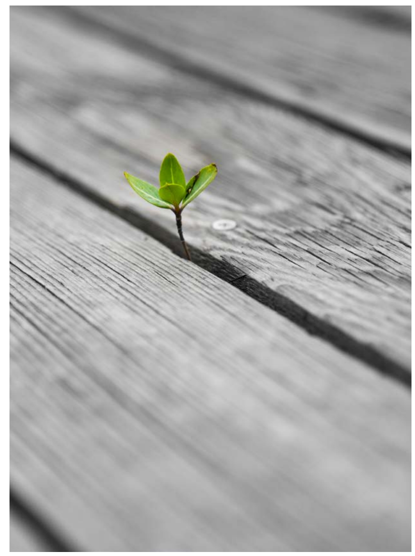
RAINTREE
FINANCIAL SOLUTIONS

The Raintree Report
Issue #1: Fall 2015

Introducing The Raintree Report

We are excited to welcome you to the very first edition of The Raintree Report. Each quarterly issue will feature updates from Head Office and our Private Wealth Advisors, new product information and success stories, insights into investment decision-making, industry articles and much more. This is the next step in our evolution as a firm and in-line with our dedication to delivering unparalleled value to our clients. Our goal is to provide investors with a competitive edge by sharing relevant news and industry developments.

Your feedback and suggestions are welcome and we encourage you to ask questions. We look forward to sharing our insights and updates with you, and hope you find The Raintree Report both beneficial and interesting!



Investment Updates

ICM VI Realty Trust

In September, management announced significant progress towards achieving its investment objectives for the trust by successfully selling one property and listing a second property for sale, well ahead of the targeted investment horizon. Philip Professional Center was sold in August 2015 for net proceeds of $8.8 million. The gross purchase price of the property was $7.7 million in September 2012, including $2.7 million of equity. Gulfstream Plaza is currently listed for sale at $13.8 million. The total investment in the property was $9.6 million in January 2014, including $5.0 million of equity. Please note all funds above are in USD.

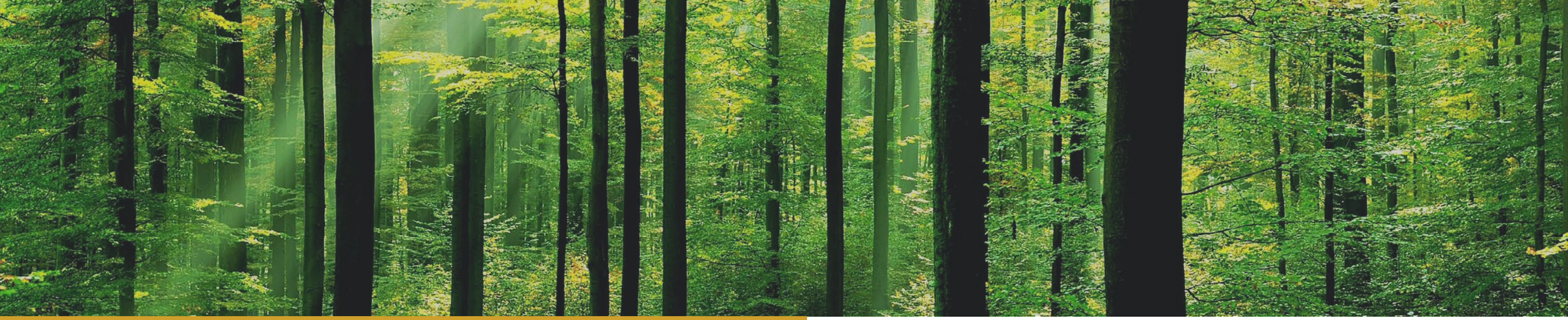
Invico Balanced Real Estate Fund (IBRE)

In September, IBRE announced a special distribution to unitholders of $1.18/unit (>10%/unit), due to a refinancing of the fund's Brooks, AB property. Management is targeting an additional special distribution within 6 months once the building is fully stabilized.

Rockspring Capital Texas Real Estate Trust (Rockspring 1)

In July, Rockspring announced the sale of one of its properties and funds were distributed to investors. The property represented 22% of the original $25 million CDN raised. The return on capital deployed was 109.6% IRR over just a 7 month ownership period. Further, Rockspring recently released an updated Schedule of Property Exits, which revealed a weighted average 24.2% IRR on property exits, over all the organizations previous funds.

Previous results are not necessarily reflective of future performance.



Currency: A Two-Sided Coin

As Canadians we have a multitude of investment options available to us. With the advent of the private capital markets, represented by firms like Raintree, this now includes private alternative investments. One such option available to us is choosing where, geographically, to invest our money. A key determinant of this choice is the currency our investment will be exposed to. Many investors shy away from investing in other countries (like the United States) because of the uncertainty surrounding currency movements. This article will share Raintree's perspective on currency and explain why investors should not make decisions that are heavily biased by one specific risk factor in isolation. It is important to keep in mind that if currency impacts an investment downwards, it may very likely impact a different investment upwards - particularly in a diversified portfolio.

In the Canadian Pension Plan's (CPP) 2013 Annual Report, the investment team explains why they deliberately choose not to hedge currencies. They state:

> *"The currency impact of exchange rate fluctuations on the volatility of total returns is minimal. By far the largest component of [an investment's] volatility arises from the local market returns themselves. We see little reason to expect a sustained long-term trend to net returns from exchange rate movements."*
>
> — ***Canadian Pension Plan Annual Report 2013***

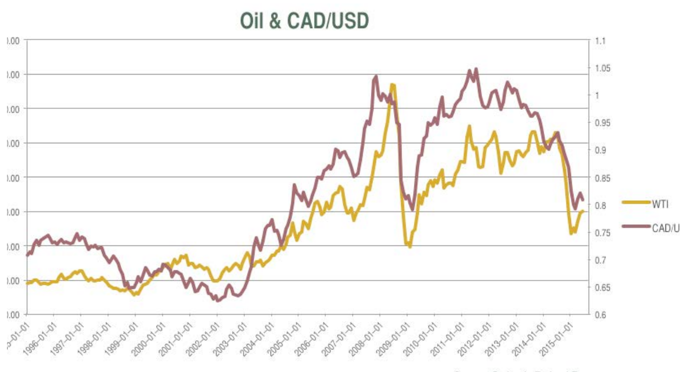
In addition, the CPP goes on to highlight that the Canadian dollar provides their portfolio with natural benefits to the investments they make.

> *"If the Canadian dollar strengthens versus other currencies, it will most likely be accompanied by strength in the Canadian economy... This represents a natural hedge in the structure of the CPP, greatly reducing the need for explicit currency hedging of foreign investments in the CPP fund."*
>
> — ***Canadian Pension Plan Annual Report 2013***

In essence, the CPP believes that they don't need to concern themselves with the movement of other currencies because at the end of the day the currency changes will either benefit their foreign investments or benefit their Canadian investments. At least one of the two will win, so why worry about it!

We can apply this same logic to the portfolio of the average Canadian investor. When mixing US based investments in a portfolio of Canadian assets, we can expect that any declines in the US dollar will be offset by an appreciating Canadian dollar and by extension, Canadian economy. Logically, the strengthening Canadian economy will support the positive performance of the Canadian investments in the portfolio.

Let's look at a specific example and assume we are heavily invested in the oil and gas market in Canada. In the chart below we've plotted the price of oil (yellow) and the CAD/USD exchange rate (red). It is quite clear just how closely the two move together; when oil prices are high, the Canadian dollar tends to be high and when oil prices decline, so to does the Canadian dollar. This presents us with a unique opportunity to better protect our oil and gas investments against loses. By purchasing an investment based in US dollars we can expect that if oil declines, (and thus our oil and gas investments) the US dollar will appreciate. The gain we make from the appreciating US dollar investment helps offset a portion of our oil and gas loses. Of course logically the opposite also holds true.



Source: St. Louis Federal Reserve

The second point the CPP makes is that currency doesn't impact returns nearly as much as the investment itself. Let's do some quick math. For the purposes of this exercise we're going to assume one Canadian dollar is invested today at $.80 (CAD/USD) and it is invested in a US based company. In five years the company returns 2x the original investment. If currency stays constant, there is a 100% gross return or 15% on an IRR basis.

Now, what happens if the currency changes?

If in that time the US dollar depreciates (CAD appreciates) to $.85, the total return goes to 88% and the IRR is adjusted downward by only 1.4%. If it continues to depreciate to $.75 the total return goes up to 113% and the IRR goes up by 1.5%. There is no doubt that currency can (and will) impact the return of an investment - but it is relatively small compared to the return from the investment itself.

We certainly do not hold ourselves to be currency specialists, however we can make observations of the market. The Canadian resource industries continue to decline, we are in a recession and in the face of this the Bank of Canada has reduced interest rates. At the same time, the United States economy appears to be accelerating. The Fed is expected to raise overnight rates before Canada, which would effectively strengthen the US dollar relative to the Canadian dollar. When we look back on a much longer time horizon we can see the CAD/USD exchange rate traded for 10 consecutive years at rates below those today. Again, these aren't predictions, simply observations.

Investing in the United States isn't without its risks, and currencies will change over time. However, the currency game is a two-sided coin. If one currency depreciates, by definition the other must appreciate. By choosing investments properly and leveraging the advice of a Private Wealth Advisor we can greatly reduce the impact of currency movements to the overall return of our portfolios.

— Greg Bainbridge, CFA, Raintree Financial Solutions

Agcapita: From Beginning to Exit

As the Founder and Chief Investment Officer (CIO) of the Agcapita series of farmland funds, we successfully launched, funded and exited two of our first five investment funds. Investors often ask about the lessons we have learned from going full cycle in these funds - from beginning to exit. Let me start by highlighting the obvious pride and pleasure we feel as managers to have taken a successful, well-researched position on a unique opportunity in a new asset class. All investment comes with risk, but our first lesson was that combining careful macro analysis (a complicated way of saying simple to understand global trends) with sound micro analysis (a complicated way of saying a margin of safety in the form of local discounted assets or cash flow) can allow you to identify early investment opportunities -which can be a good thing. Farmland has gone from an embryonic Canadian asset class with deep and pervasive fundamental discounts, since the foundation of Agcapita, to an accepted component of retail and institutional investment portfolios alike. We believe we are in the same evolutionary process with our energy, credit and SME private equity investments.

The other lesson is to adhere to your risk management philosophy, even in the face of success. It can be tempting as a manager to loosen risk management criteria in new investments as past funds move into profit. In our case, risk management primarily translates into an unwillingness to use debt as an equity return driver and to minimize operational risk exposure wherever possible. Therefore, we used almost no leverage in our first two funds. It is risk management that separates average managers from excellent managers and it is imperative not to allow past success to color future perceptions of risk. Risk never goes away and must always, as much as possible, be identified and mitigated – or at the very least objectively priced.

There are a number of other observations that can be made as well. Managing the administration and logistics of creating liquidity for thousands of investors is not a simple process and we have our highly experienced back office team to thank for a smooth process. We've learned a great deal from managing through these issues and have become more efficient along the way.

Our success with our approach on Agcapita has given us the confidence and ability to look for new investments, which while on the face of them may seem dissimilar, share the same characteristics as farmland in 2008. We have broadened our investment focus to other areas where we believe the same rigorous application of macro and micro analysis can produce results. We are never uncomfortable being a pioneer in an asset class or investing against commonly accepted wisdom and trends. We see a bit of that in today's depressed energy markets – investors have swung from extreme optimism in the form of anticipating a new era of high prices and low volatility to one which may be approaching extreme pessimism in the form of anticipating perpetually low prices – below even replacement cost for marginal investment. Our contrarian outlook allows us to spot value in unconventional places.

The final lesson is that more than experience, more that credentials, more than anything else - cash on cash returns and risk management track record are the most important data points in manager selection. We believe that the reason we continue to experience strong growth as a group of funds is that we can demonstrate both excellent risk management (shown by an ability to anticipate and navigate difficult economic environments) and investment selection skills in the form of some compelling absolute and risk adjusted returns for our investors.

— Stephen Johnston, Agcapita Funds

Behavioural Finance

Behavioural finance is a growing area of research in the investment industry. It has a significant impact on our decision-making, investment strategy, and financial health as a whole. For this reason, we have decided to include a recurring article to better familiarize you with behavioural finance. By recognizing the potential biases in our investment decision-making process, investors will be able to remain objective in evaluating and analyzing investment options.

“Behavioural finance” may be a foreign term to many of us. The study of behavioural finance is relatively new and is, by definition, an area of research that “seeks to combine behavioural and cognitive psychological theory with conventional economics and finance to provide explanations for why people make irrational financial decisions.”[1] Essentially, behavioural finance seeks to understand the human factor or the psychology of investing. An example is why some investors are compelled emotionally to buy high and sell low. Next edition we will begin to explore the assumptions and biases that cause people to act irrationally and provide insights into how to avoid pitfalls of emotional investing.

[1]http://www.investopedia.com/university/behavioral_finance/

In the Community

Last weekend Raintree held its 2nd annual fun run and this year KidSport Edmonton was our charity of choice. KidSport supports the community by subsidizing sport registration fees of low-income family children so that all kids can play. Sport often plays a critical role in shaping a child's development and success, which is why we were so excited to be involved with the organization. Although we did not have the weather on our side, the run was a great success!

The Head Office team also held several fundraising events leading up to the run to spur donations. The first of the competitions was a Chili Cook-Off that saw Adam Derges escape with a win followed by an office “Putt-Off” where John Liston finished victorious.

We are humbled by the extremely generous donations from staff, Private Wealth Advisors, issuers and business partners, however we are still a little shy of our $15,000 goal. You still have time to support Raintree and KidSport as donations will be open until Friday ,October 2.

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