Cameron Stephens High Yield Mortgage Trust

A Fund Run by One of the Largest Alternative Lenders in Canada – Initiating Coverage

Expected Yield (2023): 9.2%
Rating*: 2
Risk*: 3

Sector / Industry: Mortgage Investment Entities

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

Alexis Cabel, BAEcon
Equity Analyst

Highlights

- Cameron Stephens High Yield Mortgage Trust (CSMT), formed in 2019, is a Mortgage Investment Entity (MIE) **focused on offering short-term residential construction/development mortgages in Ontario**.
- Its manager, Cameron Stephens Mortgage Capital Ltd., has been in the mortgage business since 2004, and **currently manages $3B in assets** for financial institutions (such as Sun Life Financial/TSX: SLF, Laurentian Bank/TSX: LB, Equitable/TSX: EQB, Home Trust/TSX: HCG, MCAN/TSX: MKP, and Central 1 Credit Union), and three funds.
- CSMT co-invests in mortgages originated by the manager for its institutional clients, offering investors an opportunity to **place their capital alongside large financial institutions**.
- At the end of 2022, CSMT held $69M in mortgages, up 47% YoY. The yield increased from 7.35% in 2021, to 7.96% in 2022, and to **9.60% (annualized) in Q1-2023**, due to higher interest rates. 80%+ of mortgages are floating rates. Due to rising financial instability, and cooling inflation, we are expecting rates to start declining in H2-2023.
- Over the past few months, several large property developers have defaulted on their mortgages, due to rising rates, and a softer pre-sales market for residential units. We believe these implosions indicate looming liquidity constraints for property developers. For conservatism, we are modelling higher loan loss allowances for all of the lenders under our coverage. **At the end of 2022, CSMT had nil stage three (impaired) mortgages.** The fund has not had any realized losses since inception. **We believe CSMT's low LTV (63%) puts them in a comfortable position.**
- **We are forecasting a yield of 9.2% in 2023, up from 8.0% in 2022.** As we are expecting rates to start declining later this year, we are expecting an increase in appetite for high-yielding funds, such as CSMT.

Offering Summary	
Issuer	Cameron Stephens High Yield Mortgage Trust
Securities Offered	Trust Units
Unit Price	$10
Minimum Subscription	Only for accredited investors: $150k (direct investors)/$25k (investments through IAs/PMs)
Distributions to Investors	Monthly
Redemption Fee	Nil; provides monthly redemptions
Management Fee	1% p.a. of mortgages + 75% of loan origination fees
Eligibility for Registered Plans	Yes
Auditor	Grant Thornton

Risks

- Concentration risk – 95%+ of mortgages are in ON
- **Highly competitive sector**
- Construction/development properties tend to carry higher risks than already-built operating properties
- **A downturn in the real estate sector** may impact the company's deal flow
- Principal is not guaranteed; no guaranteed distributions
- **Default rates can rise during recession**

Key Financials /YE: Dec 31	2020	2021	2022	2023E	2024E
Mortgage Receivables	$22,164,711	$46,896,049	$68,784,980	$90,000,000	$110,000,000
Debt to Capital	0%	0%	1%	2%	2%
Revenue	$1,294,477	$3,186,635	$5,973,698	$8,653,781	$10,400,000
Net Profit	$1,079,300	$2,610,600	$4,822,310	$7,215,472	$8,490,797
Dividend Yield	7.6%	7.4%	8.0%	9.2%	8.7%

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

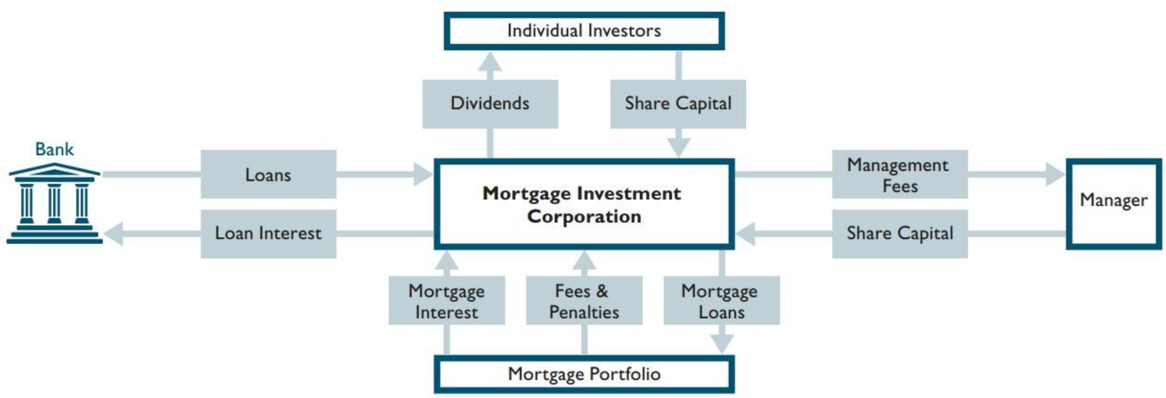
An Overview of MICs/MIEs

CSMT is a mutual fund trust/Mortgage Investment Entity ("MIE"), with a similar business model as MICs. Although a MIC is required to hold at least 50% of its holdings in residential mortgages and cash, a mutual fund trust does not have such a restriction. Another key difference is that all investments made by MICs must be in Canada. A trust structure allows an entity to invest outside of Canada. **In order to avoid entity level taxation, MIEs typically pay out 100% of taxable income to investors.**

Short-term loans secured by real estate

MIEs provide short-term (typically one year) loans secured by real estate in Canada. They do not have to conform to the lending guidelines of banks, and other traditional lenders. MIEs have more flexible lending guidelines, and therefore, can offer individually structured/tailor-made loans to meet borrowers' specific requirements. Also, banks have lengthy due diligence processes, and are typically unable to meet borrowers' quick capital needs. **The above reasons allow MIEs to charge higher interest rates compared to banks/traditional lenders.**

The following chart shows the business model of a typical MIC/MIE:



Source: CMHC

- Most MIEs are externally managed by their founders through a separate management company. In return, the management company earns management fees and/or performance fees from the MIE, and a portion of the origination fee received from a borrower.

- MIEs generate revenue from interest earned from borrowers

- MIEs finance their mortgages through debt (banks/traditional lenders), and equity (investors)

MIEs are audited/regulated by their respective provincial securities commissions. However, they are **not subject to federal government mortgage lending rules**, such as reserve requirements and loan to value limits. This is because, unlike banks and the other financial institutions, MIEs do not take deposits.

200 MICs managing approximately $15B

In a recent market study conducted for the Canada Mortgage and Housing Corporation ("CMHC"), we estimated that there are approximately **200 MICs in the country managing approximately $15B,** accounting for 0.8% of the total residential mortgage credit in Canada ($1.9T).

Company Overview and Manager Background

The Manager, formed in 2004, has 50+ employees, with offices in Toronto, Vancouver, and Calgary

Founded in 2019, the fund is managed by Cameron Stephens Mortgage Capital Ltd. (founded in 2004), **owned by entities controlled by Scott Cameron and George Frankfort**. The Manager manages $3B in assets for financial institutions, and three funds. In addition to CSMT, the Manager runs two funds - Bay Street High Yield Mortgage Limited Partnership (formed in 2003/$350M in AUM), and Cameron Stephens Mortgage Investment Corporation (CSMIC/formed in 2014/$59M in AUM). **All three funds invest alongside institutional capital placed by the Manager.**

Originates and Manages Mortgages for Institutions

Historic Yields and Loan Losses

We note that the Manager has an excellent track record

Since inception, BSHY has yielded 11.4% on average (since 2004), CSMT has yielded 7.6% (since 2020), and CSMIC has yielded 7.9% (since 2015)

BSHY has had negligible realized losses

CSMT and CSMIC have never had realized losses

Year	BSHY Return on Partners' Equity	Losses (% of Portfolio)
2004	11.5%	0.00%
2005	12.7%	0.00%
2006	13.9%	0.00%
2007	11.5%	0.67%
2008	9.1%	3.44%
2009	16.2%	-0.49%
2010	15.1%	-2.99%
2011	11.7%	1.04%
2012	10.0%	0.87%
2013	11.2%	-0.10%
2014	10.9%	-0.13%
2015	10.7%	-0.05%
2016	10.5%	-0.04%
2017	10.8%	-0.07%
2018	9.1%	0.43%
2019	9.1%	0.63%
2020	10.8%	0.00%
2021	10.3%	-0.04%
2022	10.9%	0.00%
Five-Year Avg	**10.0%**	**0.20%**
10-Year Avg	**10.4%**	**0.06%**
Since Inception	**11.4%**	**0.17%**

- *"-" implies recoveries*

CSMT		
Year	Net Return	Losses (% of Portfolio)
2020	7.61%	0
2021	7.35%	0
2022	7.96%	0
2023 Q1	9.60% *	0
	*Annualized	
Three-Year Avg	**7.64%**	

CSMIC		
Year	Net Return	Losses (% of Portfolio)
2015	6.10%	0
2016	6.80%	0
2017	6.83%	0
2018	8.20%	0
2019	9.32%	0
2020	9.23%	0
2021	7.85%	0
2022	8.61%	0
2023 Q1	10.20% *	0
	*Annualized	
Three-Year Avg	**8.56%**	0
Five-Year Avg	**8.64%**	0

Source: Company/FRC

The manager receives 1% p.a. of mortgages outstanding as management fees, and 75% of origination fees charged to borrowers (which is typically 1%-2% of a total mortgage), and nil performance fee. **Overall, we estimate that management fees and operating expenses total 1.5% of mortgage receivables – which is in line with comparables of similar size.**

Brief biographies of the management team follow.

Management owns 0.6% of the fund's units

Founders (Scott Cameron and George Frankfort) also hold 30% of BSHY's equity; since BSHY co-invests in approximately 80% of CSMT's loans, we believe the interests of founders and CSMT investors are aligned

Management Team	Position	Profile
Scott Cameron	Chairman/CEO/Co-Owner	Prior to establishing the Manager in 2004, Mr. Cameron was a founding partner in MCAP, one of Canada's leading mortgage banking firms.
George Frankfort	Co-Owner	A founding partner of the Alpa Lumber Group, the largest wholesale lumber supplier in Southern Ontario. He is also a partner in both Lifetime Developments (a major high-rise condo developer), and Falconcrest Homes
Steve Cameron	Executive Vice President	11 years of experience in the mortgage industry; his team has originated $3+ billion of new financings since 2015, growing Cameron Stephens' portfolio to 175+ active deals, with 100+ key developer relationships.
David Bienstock	Senior VP, Revenue and Operations	Joined the company in 2021; 20+ years of experience in sales, operations and marketing functions. David holds a law degree from Western University and a BA in economics from York University.
Katie Bonar	VP, Capital Markets	Joined Cameron Stephens in 2012; directly responsible for the 300+ investors and $130M of CS' funds. Katie is a CFA charterholder and leads many strategic initiatives to grow and diversify the business.
Daniel Marchand	Managing Director, Capital Markets	25 years of experience in financial services, including head of sales and marketing at Bentall Green Oak (BGO), Trez Capital, Nuveen, and Lazard. He holds a degree in Economics from Concordia University.
Michael Sheehan	CFO	10+ years of real estate and banking experience, including CFO for Slate Office REIT, and a senior manager at Ernst & Young LLP. Michael is a CPA, CA and holds an Honours Bachelor of Accounting degree from Brock University.
Brad Wise	Senior VP & Managing Director Western Canada	20+ years of real estate finance, asset management, and transaction experience; Directly involved in the acquisition, financing and monetization of over $1.2B of real estate assets since 2002. Brad holds a MBA from Simon Fraser University

Source: FRC / Company

Investment Strategy

Focused on short-term loans to developers in ON

- Primarily focused on first and second mortgages on residential and commercial properties in Canada
- The fund **co-invests in mortgages** originated by the Manager for their institutional clients, as well as the other two funds under management
- Loan sizes typically range **between $5M and $50M; CSMT's share is typically 5%-10%, or $0.5M to $3M**
- No more than 10% of AUM will be invested in any single loan
- No single borrower will account for more than 15% of AUM
- Typical mortgage terms of six to 24 months
- The weighted **average LTV of the portfolio will not exceed 75%**

CSMT's yield is slightly higher than that of comparables

At the end of 2022, CSMT had lower exposure to first mortgages, and nil delinquent mortgages / foreclosures

CSMT does not use leverage to enhance yields

The following table shows how CSMT's portfolio compares to that of other similar MICs (with AUM of $100M+) focused on residential construction/development mortgages, such as Romspen Mortgage Investment Fund, Atrium Mortgage Investment Corporation (TSX: AI), and Firm Capital Mortgage Investment Corporation (TSX: FC).

	CSMT	Average
First Mortgage	81%: 49% (priority) / 32% (sub)	91%
B.C.	2%	21%
ON	97%	57%
AB	1%	5%
Others	0%	18%
LTV	63%	64%
Yield (2022)	8.0%	7.5%
Debt to Capital	1%	34%
Average Loan Size ($M)	$1.14	$11.65
Delinquent & Foreclosures	0.0%	5.6%
Loan loss allowances	0.7%	1.0%

Source: FRC / Various

Portfolio Details (YE: December 31st)

Mortgage receivables were up 47% in 2022

Balance Sheet (YE - Dec 31)	2019	2020	2021	2022
Cash and Equivalents	$35,187	$56,082	$2,129,835	$960,911
Mortgage Receiables (net)	$7,489,620	$22,164,711	$46,896,049	$68,784,980
Prepaid Expenses and Other Assets			$1,558	$1,800
Total Assets	**$7,524,807**	**$22,220,793**	**$49,027,442**	**$69,747,691**
Accts Payable and Accrued Liabs	$38,067	$229,026	$427,396	$746,405
Loans				$400,000
Unearned Revenue	$26,526	$37,733	$90,536	$94,448
Total Liabilities	**$64,593**	**$266,759**	**$517,932**	**$1,240,853**
Unitholders' Equity	$7,460,214	$21,954,034	$48,509,510	$68,506,838
Total SE	$7,460,214	$21,954,034	$48,509,510	$68,506,838
Total Liabilities and SE	**$7,524,807**	**$22,220,793**	**$49,027,442**	**$69,747,691**
Debt to Capital	0%	0%	0%	1%

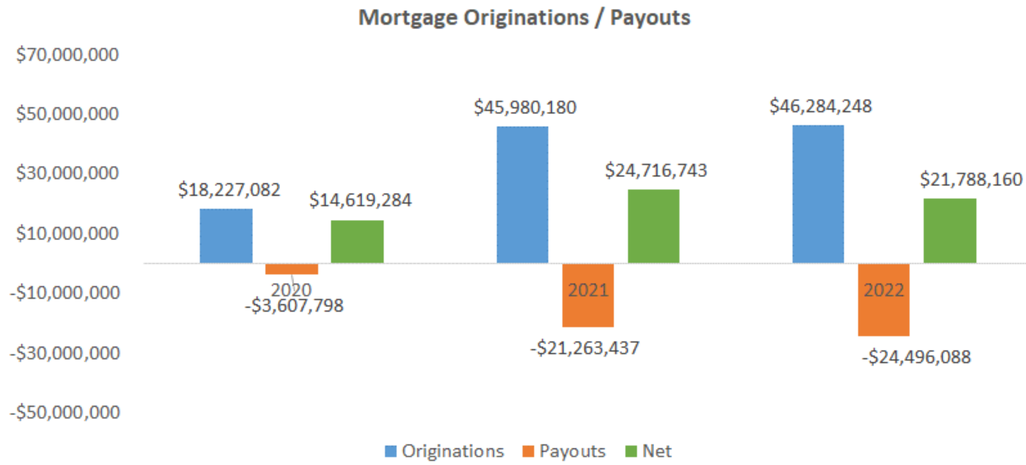
Source: Company / FRC

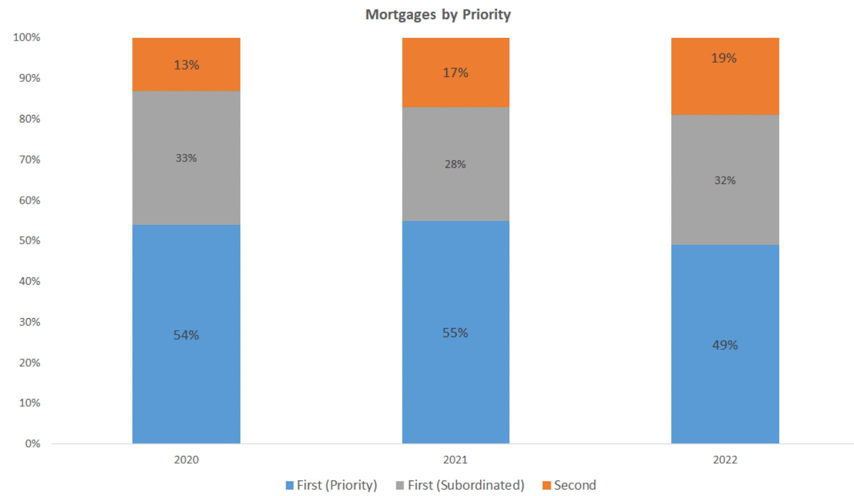
Originations were up 1% in 2022; repayments were up 15%

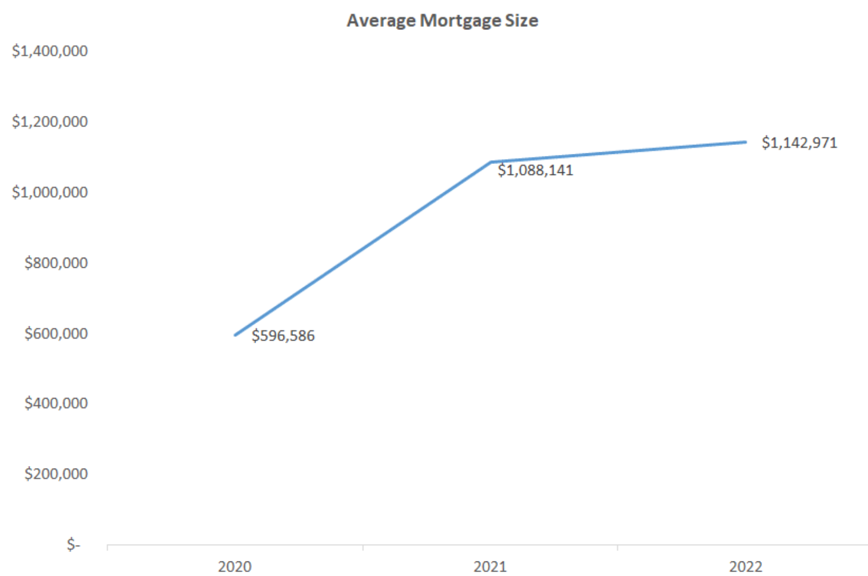
At the end of 2022, priority first mortgages accounted for 49% of outstanding mortgages

In addition, the fund held subordinated first mortgages (32%; these mortgages have lower priority relative other co-investors of the Manager), and second mortgages (19%; these mortgages have lower priority vs third-party lenders)

The average mortgage size was up 5% in 2022

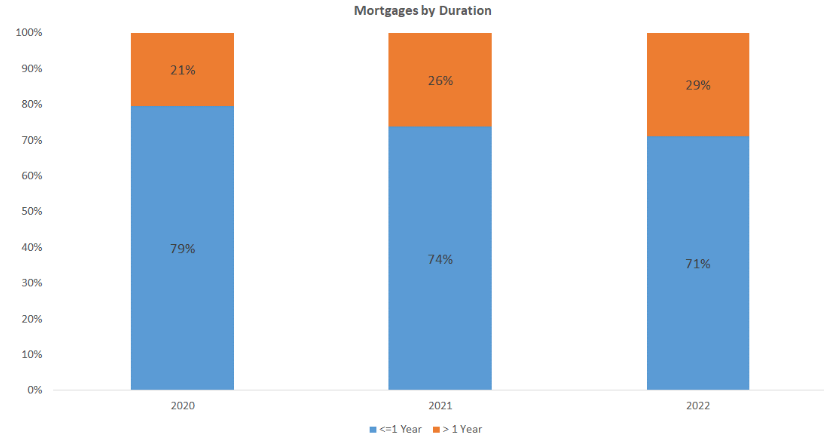






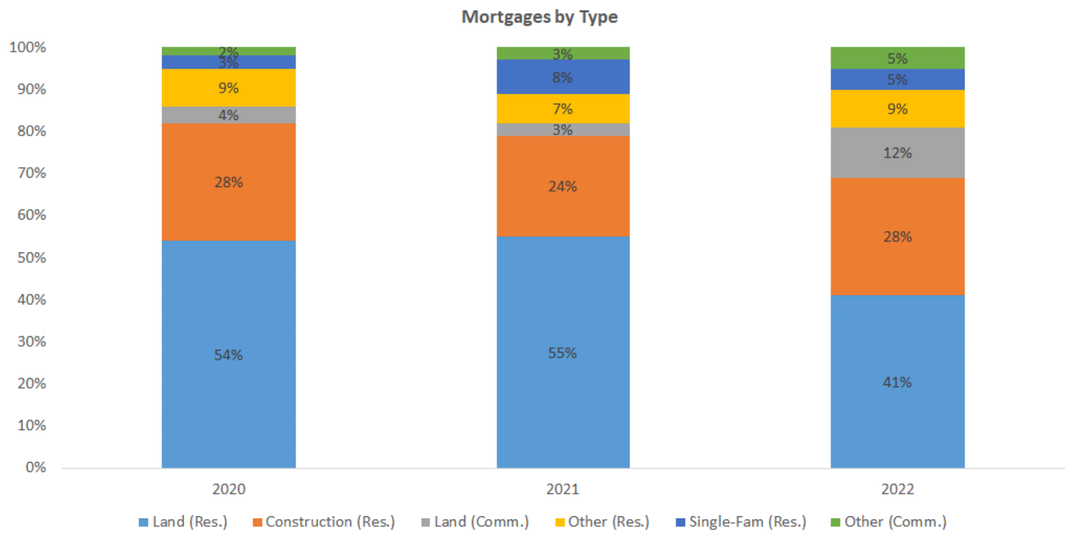
Source: Company / FRC

71% of mortgages had terms of <=12 months



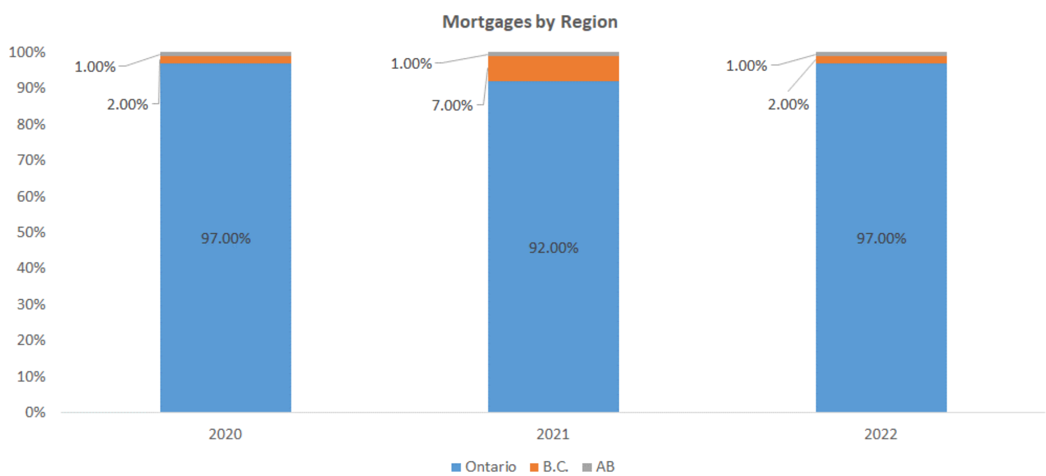
At the end of 2022, residential properties accounted for 83%

Residential land and construction properties accounted for 69%



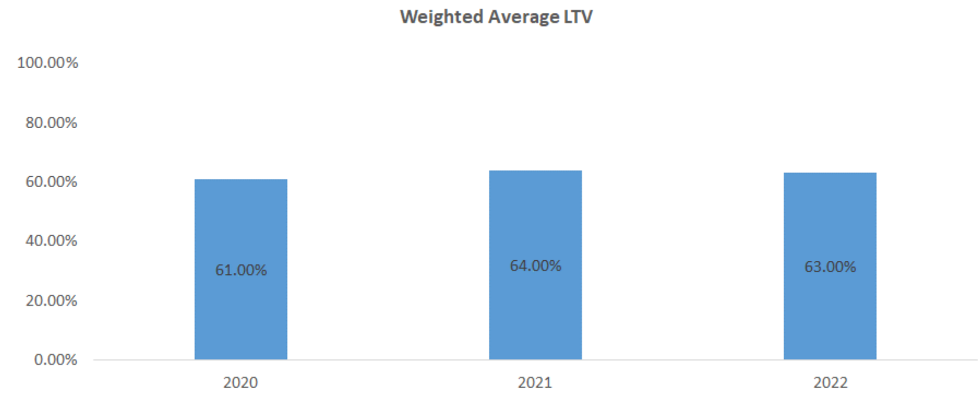
ON accounted for 97% of mortgages, followed by B.C. (2%), and AB (1%)

The Greater Toronto Area (GTA) accounted for 72%

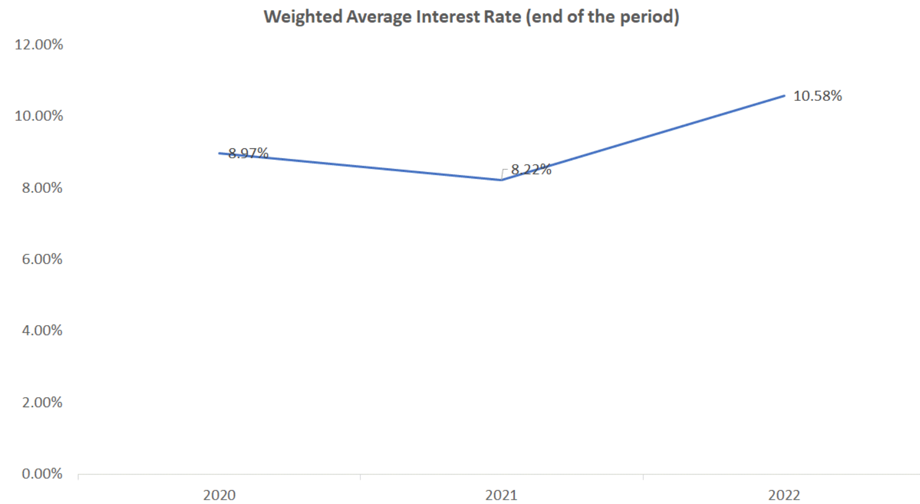


Source: Company / FRC

LTV has been relatively steady



Lending rates increased in 2022 as 80%+ are floating rate mortgages



Nil realized losses or stage three (impaired) mortgages

	2020	2021	2022
Loan loss allowances (end of period)	$45,000	$171,400	$465,600
% of Total Mortages	0.20%	0.37%	0.68%
Actual/Realized Losses	$0	$0	$0
% of Total Mortages	0.0%	0.0%	0.0%
Impaired Mortgages (Stage 3)	$228,972	$0	$0
% of Total Mortages	1.0%	0.0%	0.0%

Source: Company / FRC

Financials

2022 revenue was up 76% YoY

Distributions were up 87% YoY

Income Statement (YE - Dec 31)	2020	2021	2022
Mortgage Interest Income	$1,234,541	$3,043,160	$5,761,431
Other Income	$59,936	$143,475	$212,267
Revenue	**$1,294,477**	**$3,186,635**	**$5,973,698**
G&A	$18,000	$44,382	$156,969
Bank Charges and Interest	$513	$834	$8,575
Management Fee	$151,664	$404,419	$691,644
Loan Loss Provisions	$45,000	$126,400	$294,200
Expenses	**$215,177**	**$576,035**	**$1,151,388**
Net Income (Loss)	**$1,079,300**	**$2,610,600**	**$4,822,310**
Distributions Declared	**$1,124,300**	**$2,736,889**	**$5,116,597**
Units	2,199,904	4,868,080	6,897,242
Distributions/Unit	$0.76	$0.74	$0.80
NAV per Unit	$10.00	$10.00	$10.00

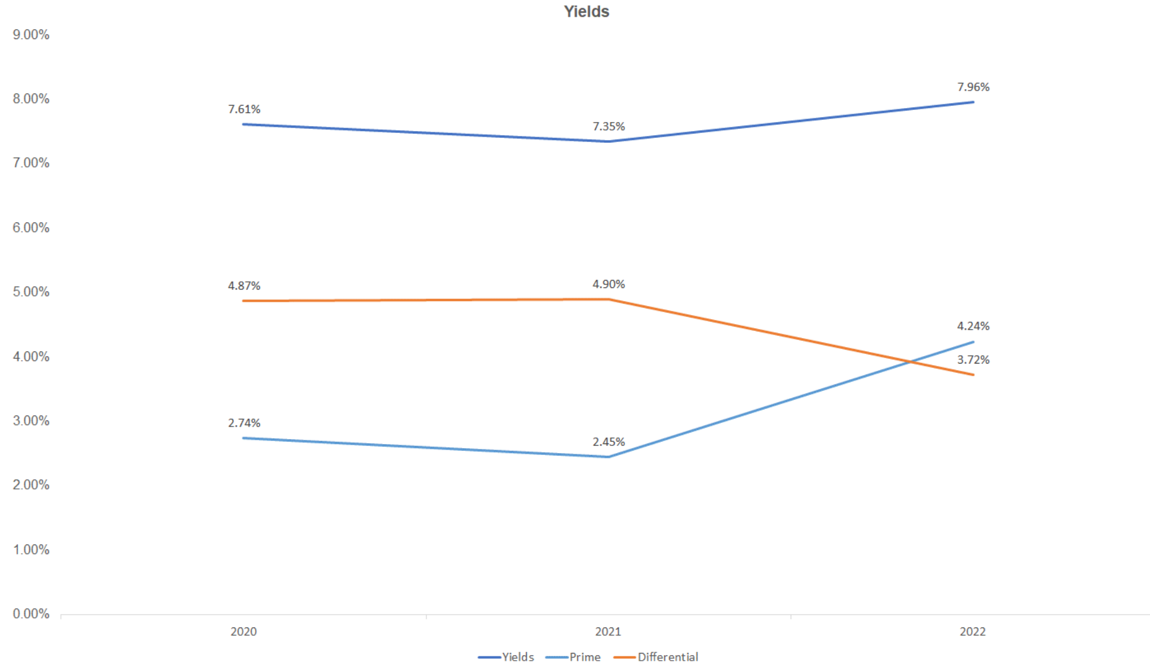
Due to higher lending rates, yields increased from 7.35% in 2021, to 7.96% in 2022, to 9.60% (annualized) in Q1-2023

% of Mortgage Receivables (net)	2020	2021	2022
Mortgage Interest Income	8.33%	8.81%	9.96%
Other Income	0.40%	0.42%	0.37%
Revenue	**8.73%**	**9.23%**	**10.33%**
Less:			
G&A	0.12%	0.13%	0.27%
Bank Charges and Interest	0.00%	0.00%	0.01%
Management Fee	1.02%	1.17%	1.20%
Loan Loss Provisions	0.30%	0.37%	0.51%
Net Income	**7.16%**	**7.43%**	**8.07%**
Investors' Returns % of Inv. Capital	7.64%	7.77%	8.75%
Reported Dividends	**7.61%**	**7.35%**	**7.96%**

Note that the above figures may be slightly different from the figures reported by the MIE due to differences in the method of calculation. We used the average of the opening and year-end balances of mortgages outstanding and invested capital.

Source: Company / FRC

In 2022, the differential declined due to increased competition



Source: Company / FRC

FRC Projections and Rating

We are projecting a yield of 9.2% in 2023, up from 8.0% in 2022

For conservatism, we are assuming loan loss allowances to increase by 100% this year; we note that banks and conventional lenders had raised their allowances by 100%-200% during past recessions

Key Financials /YE: Dec 31	2020	2021	2022	2023E	2024E
Mortgage Receivables	$22,164,711	$46,896,049	$68,784,980	$90,000,000	$110,000,000
Debt to Capital	0%	0%	1%	2%	2%
Revenue	$1,294,477	$3,186,635	$5,973,698	$8,653,781	$10,400,000
Net Profit	$1,079,300	$2,610,600	$4,822,310	$7,215,472	$8,490,797
Dividend Yield	7.6%	7.4%	8.0%	9.2%	8.7%

Loan Loss Allowances (% of Mortgages)	2023 Yield
0%	9.82%
50%	9.52%
100%	9.22%
200%	8.63%
300%	8.03%

Source: FRC

Our estimate for the 2023 yield varies between 8.0% and 9.8%, using various assumptions for loan loss allowances

We are initiating coverage with an overall rating of 2, and a risk rating of 3. We believe a major advantage of CSMT is that it offers investors an opportunity to place their capital alongside large financial institutions. As we are expecting rates to start declining later this year, **we are expecting an increase in appetite for high-yielding funds, such as CSMT**. Key risks include a softer mortgage origination market, and higher default rates.

FRC Rating	
Expected Yield (2023E)	9.2%
Rating	2
Risk	3

Risks

We believe the fund is exposed to the following key risks (not exhaustive):

- Concentration risk – 95%+ of mortgages are in ON
- **Highly competitive sector**
- Construction/development properties tend to carry higher risks than already-built properties
- Investments in mortgages are typically affected by macroeconomic conditions, and local real estate markets
- **A downturn in the real estate sector** may impact the company's deal flow
- Principal is not guaranteed; no guaranteed distributions
- Timely deployment of capital is critical
- **Default rates can rise during recession**

APPENDIX

Income Statement (YE - Dec 31)	2020	2021	2022	2023E	2024E
Mortgage Interest Income	$1,234,541	$3,043,160	$5,761,431	$8,336,211	$10,000,000
Other Income	$59,936	$143,475	$212,267	$317,570	$400,000
Revenue	**$1,294,477**	**$3,186,635**	**$5,973,698**	**$8,653,781**	**$10,400,000**
G&A	$18,000	$44,382	$156,969	$215,457	$271,382
Bank Charges and Interest	$513	$834	$8,575	$20,000	$100,000
Management Fee	$151,664	$404,419	$691,644	$952,710	$1,200,000
Loan Loss Provisions	$45,000	$126,400	$294,200	$465,600	$609,203
Expenses	**$215,177**	**$576,035**	**$1,151,388**	**$1,438,310**	**$1,909,203**
Net Income (Loss)	**$1,079,300**	**$2,610,600**	**$4,822,310**	**$7,215,472**	**$8,490,797**
Distributions Declared	**$1,124,300**	**$2,736,889**	**$5,116,597**	**$7,215,472**	**$8,490,797**
Units	2,199,904	4,868,080	6,897,242	8,847,242	10,847,242
Distributions/Unit	$0.76	$0.74	$0.80	$0.92	$0.86
NAV per Unit	$10.00	$10.00	$10.00	$10.00	$10.00

Balance Sheet (YE - Dec 31)	2020	2021	2022	2023E	2024E
Cash and Equivalents	$56,082	$2,129,835	$960,911	$887,844	$931,894
Mortgage Receiables (net)	$22,164,711	$46,896,049	$68,784,980	$90,000,000	$110,000,000
Prepaid Expenses and Other Assets		$1,558	$1,800	$1,890	$1,985
Total Assets	**$22,220,793**	**$49,027,442**	**$69,747,691**	**$90,889,734**	**$110,933,878**
Accts Payable and Accrued Liabs	$229,026	$427,396	$746,405	$783,725	$822,912
Loans			$400,000	$2,000,000	$2,000,000
Unearned Revenue	$37,733	$90,536	$94,448	$99,170	$104,129
Total Liabilities	**$266,759**	**$517,932**	**$1,240,853**	**$2,882,896**	**$2,927,040**
Unitholders' Equity	$21,954,034	$48,509,510	$68,506,838	$88,006,838	$108,006,838
Total SE	$21,954,034	$48,509,510	$68,506,838	$88,006,838	$108,006,838
Total Liabilities and SE	**$22,220,793**	**$49,027,442**	**$69,747,691**	**$90,889,734**	**$110,933,878**
Debt to Capital	0%	0%	1%	2%	2%

Cash Flow (YE - Jun 30)	2022	2023E	2024E
Net Income (Loss)	$4,822,310	$7,215,472	$8,490,797
Non-Cash Items	$294,200		
Change in WC	-$72,292	$41,953	$44,050
Cash from Operating Activities	**$5,044,218**	**$7,257,424**	**$8,534,848**
Equity	$15,175,018	$19,500,000	$20,000,000
Debt	$400,000	$1,600,000	
Others		-$7,215,472	-$8,490,797
Cash from Financing Activities	**$15,575,018**	**$13,884,528**	**$11,509,203**
Increase in mortgage loans (net)	-$21,788,160	-$21,215,020	-$20,000,000
Increase in cash held in trust (net)	$2,129,677		
Cash from Investing Activities	**-$19,658,483**	**-$21,215,020**	**-$20,000,000**

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	32%	Risk - 2	10%
Rating - 3	46%	Risk - 3	40%
Rating - 4	8%	Risk - 4	32%
Rating - 5	4%	Risk - 5	8%
Rating - 6	1%	Suspended	10%
Rating - 7	0%		
Suspended	9%		

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