RESEARCH REPORT

October 15, 2018

Element Fleet Management & Tricon Capital Group

FIGuring out Specialty Finance

As part of FIG's portfolio strategy this year, we are looking for opportunities to shift away from legacy holdings and towards unique specialty finance business models. One of the big challenges of FIG's portfolio is that because we hold large names like RBC and TD, and because FIG is a large portion of the Canadian markets, it is difficult for us to outperform. However, through specialty finance companies that move less in-line with the big banks, we can move into more diverse names. This report goes into greater detail on two companies in our universe that have interesting business models and present a way for the portfolio to outperform.

I. Element Fleet Management

II. Tricon Capital Group

Element Fleet Management is a FIG specialty finance company that the team looked at a year ago. This report will go into more detail, building on the theses from the previous report as well as provide a detailed update on management's new turnaround plan.

This year, FIG and Cash Yield consolidated into one sector portfolio. We believe that Tricon Capital is way for the portfolio to consolidate our Cash Yield holdings while incorporating the sector into FIG's portfolio strategy.

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Element Fleet Management – Company Overview

Overview

Element Fleet is the global leader in the fleet management industry. They specifically deal with Cars & Light Duty Vehicles, Medium and Heavy-Duty Trucks, and Material Handling Equipment. They have over 1M vehicles under management, 2,800+ customers, 2,700+ employees, 50 countries served through their Element-Arval Global Alliance, and transaction sizes between $500,000 to $40 million. They offer a wide variety of industries which include, however, are not limited to, Agriculture, Business services, Chemical, Education & non-profit, Consumer products, Energy, and Insurance.

Product and Service Offering

Element Fleet Management services are focused on the end-to-end model, therefore spanning the entire life of the fleet from acquisition to remarketing. They offer the Fleet Partnership Solutions Program (FPS) for cars and light-duty vehicles or medium and heavy trucks, which extends flexible levels of support, that can range from basic to fully outsourced fleet management. FPS is customized to provide the precise level of support needed. Through lifetime use, Element also provides additional services such as risk assessment, cost control, auto repairs, and 24/7 support services. Through FPS, Element offers 4 core benefits which are cost savings, time savings, simplicity, and safety and compliance.

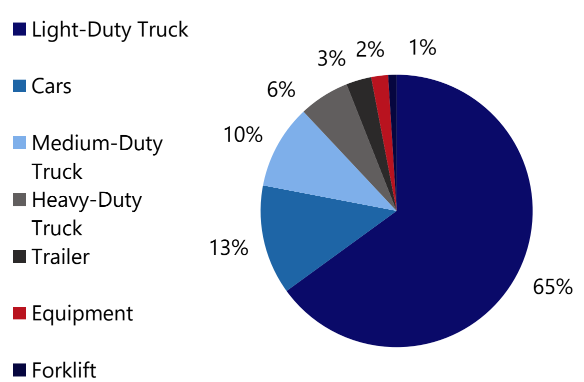
They also offer global services to 50 countries in the world through their Element-Arval Global Alliance. Element also continues to invest in game-changing technology allowing for unique fleet improvements. This technology is anchored by Xcelerate, an interface that provides a central hub for fleet data which optimizes fleet performance.

Business Model

Element represents a middleman by connecting customers needing vehicles with the most appropriate suppliers. Element can offer from their direct-feed network of auto manufacturers, along with the competencies to allow the transactions to occur. Their strategic consultation team conducts analysis to determine when these transactions are necessary. They display their expertise by determining the best time to replace vehicles allowing for minimal depreciation and maximum resale prices and use their administrative competencies through up fitting profiles as well as title and registration management. The company raises funds through a mix of debt and equity to assist to offer fleet financing at a higher interest rate. The difference in rates is the spread, which translates to Element's profits. Recently this past August Element priced US $1 Billion of rated term notes, reaching approximately $3.5 billion securitized to date, creating $6 billion total available in financing, allowing for strong liquidity and access to capital. Apart from this Element's management is also taking full ownership of their recently established joint-venture with the 19th Capital to exert control and focus in their management, after recent underperformance. Additionally, the company earns income on its maintenance, optimization, risk assessment, and accident management services.

Exhibit I

Lease Distribution by Vehicle Type



Source(s): Element Fleet Management Reports

Theses I and II

Thesis I: Efficiency Enhancing Business

The team is interested in the "efficiency enhancing" nature of Element Fleet Management's business. The overall value proposition of its financing offerings is to provide liquidity and flexibility as its customers purchase vehicles and grow their fleets. Additionally, Element is one of the largest purchasers and remarketers of vehicles globally, and are thus able to use their scale to reduce customers' fleet financing costs over the cycle.

The overall value proposition of its service offerings is to reduce the total lifecycle costs of owning a fleet. For example, providing managed accident response and repair services to businesses operating fleets of vehicles minimizes costly downtime, therefore enhancing the efficiency of these customers.

As evidence of this, in Element's 1Q18 management presentation, several of the customer wins and customer retention updates they present highlight outsourcing the non-core competency of fleet management to reduce cost as a key goal they looked to solve in working with Element.

Thus, the team believes that Element's business, which is essentially to sell cost reductions and efficiency by leveraging broad fleet-specific expertise and scale, has a strong business model as the value provided by Element is strong and quantifiable, and there are strong barriers to entry such as scale, supplier partnerships, and industry expertise.

Furthermore, the efficiency enhancing nature of the business presents an opportunity to grow both financing and service revenues organically by targeting businesses whose fleet management process are currently handled internally.

Additionally, Element's efficiency enhancing services are well positioned to service growing industries such a last-mile logistics and emerging business models such as vehicle sharing, wherein maximizing vehicle utilization, minimizing maintenance cost and downtime, and scaling effectively are highly important. Element has already secured partnerships in the vehicle sharing space with Splend and Maven and is rumoured to have won Amazon's contract for Delivery Service Partner.

Lastly, Element is actively working to build upon the efficiency enhancing nature of its business through investments into technology. This involves both technology to automate processes within the business and continued investments into their proprietary fleet management platform, Xcelerate, in order to provide more analytics capabilities. However, while their focus on technology may provide cost benefits and added value to customers in the near term, the analytics and optimization portion of their business is likely the most vulnerable to disruption by autonomous driving over the much longer term.

Thesis II: Barriers to Switching and Opportunities for Cross-Selling

The long-term contractual nature of vehicle financing and leasing agreements creates long streams of recurring revenue for Element Fleet Management and creates barriers for customers to switch to other fleet management service providers.

In addition to these contractual finance and lease agreements, Element Fleet Management provides a comprehensive portfolio of fleet management services which can be cross-sold to existing customers.

Therefore, as Element completes its overhaul of its customer service processes and stabilizes its existing businesses, this model of barriers to switching combined with opportunities for cross-selling will allow Element to grow customer relationships that are both sticky and high-value.

Furthermore, Element continues to grow its portfolio of services and opportunities in adjacent markets through acquisitions such as Amerit Fleet Solutions.

Thesis III: Strong Management Team Well-Incentivized to Succeed

The new Element Fleet management team has a strong track record of growing shareholder value in different businesses, is well-incentivized to stabilize and grow Element Fleet Management's business.

The company's new CEO, Jay Forbes, has a strong record of executing on customer-centric and technology-based strategies, as opposed to the prior management team whose realm of expertise was related to growing business through acquisitions. Forbes previously served as President and CEO of Manitoba Telecom Services, where he created $1.1Bn of shareholder value during his tenure, as well as President and CEO / CFO of Aliant Inc., where he created $2.2Bn of shareholder value during his time there.

Furthermore, a substantial portion of the compensation package for Forbes consists of performance share units (PSUs) and a one time special equity award comprised of performance-based options, the latter of which will vest over three years, and which is dependent on meeting shareholder return targets.

The compensation for other named executive officers has also been modified since 2017 to put greater emphasis on rewarding actions that will maximize value in the long run. Incentive compensation in the form of PSUs were increased from 33% to 50%, and Element also decided to stop paying short-term supplemental incentives (e.g. additional compensation for exceptional performance). This is important, as the problem which led Element to lose customers and which led its share price to fall dramatically over the past year was the pursuit of too many acquisitions too quickly. This resulted in a poorly executed IT integration between Element and the assets it acquired from GE Capital, as well as poor integration of processes between Element and the companies it acquired, resulting in customer attrition.

Initial results of the new management team can already be seen in the new strategic plan presented by the company on October 1. The new strategic plan is strong for several reasons; (1) it demonstrates a long-term, customer-centric view, (2) it provides a high degree of granularity, and (3) it contains specific evidence of changes being made.

Customer-Centric View

Element's new strategic plan includes an investment of $150MM into customer service enhancements, which is being funded by a 40% dividend reduction.

High Degree of Granularity

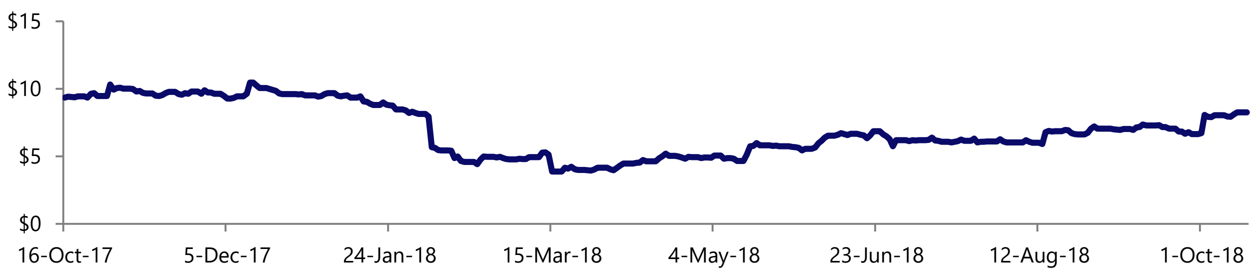
The new strategic plan states that there are 50+ small projects in place to achieve quick wins in 2018, 25+ initiatives planned to improve customer acquisition and retention in 2019, and 5-10 initiatives to grow and optimize the business in 2020.

Specific Evidence of Change

The new strategic plan outlines the creation of a Transformation Management Office, which demonstrates a commitment to accountability with regards to organizational change. Furthermore, company presentations have made references to changes in reporting between specific business units in order to delayer customer service and reduce handoffs and inefficiencies.

EXHIBIT II

EFN Share Price Performance



Source(s): Capital IQ

Element Fleet Management – Valuation

Valuation Approach

EFN has a unique business model that can make valuation very complex. The financing portion of their business can be thought of like a more traditional FIG business, warranting a dividend discount model, or a similar balance sheet-focused valuation method. On the other hand, their services business segment earns revenue from providing a service and receiving a fee. This is similar to a more traditional company that could be valued using a DCF, or another similar free cash flow-focused valuation method. Another consideration is relative valuation. However, within FIG's universe, there aren't really any companies that have similar business models, making it very difficult to understand how the two major parts of Element's business drive value. Therefore, we've considered three main options for how to approach valuing EFN going forward.

1. Dividend Discount Model

While we can't use the same kind of dividend discount model for Element that we have been using for other FIG companies, there are potentially ways to use a DDM to value EFN. Because net income, and consequently net income available to common equity holders, incorporate the effects of the services segment, a DDM could be reasonable to use. We would also have to adjust the calculation of risk-weighted assets and capital ratios to match the nature of EFN's business.

2. Discounted Cash Flows and Sum of the Parts

Another way to approach valuation would be to value only the services segment first using a DCF. This implied share price, compared the current share price can give us a way to understand what has been priced into the share price. Another way of looking at it is that if we incorporate the value of services and then part of the value of the financing segment, then we can think about any additional implied value as "free", because at the current share price, we are paying for a portion of the balance sheet.

3. Multiples

Because there are a lack of comparable companies, a relative valuation wouldn't be meaningful. However, the company's own historical multiples compared against different factors could provide meaningful information on how we can think about the value of the company.

Tricon Capital Group – Company Overview

Tricon is a Canadian asset manager for high net worth individuals and institutional investors. With their ~$5.6 billion USD of AUM, they primarily invest in North American residential real estate. In particular, they focus on markets with high population and employment growth such as throughout the U.S. Sunbelt. Tricon currently operates four main lines of business: Tricon Housing Partners, Tricon American Homes, Tricon Lifestyle Rentals, and Private Funds and Advisory.

Tricon Housing Partners (THP):

THP is Tricon's land and homebuilding vertical and provides equity-type financing to North American developers. The main source of income from this stream is the sale of developed housing and land.

EXHIBIT I

Tricon Rental Properties by Location

	Tricon Rental Homes		
	Homes	% of Total	Occupancy
Atlanta	3,947	24.7%	94.1%
Phoenix	1,791	11.2%	98.4%
Charlotte	1,574	9.8%	92.9%
Tampa	1,501	9.4%	96.1%
Dallas	1,219	7.6%	93.8%
N. California	1,008	6.3%	98.8%
Houston	916	5.7%	93.2%
SE Florida	737	4.6%	94.3%
Las Vegas	585	3.7%	98.6%
Columbia	532	3.3%	90.9%
Other	2,185	13.7%	N/A
Total	**15,995**		

Source(s): Tricon Q2 MD&A

Tricon American Homes (TAH):

This arm of the company earns a return through acquiring, renovating, and leasing single family homes in major U.S. cities.

Tricon Lifestyle Rentals (TLR):

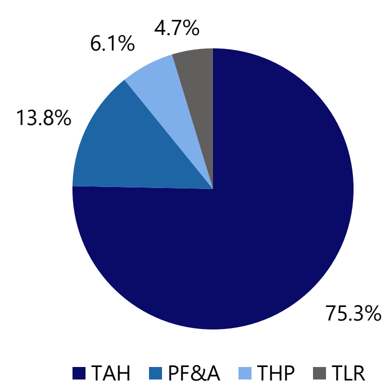
TLR focuses on developing and operating high quality apartments in major employment nodes and transit hubs. In Canada, this segment has an in-house team to design and operate their projects. In the U.S., they have partnered up with StreetLights Residential, a Texas based apartment developer.

Private Funds and Advisory (PF&A):

In addition to the previous lines of business mentioned, Tricon also manages capital on behalf of other investors. Through their investment in The Johnson Companies, a developer in Houston, they are able to provide their services on a larger scale. The objective of this segment is to generate returns through management and performance fees.

EXHIBIT II

Tricon Revenue by Business Segment



Source(s): Tricon Q2 Report

Company Overview Cont'd

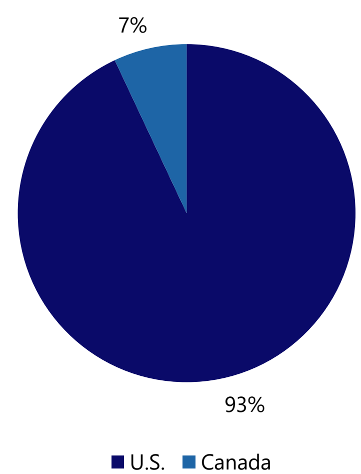
Beyond highlighting the various business segments, the FIG team thought it would be valuable to discuss the changes that TCN has undergone since its initial IPO. The biggest of these changes has been the company's entrance into the single-family rental (SFR) space in 2012. Currently SFR related assets are valued at 54% of total asset value, while it accounted for zero at the IPO.

On the other hand, their assets related to homebuilding and development have been reduced drastically from 85% to 25% of total assets. This represents a shift in the company's strategy from a real estate developer to an asset manager. Compared to their previous business model, this approach should allow for more predictable and stable cash flows. Going forward, TCN will continue to allocate their resources towards their U.S. SFRs and Canadian luxury apartment rentals.

Recently, the company also sold their Tricon Lifestyle Communities segment for a value of ~$172 million.

EXHIBIT III

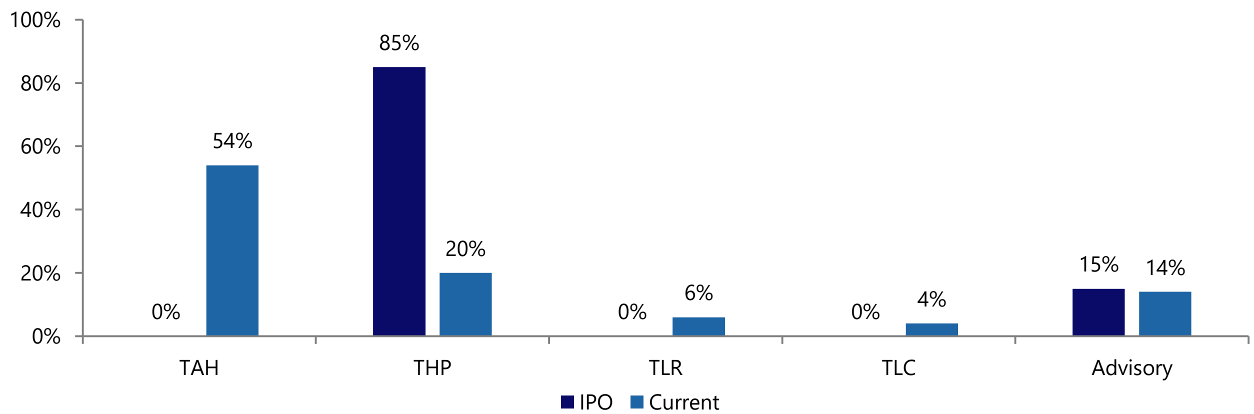
Current NAV Geographic Allocation



Source(s): Scotiabank GBM

EXHIBIT IV

Current NAV by Business Segment (Q1/18)



Source(s): Scotiabank GBM

Industry Overview – U.S. Housing Market

The focus of this portion of the report is to analyze the key markets in which TCN plays within in the U.S., as the entire nation's housing market would be a report in and of itself. For our purposes, we will be focusing on the macroeconomic indicators within key geographical areas that TCN owns or operates properties within.

Single and Multi-Family Overview

Entering 2019, there are expected to be 1.5 million new families formed that will be looking for a home, while only 1.3 million homes are slated to be built during the same time period. This will result in upward pressure on pricing for both rental and for-sale home properties moving forward. Opportunities for developers, and specifically TCN, are in high population growth geographies, such as New Mexico, Texas, Florida, and most of the southeastern U.S., with population growth over the next 20 years expected to range between 10% to 20%+ in certain cases.

The Problem With Millennials

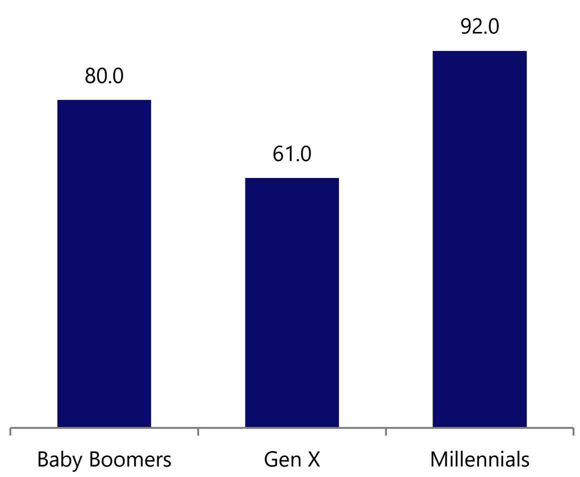
Millennials are having a tough time finding affordable house prices and are often resorting to renting. This age cohort represents the largest in the U.S. today, but limited new supply as a result of rising labor costs and tighter credit in comparison to pre-recession lending regulations has left millennials with no other option. This dynamic creates a unique opportunity for TCN as they continue to shift towards an asset management/deployment business model, as the company will be able to leverage high rental rates to drive recurring revenues while opportunistically funding development projects of for-sale homes.

Growth

Lastly, the most lucrative opportunities for development projects remain in the Southeastern U.S., as four of the top ten fastest growing states by population are within the area.

EXHIBIT V

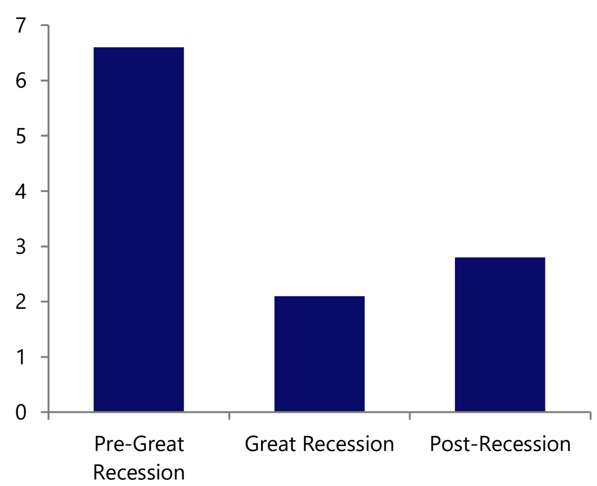
Key U.S. demographic cohorts (in MM)



Source(s): Company Reports

EXHIBIT VI

Housing starts per 1000 persons



Source(s): Company Reports

Thesis I: Superior Portfolio Positioning

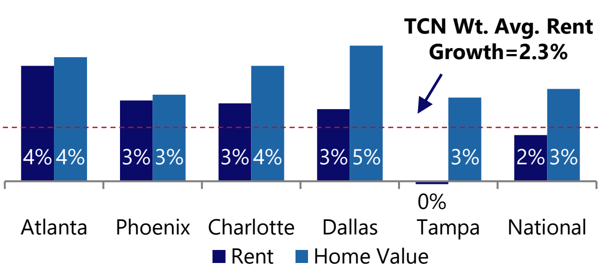
Superior Position within the U.S. Sunbelt:

When evaluating the long-term upside in a real estate portfolio it is critical to consider its geographical positioning. Tricon's TAH portfolio, comprising 58% of its asset value, is heavily concentrated within U.S. Sunbelt states, which historically produces superior population and employment growth when compared to other U.S. markets. As of Q2/18, TAH's top five markets accounted for 63% of its total homes, and the total portfolio boasted a stabilized occupancy of 95.3%. TAH's positioning allows it to capitalize on above-average economic growth, which translates into positive rental increases and lower turnover rates; over 2017, TAH realized SPNOI increases of 10.4%. Going forward, TAH's major markets are anticipated to realize an average of 2.3% rental rate growth, substantially outperform the national average of 1.6%. Though TAH's key markets are growing at a superior rate to the national average, rental affordability has not materially deviated from historical proportions of household income, maintaining a favorable rental landscape and minimizing turnover rates. Tricon's ability to realize SPNOI improvement through general rental growth and mark-to-market rent increases is critical, as it is a fundamental driver of NAVPS and FFOPS growth.

Consolidation Potential in an Defensive, Stable Market:

EXHIBIT VII

NTM Home Value and Rent Growth

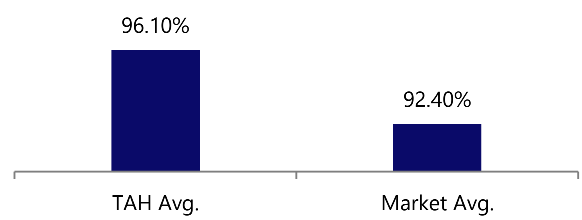


Source(s): Zillow Research, Scotiabank GBM

Since the SFR market was only conceived after the financial crisis, few players have had the opportunity to achieve scale and consolidate the market. Currently, the total SFR market is estimated at 16MM units (~11MM are middle-market quality) and is predominantly owned by traditional family homeowners. Only ~350,000 of the total universe is owned by institutions, with TAH registering as the third-largest publicly traded owner of U.S. SFRs, behind INVH and AMH. Though TAH is the smallest of the three REITs, its geographic concentration of 6.3% far exceeds INVH and AMH's levels of 5.9% and 2.4%, respectively. Therefore, TAH can achieve economies of scale and margin expansion through its clustered

EXHIBIT VIII

TAH Operates at Above-Market Occupancy (Q3/17)



Source(s): U.S. Census Bureau, Scotiabank GBM

portfolios, holding an advantage over peers as a potential first-mover consolidator in core Sunbelt markets. Efficiencies can be realized in the form of cost minimization, for repairs-and-maintenance which account for 10-12% of gross revenue and improved tenant response time when rendering landlord requirements.

As TAH continues to generate scale, it will be able to dig a meaningful economic moat in a high-growth industry. The SFR market is management intensive and necessitates substantial capital requirements to become a capable player. As a result, the value of TAH's already established platform is a competitive

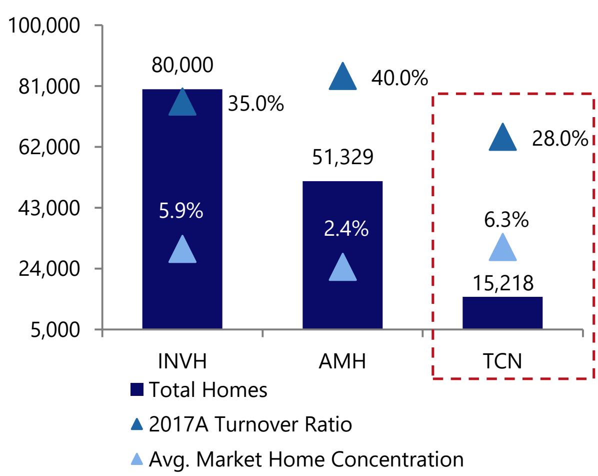
Thesis I: Superior Portfolio Positioning Cont'd

advantage in and of itself. It is difficult for new-entrants to fund the acquisition of thousands of homes and uncover portfolios with enough assets and geographic concentration to justify an investment. Therefore, new entrants would require a housing market correction, as characterized by the 2007 crisis, to make a market entrance. Portfolio's also require active management to ensure tenants are adequately served and to maintain the proper balance of homeownership to rental properties within a community. TCN limits their market penetration in communities to 15% of total homes, as the stigma of a neighborhood becoming a "rental community" can negatively impact rental demand – this is a strategy implemented by TCN and its peers. Consequently, to operate a SFR portfolio, a company needs not only capital and scale, but also substantial expertise in a market where very few players have any material experience.

Unlike its peers, TAH operates in the middle-market of the SFR landscape, focusing on renters of necessity, rather than choice, providing its portfolio with a degree of economic resilience. As a result in 2017, its average rent was 23% lower than peers, but it operated with a superior resident turnover ratio of 28%. A portion of the rental discrepancy can be attributed to portfolio differences, as TAH holds smaller, Class B properties. Given the unique target market demographics and geographic positioning, TAH can benefit from superior market rental growth while maintaining protection against an economic downturn. Demand for mid-market rental properties increases when faced with market headwinds, as fewer families seek homeownership, and instead elect to rent. It strategically concentrates its assets around critical infrastructure such as schools, employment centres, and major transportation arteries. By positioning its holdings around core infrastructure, TAH is ensuring long-term demand in its communities, as SFR renters will always prioritize assets with access to critical community amenities.

EXHIBIT IX

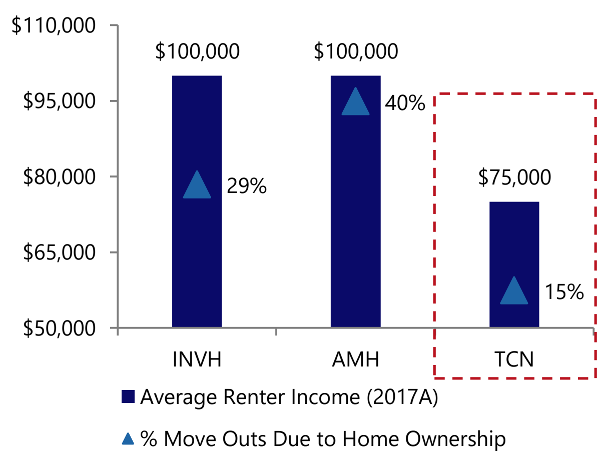
SFR Turnover and Home Concentration Comparison



Source(s): Company Reports, Scotiabank GBM

EXHIBIT X

TAH Targets Renters of Necessity (Middle Market)



Source(s): Company Reports, Scotiabank GBM

Thesis II: Operational Synergies and Optimistic Growth Potential

Industry Vertical Synergies:

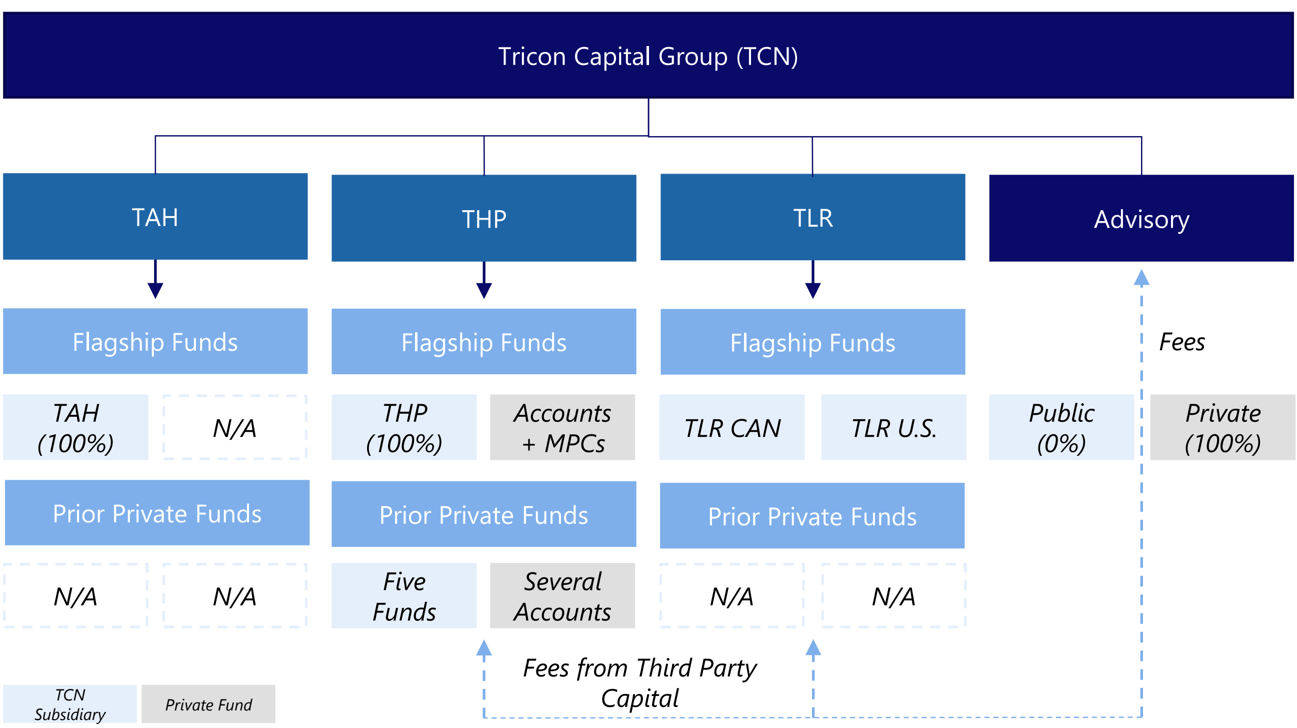
Tricon's structure allows it to achieve growth in a variety of industry verticals and leverage synergies across its different industry verticals. Tricon is structured so that If housing prices increase drastically and wide-scale portfolios are not accessible for its TAH segment to make tuck-in acquisitions, it can easily divert capital to THP and develop master planned communities. Similarly, it can leverage its private funds and advisory business to raise fee bearing capital (FBC) from third-party public and private sources which it can deploy into its THP platform or to use for acquisitions. This corporate structure allows Tricon to maximize FBC sources to achieve growth through acquisitions or internal development – Tricon can allocate internal and FBC capital flexibly to generate the highest returns.

Top Quartile Growth with an Optimistic Long-Term Growth Trajectory:

To characterize Tricon's substantial outperformance, we decided to conduct a comparable analysis based on both U.S. peers and Canadian REITs. At the start of 2018, Tricon was forecast to be in the top three highest growth firms when comparing estimates for NAVPU, NOI, SPNOI, and distribution per unit. As of Q2/18, Tricon has continued to outpace both estimates and North American peers, recording an

EXHIBIT XI

Complementary Business Corporate Structure



Source(s): Company Reports

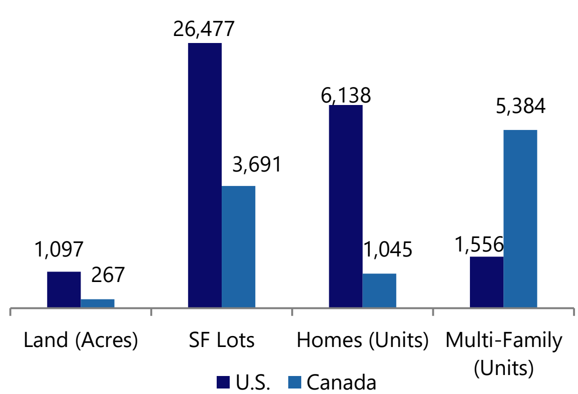
Thesis II: Operational Synergies and Optimistic Growth Potential Cont'd

average of 8.8% SPNOI growth since Q1/17. Over the same period, AMH and INVH posted 4.0% and 6.3% SPNOI growth. Tricon differentiates itself as it is able to achieve same property rental growth while simultaneously driving materially margin expansion, by reducing leverage, increasing scale, and implementing technology. As of Q2/18, Tricon's margins increased by 120 bps year-over-year to 62.5% and they are anticipated to continue to expand by an additional 80 bps in 2019, against a backdrop of tight SFR rental market fundamentals. Another unique factor about Tricon is that it historically outperformed during rising rate environments. A study conducted by Scotiabank determined that Tricon outperformed Canadian and U.S. REITs during rising rate environments and lagged peers during falling rate environments. Though this is not material to our investment conviction, it is an interesting factor to consider and speaks to the macroeconomic sensitivity of Tricon's portfolio considering the current rising rate environment.

We believe Tricon holds a roadmap for long-term growth considering its ability to acquire and operate properties at incredibly discounted costs, leverage its co-investment in Johnson, and develop on its considerable landbank. As of Q4/17, Tricon's average cost per home was $152,063, substantially below U.S. SFR peers, U.S. multi-family peers, costs per home of $174,338 and $201,547 (accounts for the purchase price and CapEx), respectively. Though Tricon operates slightly lower quality properties, it can acquire and operate homes well-below the national median home price of $218,000. Tricon's positioning for long-term growth can be furthered by its 50.1% interest in The Johnson Development Corp. (Johnson), a leading developer of master planned communities (MPC).. Johnson has developed and sold more top MPCs than any other developer in the past five years, and has a specific presence in Texas, where it has advantages in the form of recoverable infrastructure costs and taxing authority. Johnson operates the majority of THP's developments, and it is anticipated that Tricon will acquire its outstanding interest in the company in the near future. A fully integrated MPC platform will allow Tricon to develop its 1,350 acres of excess land and make its ~30,000 single family lots, 7,000 homes, and 7,000 multi-family units underdevelopment more accretive. By purely focusing on developing its pipeline of assets, we are under the conviction that THP will be able to achieve profitable NAV growth with no leverage, limiting the need for land acquisitions as prices continue to rise.

EXHIBIT XII

THP Development Pipeline



Source(s): Company Reports, Scotiabank GBM

EXHIBIT XIII

Tricon Outperforms During Rising Rates

	Canada		U.S	
	Falling IR	Rising IR	Falling IR	Rising IR
Average Duration	85 Days	56 Days	63 Days	50 Days
Avg. Bond Yield	(59 bps)	68 bps	59 bps	73 bps
TCN Price Return	2.5%	7.2%	1.8%	8.7%
TCN vs. REITs	(1.7%)	10.6%	(4.3%)	13.6%

Source(s): Bloomberg, Scotiabank GBM

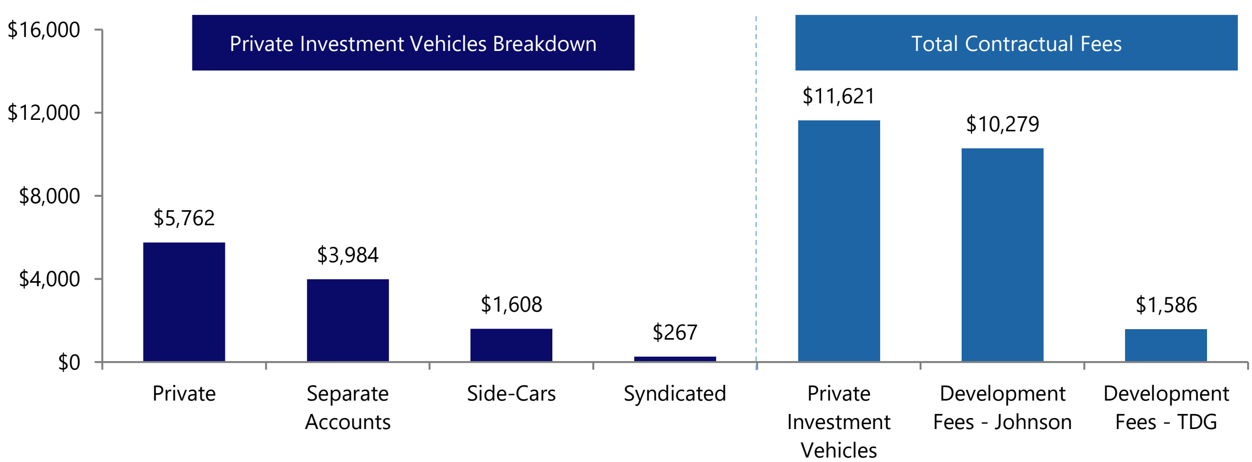
Thesis III: Robust Tailwinds to Achieve Long-Term Targets

Institutional Investors Champion Positive Fund Growth:

Among Tricon's growth objectives, is its five-year asset under management (AUM) target of $10 billion, doubling its current AUM as reported in Q2/18. To achieve this explosive growth, positive fund flow from institutional capital will be critical, and we believe Tricon has the expertise and ability to attract and realize this growth. As of Q4/17, Tricon's AUM CAGR of ~22% has been predominantly driven by internal investment by Tricon with only ~27% of the total AUM being driven by FBC institutional capital, representing a 5% FBC CAGR since Q4/11. Of the $5 billion AUM needed to reach its target, Tricon has outlined a targeted 50/50 split between Tricon equity and third-party capital. The lack of historical institutional investment can be attributable to two main factors. First, the market is still developing, so institutional capital has not developed enough conviction to make a material entrance into the asset class, with the exception of Blackstone, which owns ~40% of INVH. As the asset class continues to grow, institutional capital will become increasingly prominent within the landscape and more specifically within Tricon's private funds. Tricon's funds and advisory services offer investors a way to deploy substantial capital into an untapped market through an actively managed investment vehicle. From Tricon's perspective, third-party capital provides it with the capital necessary to achieve scale and long-term growth with relatively low risk. It has the ability to generate fee-based returns on capital that it synergistically deploys to its business segments, allowing it to earn a contractual fee of 1-2% on committed capital, contractual preferred returns, and performance fees. By leveraging its additional business verticals, it compounds additional returns through development fees, commissions, commercial brokerage fees, etc. Tricon has structured its funds into a variety of different investment structures including private commingled funds, separate accounts, sidecars, and syndicated investments.

EXHIBIT XIV

Advisory Fees Breakdown ($000's)



Source(s): Company Reports, Scotiabank GBM

Thesis III: Robust Tailwinds to Achieve Long-Term Targets Cont'd

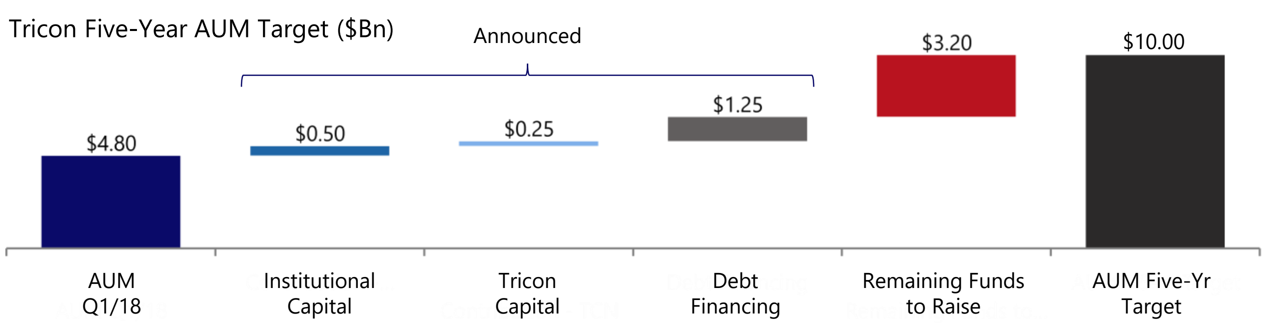
Case Study for Future Growth:

This thesis can be substantiated by Tricon's $2 billion joint venture in late June. The partnership is underpinned by a major international sovereign wealth fund, a U.S. pension fund, and a co-investment with Tricon, with each investor contributing $0.67 billion in total capital (debt and equity). The capital will be deployed to acquire 10,000-12,000 homes, allowing TAH to grow its portfolio to 25,000-30,000 homes over the next three years. Tricon will be earning standard industry fees on deployed capital for a term of eight years with performance fees of ~20% after its meets an 8-9% return hurdle. Tricon will also benefit from the previously mentioned synergistic fees, such as a 7% of revenue property management fee, construction and development fees, and a right of first offer on the portfolio. This JV is strategically crucial for Tricon, as it will act as a roadmap for additional future institutional involvement in Tricon's growth story, substantiating SFR has an asset class and Tricon as a steward of capital.

Favourable Compensation Overhaul:

Tricon recently underwent a substantial compensation overhaul to render a previous structure that supports the firm's transition to a balance sheet investor. Its previous structure incorporated unique factors such as an annual incentive plan, as Tricon employees were entitled to 15% of the firm's adjusted based EBITDA. Though this previously met their structure as a capital-light business, it does not reflect the current asset composition heavily weighted towards its SFR platform which is capital intensive. Similarly, it incentivized employees and management based on adjusted EBITDA and not EPS, FFOPS, or NAVPS, which align with equity holders. As a result of the misaligned compensation structure, Tricon was trading at a discount that reflected many externally managed REITs. Traditionally, externally managed REITs trade at a ~750 bps discount to NAV when compared to internally managed REITs. Within the new compensation structure, Tricon eliminated the adjusted EBITDA benchmark and replaced it with individual targets for employees benchmarked against peers. Management will now be compensated with performance share units linked to long-term adjusted earnings per share (EPS) targets, rather than adjusted EBITDA, that have a three year vesting period, compared to the previous stock options structure. This new structure is favourable for equity holders, as EPS growth is aligned with both management compensation and equity holders. The individual benchmarking structure will allow employees to benchmark their compensation based on multiple business segments rather than the previously capital-light verticals. Overall, it is anticipated that new compensation will aid in reducing the spread between Tricon's current NAVPU and its share price.

EXHIBIT XV



Source(s): Company Reports, TD Securities Inc.

NAV Discount Analysis and Commentary

The fundamental question underpinning our research is: if Tricon is ideally positioned within a high-growth market, why are they trading at such a heavy discount to NAVPU? We will present a number of qualitative arguments targeted to add context into the public real estate investment landscape that we believe are directly attributable to Tricon's discount and how these factors impact our investment conviction.

Unproven Market Makes Investors Hesitant:

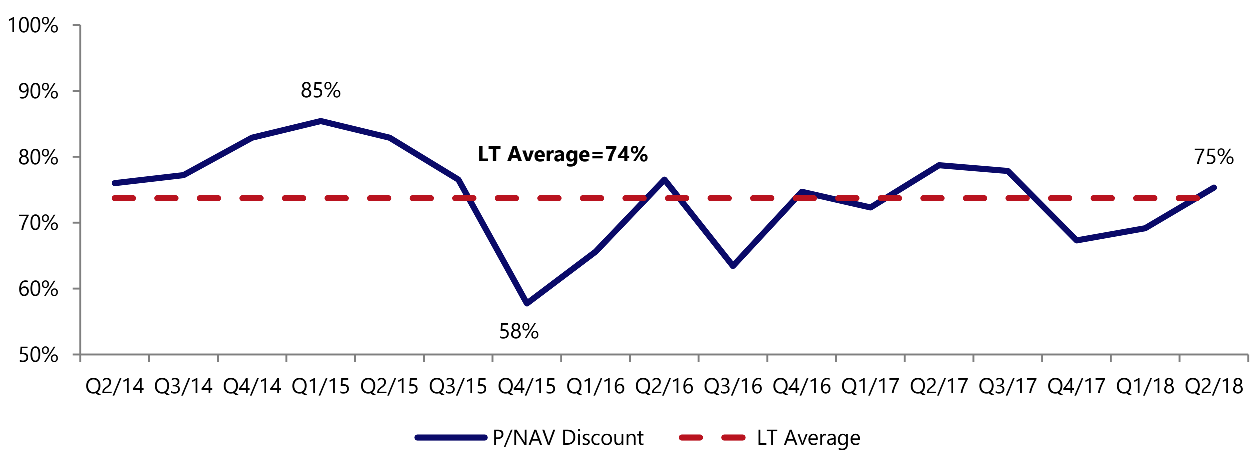
One primary reason why Tricon trades at such a substantial discount is due to the infancy of the asset class. As previously outlined, the market has very few major players, and has not been stress-tested over a long period. This has created a discount in both Tricon and its SFR peers. Specifically, the lack of institutional players within the landscape makes public investors hesitant about the asset class. However, since Blackstone has taken a robust stance behind INVH and other institutional capital is rapidly entering the market, we believe these concerns over the lack of a proven track record will be dismissed with time and a growing institutional investor base. Similarly, as the market players continue to grow their positions, they will become more stable, benefiting from economies of scale and geographic diversification, further diffusing tension around the asset class.

Lack of Liquidity and U.S. Investor Coverage:

An additional factor supporting its discount is the lack of U.S. investors in its float. Though the majority of its assets are positioned within the U.S., Tricon is listed within Canada falling outside of many U.S. investors traditional coverage universe. Therefore, the proportion of Canadian investors, compared to peers, is substantially higher with a small portion of its float estimated to be owned by U.S. investors. Another barrier for many public U.S. investors hinges on the trading liquidity of Tricon, which is thinly traded compared to U.S. peers. This creates an issue for large U.S. and international investors that have liquidity requirements within their investments, so as Tricon's liquidity increases we are under the conviction that the name will garner additional institutional ownership. This could come in the form of a dual listing on a U.S. exchange or through additional equity issuances.

EXHIBIT XVI

Historical P/NAV Discount (TD NAV Estimates)



Source(s): Company Reports, TD Securities Inc.

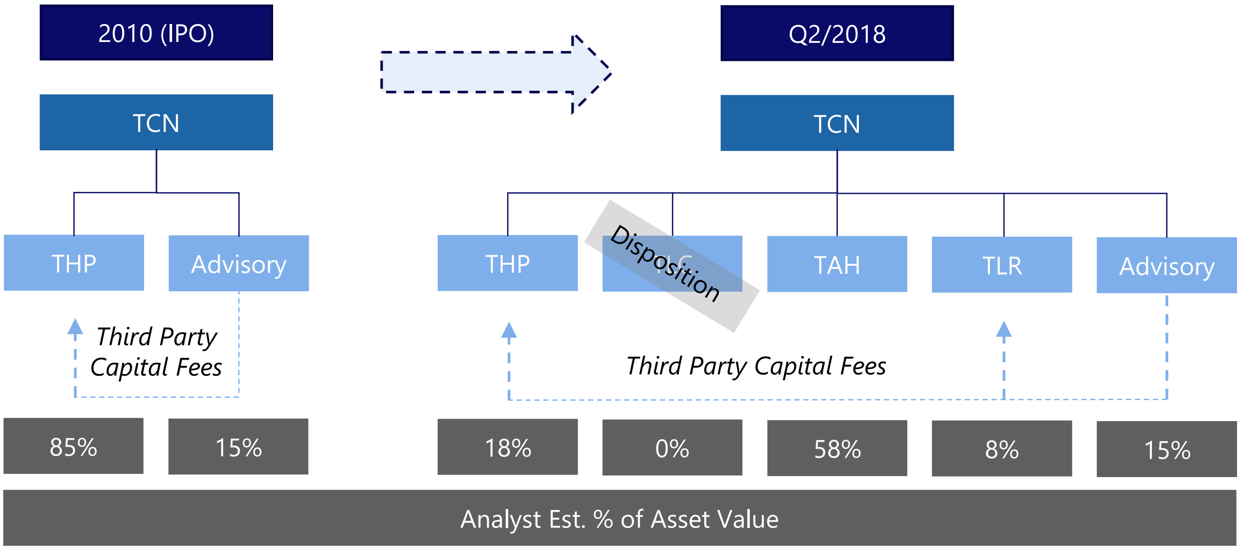
NAV Discount Analysis and Commentary Cont'd

Complex Corporate Structure and Business Segment Transformation:

The most prominent reason Tricon is at a discount is attestable to its untraditional and complicated structure. Tricon is not a REIT, which on face value deters many investors who seek to invest in high-dividend, easily understood REITs. Therefore, when retail investors seek to allocate capital to they often defer to investing in what they have invested in the past and do not want to risk investing in a company that does not fit the mold of a "traditional REIT" that they are accustomed too. Even from an institutional investing perspective, it takes an incredible amount of time and effort to fully understand the each one of Tricon's business verticals, how they interact, and how they are creating value, as they are cross invested and incorporate layers of returns that necessitate a compressive understanding of the industry and corporate structures. Not to mention that contrarian management style of Tricon, which is actively transforming and adjusting the industries in which Tricon operates and generates returns. At its IPO, 85% of Tricon's NAV was attributable to THP with the remaining being claimed by its advisory segment. Since, it has reduced its exposure to THP and opportunistically scaled its TAH platform, while simultaneously building out TLR and TLC platforms. It disposed of TLC, its U.S. manufacturing home community (MHC) and apartment portfolio, within 12-15 months of it being announced. TAH now comprises the majority of its NAV, whereas THP only accounts for 18%. In summary, Tricon operates an unconventional portfolio that does not fit the traditional retail REIT investor's portfolio and its convoluted portfolio structuring forces Tricon out of many investors' circles of competence.

EXHIBIT XVII

Rapid Business Transformation Brings Added Complexity



Source(s): Company Reports

NAV Discount Analysis and Commentary Cont'd

We will tackle each of these discount drivers independently and provide commentary based on how it changes our investment perspective of this company. When taking into consideration the infancy of the overall market and the lack of institutional investors, we see it as a general market catalyst and one where Tricon holds a unique position with its fund structures and track records. We are reasonably bullish that the market will continue to expand, assuming no substantial market corrections, and that the potential entrance of institutional capital could provide tailwinds unseen in other real estate subsectors. Real estate is a slow-moving industry, so when a new asset class arises investors are often slow to adopt it, which we believe creates an opportunity to enter a market before an influx of institutional capital.

The second issue of its lack of liquidity is an issue that we do not believe jeopardizes the inherent value or operations of Tricon. Therefore, we do not think that a lack of U.S. investor ownership within the stock is material to our investment conviction, and with time, Tricon's liquidity and the U.S. investor base will increase. This may substantiate a prolonged discount within the stock but only proves that it is being mispriced without the support of investors who, given more liquidity and exposure would invest in the name.

Finally, the issue of Tricon's structural complexity and business transformation may perpetually deter investors, implying a fixed discount to NAV. Though this topic is debatable, we believe that by disposing of assets and simplifying its reporting structure, Tricon will become more readily understood and digestible for general investors. The same issues were traditionally seen in Dream Unlimited's (Dream) corporate structure, which has historically created a discount to NAV, due to its complexity. Through dispositions and corporate simplifications, Dream has been able to become more transparent, resulting in it trading more in line with its NAV. We see Dream as a viable case study for Tricon, and we believe the continued improvement in transparency of Tricon's operations could render the same result. Finally, we view Tricon's contrarian management team favourably. Management willingly adjusts the business structure and positioning to achieve returns even if it means they need to adapt their previous strategy. We believe many REITs management teams are complacent with steady SPNOI and portfolio growth, where Tricon is actively searching to grow in new and untested markets. In this, we believe Tricon's management team's expertise and mindset differentiates it from other REITs within the industry.

Though closing the substantial discount to NAV on the surface seems like an issue for the REIT, we would like to highlight that the REIT has proven their ability to generate superior returns and NAV growth irrespective of the discount. Therefore, if the discount does not close, we still see upside in the growth story and NAV of the firm, but if the firm is able to close its discount to NAV simultaneously, it can realize returns rarely seen in the industry.

Valuation

In order to value Tricon, we conducted a sum-of-parts NAV. We valued each with separate assumptions and assessed each on a low, mid, and high assumption. For TAH, we assumed a blended cap rate 5.25%, based on their current portfolio and determined its implied net asset value using analyst NOI estimates. For TLR we assumed a forward multiple on its assumed fair value, indicating an implied 1.4x invested capital. We then assumed forward base business EBITDA multiples for Tricon's private funds, development fees, and G&A. The NAV summary assumes all mid valuation assumptions. Overall, the valuation implied a share price return of 28.28% and a total return of 31.03%. This supports Tricon's substantial discount to NAV and attractive upside.

EXHIBIT XVIII

Valuation Assumptions and Estimates

			Valuation	
	Analyst Est. NOI/Fair Value	**Low**	**Mid**	**High**
Tricon American Homes				
NTM NOI	$155,420	5.50%	5.25%	5.00%
Tricon Housing Partners				
NTM Fair Value Est.	$312,727	1.0x	1.1x	1.2x
Tricon Lifestyle Rentals				
Fair Value Change on Stabilization	$211,908	10.00%	20.00%	30.00%
Advisory Business				
Advisory fees - Private Funds	$21,478	10.5x	12.5x	14.5x
Development fees - Johnson Companies LP	$13,258	8.0x	10.0x	12.0x
Estimated G&A	($11,562)	8.0x	10.0x	12.0x

EXHIBIT XXIV

NAV Summary

NAV Summary	
Tricon American Homes	$1,060,222
Tricon Housing Partners	$344,000
Tricon Lifestyle Rentals	$139,310
Advisory Business	$275,748
Total Asset Value	$1,819,280
Less: Corporate Asset/Liabilities	($451,565)
Net Asset Value	$1,367,715
Add: Option Proceeds	$30,457
FD Net Asset Value	**$1,398,172**
FDSO	137,964
Net Asset Value per Share - USD	$10.13
Net Asset Value per Share - CAD	$13.17
Implied Share price	**$13.17**

EXHIBIT XXV

Total Return Summary

Return Summary	
Net Asset Value	$1,398,172
NAVPS (CAD)	$13.17
Current Share Price	$10.27
Implied Share Price Return	**28.28%**
Distribution Yield	2.75%
Implied Total Return	**31.03%**

Source(s): Company Reports, Scotiabank GBM, RBC Capital Markets, TD Securities Inc.,

References

1. Bloomberg
2. Capital IQ
3. Element Fleet Management Reports
4. Google Images
5. RBC Capital Markets
6. Scotiabank GBM
7. TD Securities
8. Tricon Company Reports
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10. Zillow Research