



How to build a Diversified Portfolio

The last 2 years from August 29, 2014 to May 27, 2016 saw a 10% drop in the TSX and the volatility has many investors worried about the next 12 months. When you add potential inflation jitters and the fact that mutual funds must disclose how much they make in fees (New CRMII guidelines), is the 60/40 equity / bond split still relevant? I would say that investing like it was the 1970s or 80s is like bringing a knife to a gun fight. But before we finally scare you into cash and low producing GICs, is there another alternative? Our new model creates an 80/20 portfolio of public / private investments.

There was a great commercial regarding men's suits and the owner (Sy Syms) would say that "an educated consumer is our best customer". At TriView, our goal is to educate investors and provide value-added strategies for our investors. We hope that this web page will educate you on the importance of diversity, what it means to have a diversified financial portfolio and why pension and institutional investors have included private and alternative investments to increase returns and reduce volatility in their portfolios.

We offer a strategy for investors to learn about investing in alternative and private equity investments:

- What are Alternative Investments?
- Current trends towards Alternative Investments & Regulatory Changes
- Why and how to add Alternative Investments to your portfolio?

WHAT ARE ALTERNATIVE INVESTMENTS?

We want to give you an understanding of what alternative investments are available to reduce public market volatility and inflation concerns. Alternative investments generally have these following characteristics:

- They tend not to have a correlation to traditional investments like public stocks or bonds which allows them to act as a hedge to public market volatility or inflation
- They are rarely traded in the public markets and even rarer to be offered to retail investors due to their complexity and greater regulatory hurdles compared to traditional investments
- They tend to be illiquid securities that tend to have set exits with little ability to sell before the exit term
- They tend not to have a secondary market for resale or have restricted sale covenants from the issuer
- Most financial advisers do not recommend them to investors due to their own lack of knowledge - which is why they tend to stick to stocks, bonds, mutual funds, ETFs and GICs

There are three main alternative investments that are available to retail investors:

- Real Estate
- Private Equity
- Commodities

Real Estate: More people have made money in real estate than any other kind of investment so why don't more advisors recommend real estate in their portfolio mix? As most people have owned a home or rented an apartment, investors can generally understand the basics of real estate. It's interesting that most people would have no problem leveraging a real estate investment with a mortgage. But try to explain a public market strategy of shorting or margining and their eyes glaze over! Real estate has a low correlation to the stock market, but has a positive correlation to inflation to protect against inflationary erosion. Owning real estate requires significant management and therefore most people prefer to only own their primary residence and perhaps a secondary property. Since most people's money is in their primary residence, financial advisors may recommend not to add real estate to their portfolio.

If you decide to invest in real estate beyond your home, here are a couple of common scenarios:

Public REITs: these are publicly traded Real Estate Income Trusts (REITs) that invest in specific or multiple sectors like commercial, industrial and residential. They provide some tax efficiencies and the units are normally liquid and generally move with the public markets which generally makes them more volatile than private real estate offerings.

Private REITs: Similar to public REITs except they're not as volatile and generally not as liquid.

GP/LP Model: This model is generally used for high net worth investors that invest in a specific property and the LP investors (Limited Partners) have limited liability if the development needs more cash and exposure is generally limited to the amount they have invested. This structure has tax efficiencies as well.

MFT: Mutual Fund Trust is set up for investors that would like to invest in real estate through their registered funds. MFTs can invest in single investments or perhaps private REITs

The 5 Things we look for before we invest in a real estate opportunity

1. **Job Growth** – we look for trends in job creation, type of employment, and unemployment trends
2. **Population Growth** – we look for trends in growth, demographics, and forecasts that mitigate growth
3. **Economic Growth** – we look at what is driving the economy, is it diversified and economic trends
4. **Healthy Real Estate Fundamentals** – are we too late or early? Is the market stable with positive growth trends? Is the market affordable?
5. **Business Friendly Government** – understanding municipal and provincial / state attitudes towards development (taxation, levies, growth plans)

Private Equity: There has become a greater demand for private equity offerings. Traditional investors in private equity were friends and family, angel investors and venture capitalists. Generally, these companies were start-ups with huge risks and huge rewards. Most would fail - products for "not the faint of heart".

Private equity has changed dramatically in the past 15 years as more companies choose to raise capital privately than through public markets. The days of the great "IPO" are over for many entrepreneurs as companies who tend to have market capitalization of less than \$100 million tend to be "orphaned stocks" due to lack of volume trading of their stock.

Today there are many quality businesses with strong track records and cash flow that need capital to grow their business and seek private markets for LBOs (leveraged buyouts), MBOs (management buyouts) and mezzanine capital (short term loans) to grow their business and keep themselves private.

The negative of private securities is their illiquidity, long term holds of 5 – 10 years and risk of default. That being said, with many baby boomers looking to retire there is an opportunity to buy these highly profitable companies or even invest through your registered funds.

Commodities: For those who like “hard assets” like gold, silver or diamonds, one can invest directly into these assets and hold them in funds or actually take possession of them physically. Most people prefer to buy commodities by owning public securities that are in the mining or resource sector. People who invest in commodities are generally looking for protection against inflation and the volatility of currency fluctuations or buy resources if they feel that the global economy is growing and needs resources to bring products to market. Commodities do have a potential flaw as they are volatile to price swings. We won’t delve into Hedge Funds or Structured Products as they tend to be for institutional investors.

Current trends towards Alternative Investments & Regulatory Changes

The rise of private and alternative investments has also increased the need for regulatory supervision. According to the former Chair of the Ontario Securities Commission (OSC), Howard Wetston, more money has been raised in private equity than public markets in 2013 and continues to grow. Regulatory guidelines such National Instrument N31-103 outlines Dealership obligations to ensure suitability for investors.

The OSC as of January 2016 now allows eligible investors in Ontario for the first time to invest in private and alternative investments through Offering Memorandums (OMs). They have limited the amount per year per person to \$100,000. Other regulators have followed suit to protect investors. They have also announced that future OMs must have annual third party audited financial statements that we absolutely support to encourage transparency and accountability.

They still allow investors to invest up to \$30,000 into private investments per year but any investment greater than \$30,000 needs to be through a licenced dealer. We cannot stress enough the importance to invest through an unbiased dealer that places the investor’s needs first rather than the issuer.

S&P/TSX Composite Index

■ ^GSPTSE



As you can see in the above chart of the TSX, this volatility continues to drive high net worth and institutional funds towards private and alternative investments. According to an Ernst & Young survey of customers, the two asset classes that most clients are likely to allocate capital investment are private equity and real estate. In fact, over 45% of clients are expected to increase their private equity allocation for 2016.

They are not alone, Yale in 2009 had 24% of their portfolio in private & alternative investments and in 2015 they had 32% and 52% if you include real estate. In Canada, OMERS is now 47% in 2014, Canada Pension Plan (CPP) has 30% including real estate and BCIMC had 1.4% in 2000 and now has 10.4% in 2014.

Why and how to add Alternative Investments to your portfolio?

Since we founded TriView, our company has raised over \$200,000,000 in private equity. Excluding our institutional investors, we've raised as an Exempt Market Dealer up to May 31, 2016, \$125,375,954 since our inception.

At TriView, we offer our clients 3 ways to diversify your portfolio with private & alternative investments:

- **Yield Products:** these are investments that could be real estate, financial or investing in private companies. The yields are based on cash flowing businesses whether the income comes from rent money or revenue from small to mid size companies. As of May 2016, approximately 30% of our capital deployed produces targeted yields between 7% - 12% annual returns
- **Growth Products:** These investments are riskier in the sense that they do not provide cash from current operations but the potential of increased capital appreciation over time (usually 3 – 5 year term). These investments can be real estate that are close or beginning construction or tech companies that are on the verge of explosive growth. These products would be classified as high risk but the right investment could provide returns in the 18% - 25% per year.
- **Hybrid Products:** These are investments that provide cash flow today with capital appreciation in the future. An example of this would be an apartment play where you buy a current building producing a small annual yield but with a little paint and lipstick, they are refurbished with the intent to sell at a premium. Our hybrid products produce targeted yields annually in the 4% - 6% range with a potential exit that would provide an overall return of 12% - 15% at exit

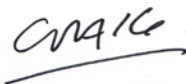
Our product mix is quite diversified and has a balanced concentration of yield and growth investments for 2016. Although we pride ourselves as a real estate investor, we have also diversified from an original mix of 80% to 60% due to some sectors and markets in Canada. We've continued to keep a low concentration in the energy sector of 2% (since September 2014) but will start to review this opportunity in the fall of 2016.

We've added more yield producing product as we anticipated back in late 2014 that there would be high volatility and low returns in the public markets. In fact, the height of the TSX over the last 2 years was August 29, 2014 of 15,625 and the market as of May 27, 2016 was only 14,105 (TSX was off -10%). To think that 30% of our issuers target yields between 7% - 12% per

annum, we've anticipated the volatility and the downturn in the public markets correctly by providing our clients with strong producing yield investments for a non-correlated diversified portfolio, compared to a portfolio fully exposed to the public markets such as the TSX. When you add our Hybrid investments from our product mix, over 64% of our product mix generates some kind of cash flow.

There are risks in any investments and remember, before making any investment in public, private or alternative investments, learn the pros and cons - and if it is too good to be true or difficult to understand, DON'T INVEST!

Please contact us today or one of our private equity specialists to learn more about investing in private and alternative investments.



Craig Burrows
President & CEO, TriView Capital Ltd.

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