

**Tricon Capital GP Inc.**  
**1067 Yonge St.**  
**Toronto, Ontario CANADA**  
**M4W 2L2**  
**[www.triconcapital.com](http://www.triconcapital.com)**

Updated: As of March 31, 2017

This Brochure provides information about the qualifications and business practices of Tricon Capital GP Inc. (“Tricon” or the “Company”), a registered investment adviser and a wholly owned subsidiary of Tricon Capital Group Inc, a publicly traded company on the Toronto Stock Exchange (TSX, Ticker: TCN).

If you have any questions about the contents of this brochure, please contact us at 416-323-2482. The information in this brochure has not been approved or verified by the United States Securities Exchange Commission or by any state securities authority.

**Registration with the SEC does not imply a certain level of skill or training.**

Additional information about Tricon is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## 2. MATERIAL CHANGES

The Company is required to update its Brochure annually. This is the Company's annual update to its Brochure as of March 31, 2017.

As part of this annual update, the Company is required to summarize any material changes to our Brochure since our last annual update. A summary of changes appears below. Please bear in mind that the following summary discusses only material changes as described above, and is not intended to be a complete summary of this Brochure. The Company recommends that you read this Brochure in its entirety.

<i>Summary of Material Changes</i>	
<i>General:</i>	There have been no material changes to our Brochure since our last annual update. Non-substantive changes have been made to some of our responses in order to improve clarity. Although these revisions are not material and may not be required, the Company has determined that these revisions are appropriate and in the best interests of its clients and investors in the funds that it manages.

## 3. ADVISORY BUSINESS

In our Advisory Business, we manage private commingled funds that invest in North American land and homebuilding projects. Our private fund investors include plan sponsors, institutions, endowments, foundations and high net worth investors who seek exposure to the residential industry. In our current private funds, we have approximately 20 active institutional investors, and we are currently ranked by Private Equity Real Estate as a top-50 global real estate asset manager.

Since September 1988, Tricon has raised 12 private commingled funds (which number excludes parallel funds within in any given fund structure). Our first four funds were focused on the North American market (Canada and the United States), but beginning in January 2000, we began to focus each new fund specifically on either the US or Canadian market. Since this time, we have raised eight private funds (again, excluding parallel funds).

Alongside our Advisory Business, we also participate in project-specific separate account investments with institutional partners. Although such separate accounts are joint-venture investments that are outside our regulated Advisory Business, our Advisory Business may in the future include separate account clients.

### *Land and Homebuilding Investment Activities of our Funds*

Our private funds provide equity or equity-type financing to experienced local or regional developers/builders in Canada and the United States. These development partners or operators acquire, develop, and/or construct primarily residential projects including single-family and multi-family land development, condominium development, homebuilding, multi-family

construction, and ancillary commercial development related to a housing project. These projects typically require anywhere from \$10 to \$150 million of equity capital and take three to eight years to complete. Since each underlying business plan entails the sale of finished lots or super pads to public or regional homebuilders or homes to consumers, the investments naturally liquidate over time.

The Company generally focuses on the following investment products: (i) land development and housing projects including suburban subdivisions, in-fill housing, condominiums and multi-family development, and (ii) longer term investments in master planned communities, including active adult communities.

We view the land and homebuilding business as a three-step process that generally includes (i) rezoning and entitlement activity; (ii) installation of horizontal infrastructure, namely roads and utilities; and (iii) vertical construction of single-family and multi-family dwellings. In order to mitigate risk, our preference is to generally participate in the second and third phase.

We currently manage investments in nine major markets across the United States (Northern and Southern California; Phoenix, Arizona; Southeastern Florida; Atlanta, Georgia; Charlotte, North Carolina; Houston, Austin and Dallas, Texas) and four major markets in Canada (Calgary, Edmonton, Toronto and the Greater Vancouver Area).

#### **4. FEES AND COMPENSATION**

Our Advisory Business generates three main revenue streams: Contractual Fees and General Partner Distributions, which are not contingent on the performance of the investment vehicle, and Performance Fees, described below.

##### *Contractual Fees*

Limited partnership interests in our funds are sold by way of private placement to accredited or otherwise eligible investors who become limited partners in the funds. During our funds' investment periods (typically three to four years), limited partners pay Contractual Fees ranging typically from 1% to 2% of committed capital per annum depending on the size of their respective investment. Following completion of the investment period, these fees are typically calculated, at the same rates, on the outstanding invested capital. Contractual Fees decline over time as fund investments are realized.

##### *General Partner Distributions (Canadian Funds Only)*

General Partner Distributions are based on prescribed formulas within a fund's limited partnership agreement. They are not contingent on the performance of the private funds.

##### *Performance Fees*

If we achieve prescribed investment returns in the funds, the Company is entitled to earn Performance Fees. Performance Fees are calculated based on prescribed formulas within a fund's contractual terms. These fees are earned following the repayment of investor capital and a

predetermined rate of return and as a result are typically paid toward the end of a fund/investment's term. Performance Fees are typically calculated as 20% of net cash flow and are paid after investors' capital has been returned, together with a preferred return on capital of, typically, 9-10%. The Performance Fee formula may also contain a "catch-up" provision that enables the Company to earn a higher percentage of net cash flow as a Performance Fee until the ratio of the investor return (preferred return plus its share of net cash flow) to Performance Fees paid to the Company is 80/20.

Given that Performance Fees are only earned once a fund's limited partners have received the return of their committed capital plus a preferred return, our Performance Fees are back-ended and are typically only earned six to eight years after the commencement of a fund and only if the funds achieve their prescribed investment returns.

## **5. PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

For Tricon, performance-based compensation of its personnel includes the allocation to employees of 50% of actual Performance Fees earned in the year. Additional short-term and long-term incentive plan compensation for personnel is tied more generally to the net income of Tricon Capital Group Inc., to which the performance of our Advisory Business contributes to a significant extent.

## **6. TYPES OF CLIENTS**

Tricon and its affiliates provide discretionary investment advice to pooled investment vehicles organized as limited partnerships. Tricon's minimum investment is generally \$5,000,000 for institutional investors and \$150,000 for high net worth individuals.

## **7. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

For a more detailed description of the matters discussed in this Item 7, our investors should refer to the Private Placement Memorandum and other offering documents for the fund in which they invest.

### **7.1 Method of Analysis, Investment Strategies**

In our underwriting process for our funds' investments, proposed development projects in which investments are to be made generally need to meet certain pre-conditions or criteria before they are considered, including the following:

*Nature of Underlying Real Estate:* Our primary focus is on the residential real estate development industry, specifically residential land development, homebuilding, multi-family (primarily condominium) construction, and retail development done in conjunction with residential projects. Our funds are typically prevented by the terms of their respective limited partnership agreements to invest more than 25% to 30% of the fund's capital in non-residential sectors, and there are also typically investment limits related to geographic concentration and exposure to any one developer.

*Market Opportunity:* We generally only consider development projects in markets with populations of at least one million. Each of the markets in which our active funds invest typically have, in management's judgment, solid underlying real estate fundamentals including strong job and population growth (in the long-term) and rising or stable rental rates, occupancy rates and asset prices. Generally, only markets with what we view to be significant upside potential in the short- to medium-term are considered.

*Investment Size:* We typically seek development projects that require commitments from our funds in the \$10-\$30 million range. We also consider smaller or larger investments that, among other things, solidify a relationship with a key developer, obtain a foothold in a new sector or market, or offer above-target risk-adjusted returns.

*Investment Period:* In respect of any given development project, return of capital is typically sought within two to four years of the initial investment, with complete project build-out expected within three to eight years. Occasionally, we undertake longer-term transactions which have the potential to offer above-target risk-adjusted returns.

*Returns and Underwriting Standards:* Investments are generally made only in development projects that have sufficient margin on cost to absorb reasonable variations in the business plan.

*Calibre of Developers:* In selecting our funds' transactions, the reputation, integrity, experience and competence of the developer (or operating partner) is likely to be a primary determining factor in our underwriting process.

*Financial Commitment of Developer:* Investments are generally made by our funds only in development projects where the local developer has invested its own funds in the project. The developer investment requirement is typically 10% or more of the total required capital above senior debt (if any); however, this amount varies between investments. Guarantees of the developer may also be required; the nature and the extent of the guarantee depend on the perceived risk.

*Construction / Acquisition Financing:* Since acquisition and/or construction financing for a particular development project is often required from third parties, investments are typically conditional upon strong indications from a financial institution that senior lending will be forthcoming. The financial institution and the terms of the senior lending must be acceptable to Tricon. It is the responsibility of the developer to obtain acquisition and/or construction financing from a local bank.

*Guarantees:* Our funds may, where circumstances warrant or dictate, provide guarantees to senior lenders; in certain instances, the amount of the guarantee is considered part of the investment facility provided to the developer/borrower and the return requirement discussed above will be based on the total investment (including the amount of the guarantee).

*Security/Control:* Unless our funds acquire property for their own account or enter into a joint venture with a developer, wherever possible our funds' investment is secured by way of a mortgage on the underlying real estate and/or a pledge of ownership interests in the borrowing

entity. We take an active role in monitoring and managing each project our funds invest in, typically through approval rights contained in our contractual agreements.

*Due Diligence:* Investments are subject to extensive due diligence reviews, generally including in-depth developer reference checks, environmental audits, market analysis, site analysis, financial and construction cost analysis and legal review.

*Approval:* All investments must be approved by an internal investment committee. Certain investments must be approved by an investor advisory committee consisting of representatives of the major investors in a fund.

## **7.2 Our Monitoring Process**

Tricon takes a very hands-on approach to asset management. Key aspects of Tricon's asset management process include (i) the use of a dynamic organizational structure in which our professionals, with the support of project-dedicated financial analysts, manage projects through to completion under the guidance of senior management; (ii) a formalized risk advisory and asset tracking program; (iii) the use of proprietary loan tracking software (LoanTrak); and (iv) a standardized reporting and capital draw process.

Given that development is a dynamic and constantly evolving process, we have made the conscious decision not to employ separate investment and asset management staff. Instead, with the support of dedicated financial analysts and real estate professionals, the senior professional who sources and underwrites a particular transaction is responsible for monitoring the project and seeing it through to completion. In this way, the knowledge that is accumulated during the development process is retained and reporting relationships throughout a project's life are maintained, thereby eliminating the potential information loss that can occur when a project is transitioned from one department to another. We believe this process also helps us build strong and long-lasting relationships with our developers.

As a part of our monitoring role, we have a significant amount of input with respect to a development project, whether through contractual rights or, more informally, through our collegial relations with our developer borrowers/partners. For example, for any particular real estate development project, we typically approve or have input with respect to:

- plans and specifications;
- the business plan and project budget;
- the selection and/or replacement of the construction manager, the development manager and the marketing team for the project, and the terms and conditions of their respective employment or engagement contracts;
- the selection and approval of other consultants, professional advisors, contractors and major subcontractors, and the terms and conditions of their employment or engagement;
- the terms and conditions of any financing for the project;
- the terms and conditions on which lots or residential units are to be offered for sale;

- the terms and conditions of any development, financial or other similar agreements to be entered into with governmental authorities;
- the sale of the project;
- any non-arm's length or material arm's length contracts; and
- the timing of the project, both from a marketing and a construction commencement perspective.

In addition, our senior management team communicates with our developers on an ongoing basis and typically visits or tours a project every one or two months. The developers are required to provide us with weekly sales reports, monthly financing reports (typically in conjunction with capital requests) and quarterly project updates which address milestones, budget, planning, sales, finance and construction. When budgets or cash flows are revised, project-dedicated analysts in conjunction with our accounting department update the contribution and distribution schedule in our proprietary loan software so that we have an up-to-date projection of a transaction's current and projected return.

The senior professional who is responsible for a transaction typically sits on the respective project's "monitoring committee" and is involved with the major decisions described above. We believe the active involvement of our knowledgeable and experienced professionals adds value to the development projects, and provides a valuable resource for our developers. The senior professional keeps our senior management team apprised of the project's progress and seeks its guidance related to major decisions at weekly meetings. Each transaction is assessed by senior management and given a risk rating based on its projected return and criteria related to milestones and other business plan objectives. Oversight for transactions that receive elevated or high risk ratings is increased, and in select situations we seek the involvement of third party development groups with which we have established relationships.

### **7.3 Our Disposition Process**

Our funds currently invest in development projects that take three to eight years to complete. However, unlike investments in commercial property for which holding periods and disposition strategies need to be evaluated, residential "for-sale" real estate has a built-in exit strategy as transactions automatically liquidate once the final product of units, houses or lots are sold. While we continuously monitor a project's sales performance and have input into any pricing changes made from time to time to obtain the appropriate balance between maximizing profits and returns, we do not need to implement a formal disposition process given the self-liquidating nature of our investments.

### **7.4 Risk Factors**

There are certain risks inherent in the Company's activities and its fund's investments, including the ones described below. The risks described below may not be the only ones facing the Company. Additional risks not currently known to us or that we currently deem immaterial may also impair our business operations.

### ***General Economic Conditions***



The success of the investments our funds make is highly dependent upon conditions in the Canadian and United States real estate markets (and in particular the residential sector) and economic conditions throughout North America that are outside our control and difficult to predict. Factors such as interest rates, housing prices, unemployment rates, availability of credit, inflation rates, oil and other commodity prices, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, currency exchange rates and controls, and national and international political circumstances (including wars, terrorist acts or security operations) could have a material negative impact on the value of portfolio investments.

Unpredictable or unstable market conditions and adverse economic conditions may result in reduced opportunities to find suitable risk-adjusted investments to deploy capital and make it more difficult for our funds to exit and realize value from their existing real estate investments.

### ***Real Estate Industry Conditions***

The residential real estate development industry is cyclical and is significantly affected by changes in general and local economic and industry conditions, such as consumer confidence, employment levels, availability of financing for homebuyers and interest rates, availability and terms of senior financing, levels of new and existing homes for sale, demographic trends and housing demand.

The development projects in which we invest also have lengthy project completion timelines. Typically, investments are made in development projects that take three to eight years to complete. These extended timelines present the possibility that markets will deteriorate between the time of our initial investment and the return of capital or project completion which could have an adverse effect on our business, financial condition or results of operation.

Competition from rental properties and resale homes, including homes held for sale by investors and foreclosed homes, may reduce a developer's ability to sell new homes, depress prices and reduce margins for the sale of new homes. Homebuilders are also subject to risks related to the availability of materials and cost overruns. Furthermore, the market value of undeveloped land, buildable lots and housing inventories can fluctuate significantly as a result of changing economic and real estate market conditions. If there are significant adverse changes in economic or real estate market conditions, the developers in whose projects our funds invest may have to sell homes at a loss or hold land in inventory longer than planned. Inventory carrying costs can be significant and can result in losses in a poorly performing project or market.

Rising interest rates, decreased availability of mortgage financing or of certain mortgage programs, higher down payment requirements or increased monthly mortgage costs could adversely affect housing demand and the ability of projects and properties we invest in to sell or resell homes and the price at which they can sell them, which could materially adversely impact the investments made in such projects.

### ***Operational and Credit Risks***

On a strategic and selective basis, our funds provide financing to develop properties. The residential real estate development business involves significant risks that could adversely affect

these investments, including: the developer may not be able to complete construction on schedule or within budget, resulting in increased debt service expense and construction costs and delays in selling the properties in which our funds invest; the developer may not be able to obtain, or may experience delays in obtaining, all necessary zoning, land-use, building, occupancy and other governmental permits and authorizations for properties in which our funds invest; the developer may not be able to sell properties in which our funds invest on favourable terms or at all; construction costs, total investment amounts and our fund's share of remaining funding may exceed our estimates and projects may not be completed and delivered as planned.

We rely to a great extent on our developer partners to successfully manage the development projects in which we invest. Investments in partnerships, joint ventures or other entities may involve risks not present were a third party not involved, including the possibility that our development partners or co-venturers might become bankrupt or otherwise fail to fund their share of required capital contributions. Additionally, our partners or co-venturers might at any time have economic or other business interests or goals which are inconsistent with our business interests or goals. In addition, we do not have sole control of certain important decisions relating to these development properties, including decisions relating to: the sale of the development properties; refinancing; timing and amount of distributions of cash from such development properties to Tricon; and capital improvements.

### ***Transaction Execution***

Before making residential real estate development investments, including the selection of developers, we conduct extensive due diligence reviews that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. Our due diligence process includes in-depth reference checks of developers, environmental audits, market analysis, site analysis, financial and construction cost analysis and legal review. When conducting due diligence, we may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we rely on the resources available to us, including information provided by the developer and, in some circumstances, third-party investigations. The due diligence investigation that we will carry out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful.

### ***Liquidity Risk***

Residential real estate investments generally cannot be sold quickly, particularly if local market conditions are poor. As a result, we may not be able to enter, exit or modify our investments promptly in response to economic or other conditions. This inability to promptly reallocate capital or exit the market in a timely manner could adversely affect the Company's operations and financial results in connection with Tricon American Homes. Additionally, financial difficulties of other property owners resulting in distressed sales could depress real estate values

in the markets in which we operate in times of illiquidity. These restrictions could reduce our ability to respond to changes in the performance of our funds and could adversely affect our financial condition and results of operations.

### ***Environmental Risk***

The development properties and developers in which our funds invest are subject to various Canadian and United States federal, provincial, state and municipal laws relating to environmental matters. These laws could hold the developers or property owners liable for the costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in our development properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could adversely affect the developer's ability to sell the development properties or to borrow using real estate as collateral, and could potentially result in claims or other proceedings against the developer. Environmental laws and regulations can change rapidly and the developers may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have an adverse effect on a developer or a particular development project, which, in turn, could have an adverse effect on our investments in such projects.

## **8. DISCIPLINARY INFORMATION**

Tricon and its employees have not been involved in any legal or disciplinary events that would be material to a client's evaluation of the Company or its personnel.

## **9. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Subsidiaries of Tricon USA Inc ("Tricon USA"), a Delaware limited liability company and an affiliate of Tricon, serve as the general partners of funds Tri Continental Capital VII LP, Tricon Housing Partners US LP, Tricon Housing Partners US II A LP, Tricon Housing Partners US II B LP, and Tricon Housing Partners US II B-2 LP ("Funds"). Principal officers of Tricon are also principal officers of the general partners. Tricon USA has been retained by the Funds to serve as the investment adviser and/or investment manager and is responsible for the management of Fund assets. Tricon and Tricon USA are both wholly-owned direct or indirect subsidiaries of Tricon Capital Group Inc.

Tricon and its employees do not have any other financial industry activities or affiliations.

## **10. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

Tricon and all of its affiliates have adopted a written Code of Business Conduct and Ethics that is applicable to all employees. The code requires all employees to abide by all applicable regulations and provides strict guidance on insider trading, and includes compliance with applicable securities laws and other legal requirements, as well as recognition of the fiduciary relationship of Tricon to the funds it manages.

Tricon or its affiliates and principals will generally have a material investment in our funds, either through a related entity, the general partner or as a limited partner. The foregoing relationships, fees and any other actual or potential conflicts are disclosed in each fund's offering document. Tricon's affiliates may co-invest with a managed fund when the proposed investment is greater than the amount which the fund is permitted to invest in a single investment.

Tricon and its affiliates do not typically invest in publicly traded securities nor invest in any properties or other investments that would be competitive with the investments made by Tricon, its affiliates, the funds or any separate account.

## **11. BROKERAGE PRACTICES**

Neither Tricon nor its affiliates are involved in the purchase of securities other than the temporary investment of excess cash, and therefore has no active relationships with a custodian or securities brokers-dealers. As Tricon is not actively involved in the investment in traded securities, it does not provide research, have any soft dollar practices and otherwise has no active referral or other relationships with broker-dealers.

## **12. REVIEW OF ACCOUNTS**

Tricon's Chief Financial Officer, Chief Compliance Officer, and Chief Executive Officer monitor all funds on an ongoing basis to ensure that all investor accounts are in compliance with the applicable limited partnership agreements or other applicable arrangement. Investors in active funds are provided with quarterly management reports and financial statements on-line. Annual audited financial statements are provided within 90-120 days following the end of the calendar year.

## **13. CLIENT REFERRALS AND OTHER COMPENSATION**

Tricon does not pay a portion of its advisory fees to any investment adviser or any other person in connection with the referral of clients. However, during the fundraising process for a new fund, Tricon or one of its affiliates may enter into an agreement with a placement agent for new investors brought into the fund.

## **14. CUSTODY**

Tricon, as manager of a fund, has custody of the cash and securities, if any, in such fund for limited periods. Accounts over which Tricon has such a relationship are audited on an annual basis.

## **15. INVESTMENT DISCRETION**

Tricon has investment discretion for all funds within the parameters outlined in each fund's limited partnership agreement. Any investments falling outside such agreement must be presented to the fund's investor advisory committee for approval.

## **16. VOTING CLIENT SECURITIES**

Not applicable.

## **17. FINANCIAL INFORMATION**

There is no prepayment of the fees described above in Item 4.

Tricon has been and expects to continue to be solvent. On occasion temporary cash timing constraints are encountered which require the support of its parent company, Tricon Capital Group Inc. If any event occurs which impairs Tricon's ability to meet its obligations, then we will promptly notify our investors.