $540k by the end of 2020; note that returns are not guaranteed and past performance is not indicative of future results



The weighted average return (2001 – 2021) was 8.8% p.a. (range: 6.8% p.a. to 10.4% p.a.)



*** <u>Past performance is not indicative of future results.</u>**

Source: Company

In addition to first mortgages, from 2000 - 2020, the company originated approximately **$200M in second mortgages** (70 mortgages), at an average of $3M. Loan sizes ranged between $150k and $34.5M. **The company has generated positive returns on 67 of the 70 second mortgages it originated.** Lanyard and investors had a principal loss of $0.91M on the three mortgages that experienced losses, or 0.4% of the total.

The average net return for investors was 15.4% p.a. (range: -4.9% p.a. to 28.5% p.a.), from 2000 to 2021

Individual Second Mortgages	LTV	Yield (p.a.)	Term (months)
Weighted Average	56.8%	15.4%	9.39
Mininimum	21.7%	-4.9%	4.97
Maximum	86.0%	28.5%	78.7

Source: Lanyard

New Fund / Upcoming Plans

Launching new MIC for retail investors

Lanyard is planning to launch a MIC to open up its investments to retail investors. Lanyard's existing investment options are only suitable for institutions and high net worth individuals. A key advantage of MICs is that they are eligible for registered plans. MICs do not pay any corporate tax and act as flow-through entities.

The new MIC is anticipated to frequently invest alongside Lanyard's LP investors in a pari passu manner (i.e. equal risk profile), implying that retail investors will have the opportunity to invest alongside institutions and high net worth individuals, for a relatively low minimum investment.

Rating

As risk-return metrics vary with each LP, we are not assigning a rating on Lanyard's offerings at this time. Once the MIC is setup and running, we will be in a position to assign a rating for the MIC. As interest rates are expected to remain relatively low in 2022, we expect investors' appetite for high-yield investments to remain strong.

Risks

Investors are exposed to the following risks:

- A drop in housing prices will result in higher LTVs, and higher default risk.
- Principal is not guaranteed.
- Second mortgages tend to carry higher risk.
- **Credit and default risk.**
- Interest rate risks; although minimal as most of the mortgages are short-term.

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	31%	Risk - 2	8%
Rating - 3	47%	Risk - 3	40%
Rating - 4	8%	Risk - 4	33%
Rating - 5	4%	Risk - 5	8%
Rating - 6	1%	Suspended	10%
Rating - 7	0%		
Suspended	9%		

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