

# What is a MIC?

Canada has a vibrant real estate sector, but tapping into its value through private mortgage lending requires expertise, time and significant investment capital. This is challenging – and risky – for most individual investors.

Mortgage Investment Corporations (MICs) offer a solution. MICs allow individual investors to pool their funds and leverage the expertise of a professional management team to source and administer a mortgage portfolio.

MICs have been part of Canada's alternative investment sector since 1973, when they were introduced through the Residential Mortgage Financing Act. Although they are not a new form of investment vehicle, they have grown in popularity in recent years as Canada's real estate sector has boomed.

## Key Features of a MIC

MICs have several key features that make them a unique – and often attractive – alternative investment vehicle:

### **Focus on residential.**

MICs are required to keep at least 50% of their assets invested in residential mortgages, cash or insured deposits at financial institutions that are members of the Canada Deposit Insurance Corporation.

### **Qualified investments.**

Investments in MIC securities are eligible for registered accounts such as RRSPs, RRFs and TFSAs.

### **Management fee.**

MICs are administered by a professional management team, which is paid a management fee to handle the fund's day-to-day operations.

### **Eligibility to invest.**

If a MIC is private, shares in the MIC can be sold only to qualified investors who meet a minimum income and/or financial asset threshold. If the MIC is public and sold by prospectus, anybody can invest.

### **Interest income.**

MIC income distributions received by investors are generally treated as interest income. Distributions can be paid out in cash or reinvested into the MIC.

### **100% distribution of net income.**

MICs act as flow-through entities with the ability to distribute all net income to shareholders to avoid corporate taxation.

# What is the Risk?

As with any investment, there are risks associated with investing in MICs. Here are some of the key risk factors to consider when assessing a MIC investment:

## **Market downturns.**

MICs use diversification to spread risk over a broad portfolio of mortgages. However, a market-wide downturn poses a risk for MICs as they will typically see an increase in mortgage defaults and potentially underperforming assets.

## **Underlying mortgage portfolio.**

A MIC may use a range of lending strategies within their mortgage portfolio, and this can influence their overall risk. For example, a MIC investing in a portfolio of second mortgages may be able to achieve a higher rate of return given its leveraged position and higher interest rates, but it also bears more risk compared with a portfolio of first mortgages.

## **Leverage.**

Some MICs leverage their shareholder capital to obtain bank loans. While this can help them expand their mortgage portfolio and potentially boost returns, it also increases the risk to shareholders in the event of a major market downturn and increased borrower defaults.

## **Cash flow management.**

Poor cash flow management can result in a liquidity crunch or inefficient use of capital. A skilled management team will carefully balance inflows from new investments and repaid mortgages with outflows for new mortgage lending.



**To mitigate risk, all MICs are required to submit their financial statements for third-party auditing.**

## A Unique Player in the MIC Space

Frontenac MIC has a track record spanning more than 15 years as a Prospectus offered investment. The fund's investment strategy offers investors a rare opportunity to invest on the debt side of Ontario's residential real estate market in a well managed, conservative fund with a proven track record of success.



### **Our status as a publicly offered MIC has several advantages:**

- ✓ Since Frontenac is a Public, Prospectus offered investment, accredited investor regulations do not apply. All investors are eligible.
- ✓ Full transparency thanks to publicly available financial data.
- ✓ No subscription agreements, making it easy to fit Frontenac into any portfolio.

To learn more about how you can tap into the valuable Canadian real estate sector through Frontenac, visit us at [www.fmic.ca](http://www.fmic.ca)