PRIVATE DEBT FUNDS

Inside the Ninepoint-Waygar Fund 10% December loss

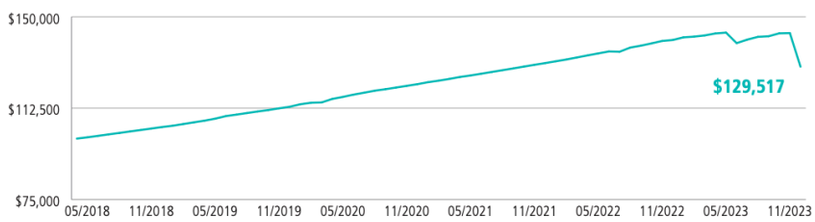
A slow motion train seems to be in progress.

OPM / FEB 29, 2024 / 12 MIN READ

Scroll down to highlighted section for details related to Cory Mills / PACEM

The Ninepoint Canadian Senior Debt Fund, where Waygar Capital acts as a loan consultant (the "Ninepoint-Waygar Fund"), took a massive 9.6% hit in December 2023. In a year where even the most conservative pensioner could have made 4-5% from a GIC, the Ninepoint-Waygar investors ended the year with a 7.8% loss. The fund has $260m in net assets.

GROWTH OF $100,000 INVESTED IN CLASS F (MAY, 2018)[1]



MONTHLY RETURNS OF CLASS F (%)[1]

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2023	0.78	0.21	0.35	0.57	0.24	-3.02	1.04	0.81	0.17	0.84	0.07	-9.63	-7.80
2022	0.57	0.56	0.64	0.63	0.61	0.59	-0.08	1.25	0.57	0.68	0.72	0.28	7.24
2021	0.66	0.51	0.57	0.65	0.49	0.56	0.58	0.56	0.56	0.58	0.57	0.54	7.07
2020	0.91	0.55	0.10	1.25	0.72	0.80	0.66	0.70	0.51	0.57	0.57	0.57	8.20
2019	0.50	0.67	0.66	0.65	0.76	0.97	0.57	0.59	0.59	0.53	0.63	0.57	7.95
2018					0.53	0.59	0.61	0.57	0.61	0.58	0.58	0.59	4.75

The effects of this loss are not only limited to the Ninepoint-Waygar Fund unitholders. One of the largest, if not the largest, unitholder of the Ninepoint-Waygar Fund is another fund run by Ninepoint. As of June 2023, the audited financials of the Ninepoint Alternative Income Fund show that they had a $137 million exposure to the Ninepoint-Waygar Fund. The Ninepoint Alternative Income Fund also underperformed in 2023 by delivering a 2.29% return.

The ~10% drop is quite remarkable when you take into consideration that a few years ago, Waygar's CEO, Wayne Ehgoetz, claimed that his investments were "not at risk at all," as he said in an interview with Sightline Wealth Management.

*"**We just don't view ourselves as high risk**, because number one, all our loans are fundamentally 100% collateralized and over collateralized. So that, in the event that they would say - we really have not had any failure in our portfolio - we liquidate, get the money back and get the interest back. And **so really the investment is not at risk at all**."*

Well, Ninepoint has once again shifted the goalposts. They have changed mid-game the "risk tolerance" label of the fund. As recently as October, 2023, the Ninepoint-Waygar Fund was marketed with a "risk tolerance" of "medium to high."

Ninepoint Canadian Senior Debt Fund

Overview | Fund Story | Resources

Fund Highlights

- **Senior Secured & Collateralized Asset-Based Loans** – Traditional asset-based loans that have security interests which are primarily 1st lien, sit at the top of the capital structure, and are secured by assets such as accounts receivable, inventory, machinery & equipment and real estate.
- **Experienced Lending Team** – Senior management team collectively has over 150 years of experience in Canadian mid-market lending.
- **Lending Void in Canadian Mid-Market** – Absence of financing for Canadian SMEs allow for strong pricing, robust loan structures and covenants.

Fund Objective

The Fund seeks to invest, directly or indirectly, in a portfolio of first priority or first lien senior secured loans to Canadian companies. Loans comprising the Portfolio will be fully supported by senior liens on assets of the borrower companies.

Fund Snapshot | Commentary

Unit Price - Series F

Series F

NAV as at 8/31/2023 **$13.71**

Risk Tolerance

Medium to High

Investment Team

Ninepoint Partners with Waygar Capital Inc. as loan consultant

Regulatory Documents +

Today, the Ninepoint-Waygar Fund is marketed with a “risk tolerance” of “high.”

Ninepoint Canadian Senior Debt Fund

Overview | Fund Story | Resources

Fund Highlights

- **Senior Secured & Collateralized Asset-Based Loans** – Traditional asset-based loans that have security interests which are primarily 1st lien, sit at the top of the capital structure, and are secured by assets such as accounts receivable, inventory, machinery & equipment and real estate.
- **Experienced Lending Team** – Senior management team collectively has over 150 years of experience in Canadian mid-market lending.
- **Lending Void in Canadian Mid-Market** – Absence of financing for Canadian SMEs allow for strong pricing, robust loan structures and covenants.

Fund Objective

The investment objective of the Fund is to achieve superior risk-adjusted returns, preserve capital and minimize volatility.

Fund Snapshot | Commentary

Unit Price - Series F

Series F

NAV as at 1/31/2024 **$12.51**

Risk Tolerance

High

Investment Team

Ninepoint Partners with Waygar Capital Inc. as loan consultant

Regulatory Documents +

Last year, Ninepoint started to publish the financial statements of their private debt funds on their website - a decision we applaud.

However, the financial statements for the Ninepoint Canadian Senior Debt Fund currently available on Ninepoint’s website provide no visibility into the fund’s portfolio. These financials show only that the fund is invested in the Ninepoint Canadian Senior Debt Master Fund LP, registered in the Cayman Islands,

Ninepoint Canadian Senior Debt Fund

Schedule of Investment Portfolio

As at June 30, 2023 (unaudited)

UNITS		Average Cost $	Fair Value $
	FUNDS [98.79%]		
1,848,743	Ninepoint Canadian Senior Debt Feeder Fund Ltd.	216,305,738	262,530,804
Total investments [98.79%]		**216,305,738**	**262,530,804**
Cash and other assets less liabilities [1.21%]			3,226,586
Total Net Assets attributable to holders of redeemable units [100.00%]			**265,757,390**

See accompanying notes which are an integral part of these financial statements

Since we believe that Ninepoint’s transparency initiative is beneficial for the general public, we will contribute to it by sharing some observations about the top borrowers of the Ninepoint-Waygar Fund.

In our initial coverage of the Ninepoint-Waygar Fund, we identified the top 2 borrowers of the fund, Pacem and Michael Wekerle's music venue, El Mocambo. Our findings were later corroborated by The Globe And Mail and partially by Business Insider.

Today, we will identify two other material borrowers and provide some additional information about roughly $180 million of loans advanced by the fund. We will include recent information from a presentation we saw, which was shared by Ninepoint with investment advisors, addressing the ~10% downward adjustment for December 2023's NAV.

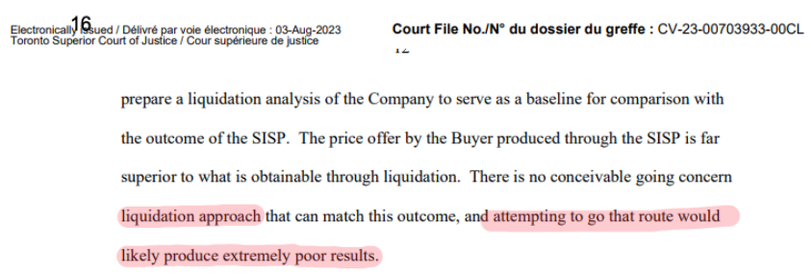
Issuer 15: Quality Sterling Group, a flooring company owing $50 million to the Ninepoint-Waygar Fund, which is currently in liquidation after failing to secure a buyer.

On October 19, 2019, Quality Sterling Group ("QSG"), a flooring company, and Ninepoint-Waygar Fund entered into a loan agreement. By August 15, 2022, "*Waygar agreed to increase the principal amount of the revolving working capital loan from $30,000,000 to $50,000,000*," according to an affidavit filed by Don Rogers from Waygar.

After more than 5 amendments to the loan agreement, in March 2023, Waygar selected Alvarez & Marsal to *"conduct an out of court sales and investment solicitation process ("SISP") to seek additional financing by loan or equity injection, a sale transaction, or a restructuring transaction*," for QSG, according to court filings.

Alvarez & Marsal reached out "*to a total of 274 potential investors, comprising 259 private equity firms and 15 lenders*," and generated a single offer from Ironbridge Equity Partners, which signed a letter of intent on July 25, 2023.

QSG also engaged accounting firm RSM to "*prepare a liquidation analysis of [QSG] to serve as a baseline for comparison with the outcome of the SISP.*" However, according to QSG, *"the price offer by the Buyer produced through the SISP is far superior to what is obtainable through liquidation. There is no conceivable going concern liquidation approach that can match this outcome, and* ***attempting to go that route would likely produce extremely poor results,***"


Electronically issued / Délivré par voie électronique : 03-Aug-2023
Toronto Superior Court of Justice / Cour supérieure de justice
16
Court File No./N° du dossier du greffe : CV-23-00703933-00CL

prepare a liquidation analysis of the Company to serve as a baseline for comparison with the outcome of the SISP. The price offer by the Buyer produced through the SISP is far superior to what is obtainable through liquidation. There is no conceivable going concern liquidation approach that can match this outcome, and attempting to go that route would likely produce extremely poor results.

As of August 1, 2023, Quality Sterling Group was indebted to the Ninepoint-Waygar fund in the amount of $50.6 million.

On October 30, 2023, Waygar "*was advised by a senior representative of Ironbridge that there is no path forward for the contemplated Ironbridge Transaction*," according to an affidavit filed by Don Rogers from Waygar.

On October 31, 2023, Fuller Landau Group was appointed as receiver of QSG—meaning that Waygar ended up following the liquidation "route" that "*would likely produce extremely poor results*," according to QSG.

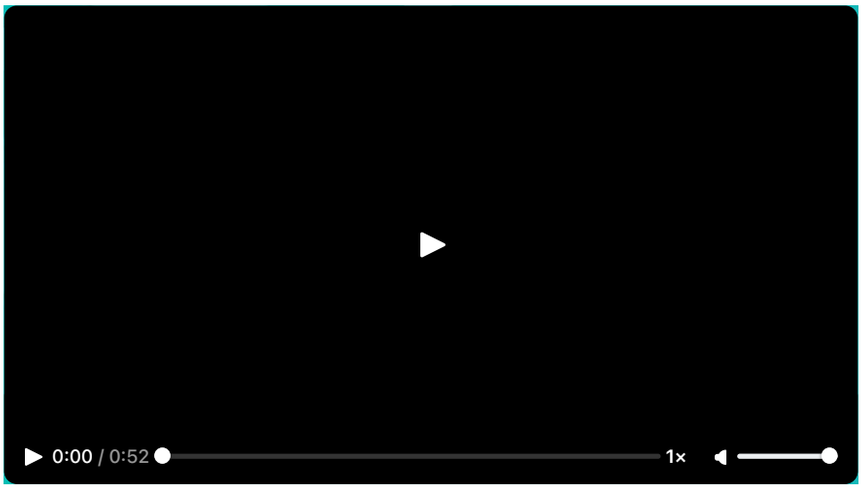
We believe QSG is referred to as "Issuer 15" in Ninepoint-Waygar's communications. It is the only borrower from the "flooring" industry disclosed as a top-10 holding in the fund's fact sheet. As of November 2023, it represented 10.7% of total portfolio valuation. A month later, it represents 5.2% of the total portfolio value.

Ninepoint recently addressed the issues with this borrower in a presentation to advisors. They said, "*Macroeconomic factors drove the company to liquidity issues which have been exacerbated by rapid increase in interest rates and supplier costs*." They also mentioned the failed bid.

In the presentation, Ninepoint provided a fair value for this loan of $17.1 million, saying that the "*fair value adjustment is based on expected recoverable value*" and that "*expected recovery values are based on information obtained from the Receiver*."

It seems this will be the second consecutive borrower from the Ninepoint-Waygar fund that goes into liquidation, resulting in a "*significant shortfall*" to investors, just as happened with The Very Good Food Company last year.

These back-to-back failures show how the investment philosophy marketed by Ninepoint is flawed. See below and reach your own conclusions.



Issuer 21: A Toy Distributor owing $33 million to the Ninepoint-Waygar Fund

In late 2020, Waygar described a loan to a toy distributor as follows:

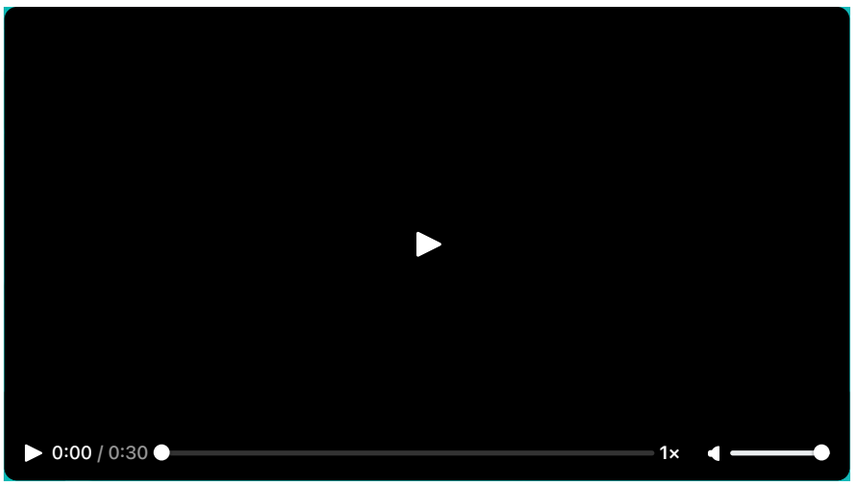
"*In the first half of December, we funded one new transaction. Issuer 21 is a specialized toy manufacturer and distributes many well-known brands globally for*

over 30 years. During the height of the pandemic, the company secured an exclusive partnership to distribute U.S. FDA and Health Canada approved sanitization products and PPE to the likes of Wal-Mart, The Loblaw Companies (Loblaws, Shoppers Drug Mart, No Frills, etc.) and Target. The loan has an authorized credit limit of CA$31 million through a 24-month revolving working capital facility with the ability to draw on a CA$4 million accordion and a CA$2.5 million purchase order facility with a 4-month term. The loan is secured by senior liens on the borrower's accounts receivable, inventory and purchase orders."

Fast forward to 2024, underwriting a loan based on a business sanitization and PPE prospects doesn't seem to have been a great idea.

In the recent presentation to investment advisors, Waygar also acknowledged that it had negatively adjusted the fair value of a loan to this toy distributor. Ninepoint said in the presentation that the "*Company is experiencing liquidity issues due to the rapid increase in shipping costs and general slowdown of the economy*." Also, the company had "*engaged an advisor to explore the sale of the business or multiple individual toy lines*"

We thought that the Ninepoint-Waygar Fund was immune from the state of the economy, as Wayne Ehgoetz implies here:



We believe Issuer 21 is The Orb Factory Limited, based on a patent assigned to Waygar Capital as an agent for Ninepoint Canadian Senior Debt Master Fund in December 2020.

After reviewing The Orb Factory Limited's website, we have to say that we don't recognize any of these "*well-known brands globally*." Not that we are expert toy buyers.

As of December 31, 2023, Issuer 21 had a revised fair value of $33.9 million and an average loan-to-value of 100%, according to the presentation of Ninepoint to advisors.

Update On Issuer 10: Pacem used tens of millions from Ninepoint to fund research and development.

In a recent presentation to investment advisors, Ninepoint also disclosed that they had lowered the fair value of the loan to Issuer 10. They said: "*Fair value adjustment is estimated based on various scenarios relating to the repayment of the loan via cash flow and / or M&A as of Dec 2023.*"

However, Ninepoint provided some ostensibly positive news about Issuer 10. This borrower has a "*pipeline of contracts at various stages totalling US$520+ million*," and it "*signed an additional tranche of its US$126MM contract last week with a foreign government entity; successfully delivered multiple tranches of the contract.*"

As you might recall from our initial coverage of the Ninepoint-Waygar Fund, Issuer 10 is associated with the then-aspiring and now-elected US Congressman Cory Mills. A recent court filing by Pacem corroborates the company's dealings with Waygar Capital, specifically that Pacem used proceeds from Waygar to refinance a bank loan.

23. In part in reliance on PACEM's eligibility for the CARES Act subsidy payments, on or about May 28, 2021, PACEM's loan with Atlantic Union Bank was refinanced with a loan from Waygar Capital, Inc.

As you would expect, a congressman dealing with selling hundreds of millions in munitions to foreign governments would attract scrutiny from the US media. In March 2023, Business Insider published a story about Rep. Cory Mills.

In their story, Business Insider said:

"An Insider examination of his business dealings, though, found that Pacem has had deep ties to foreign governments and is struggling financially."

Mills told Business Insider that he had "*divested from the company*." However, his public financial disclosure for 2022 still showed that he owned Pacem at the end of that year. This disclosure also shows that in 2022, Mills and his spouse received a US$1,248,748 and US$250,000 salary, respectively, from Pacem Solutions International. We would love to know if Pacem was making "Payment-in-kind" interest payments during 2022.

Schedule C: Earned Income

Source	Type	Amount Current Year to Filing	Amount Preceding Year
Pacem Solution International	Salary	$1,248,748.00	$310,721.00
Pacem Solution International	Spouse salary	$250,000.00	$233,469.00

Beyond reporting that Pacem was "*struggling financially*," Business Insider partially corroborated our findings by saying that Mills had obtained financing from a Canadian lender. They also disclosed the use of proceeds from the loan.

"Pacem is also loaded with debt: It owes $48 million to a Canadian lender, nearly five

times the company's highest potential valuation. ***Mills said the loan was funding research and development****."*

We found it odd that Mills claims this loan was "*funding research and development*." We didn't know this was part of the objective of the Ninepoint-Waygar Fund— as you can see below, there was no mention of R&D by Waygar to investors when it originated the loan back in April 2019.

Ninepoint Canadian Senior Debt Fund

April 2019 Commentary

Print

Subscribe

The Ninepoint Canadian Senior Debt Fund returned +0.65% in April bringing its year-to-date performance to +2.50 % (Series F). The current loan portfolio outstanding is ~$130MM.

We are pleased to announce that we closed loans 10 and 11 in the portfolio through April.

Loan 10 is a $13MM credit facility, that has the ability to increase by an additional $10mm, to a Virginia based company specializing in a broad range of defense products and risk management services. The company is the sole provider for military distribution for 12 countries. The company has secured prime US government contracts to supply defense products, training and risk consulting services over the next few years. Our loan is secured by take or pay purchase orders with international orders supported by a letter of credit that provides 100% coverage on our principal along with accrued fees. Total LTV including boot collateral of existing accounts receivable is ~62%. Projected annual IRR on this loan is ~13.2%.

Investment Team

Wayne R. Ehgoetz
President & CEO, Waygar Capital - Loan Consultant

Related Funds

→ Ninepoint Canadian Senior Debt Fund

Historical Commentary

Mills's disclosure of the use of proceeds leaves us with more questions than answers. Does it make sense to invest capital in an R&D effort and have a capped return? If Pacem had many purchase orders to sustain a $60-million debt load, why didn't they use the money to fulfill those orders and earn the margin on them?

One thing seems sure, Pacem has struggled to pay down its debt. On August 10, 2022, during the Ninepoint-Waygar Fund's H1 2022 review, Wayne Ehgoetz told investors that Issuer 10 and two other issuers "*will be repaying our facilities in late Q4 or early Q1 2023.*"

More than a year past the expected repayment, Ninepoint said in the recent presentation to advisors that Issuer 10 had "*Engaged an advisor to explore the sale of the business; currently in preliminary discussions with multiple parties on sale of the business.*"

As of December 31, 2023, Issuer 10 was the Nienpoint-Waygar Fund's top borrower, representing 18.6% of the total portfolio valuation. The outstanding balance of the loan had a fair value of $61.6 million, according to Ninepoint.

In October 2018, Pacem Defense, LLC acquired for $10 million what seems to be their main manufacturing assets, located in Perry, Florida. These assets were acquired from National Presto Industries, a direct competitor to Pacem in the 40mm ammunition space.

By way of comparison, this Pacem competitor, National Presto, considers that their Research and Development costs for 2022, 2021, and 2020 "*were not material element in the aggregate cost incurred by the company.*"

Today, in order for the Ninepoint-Waygar Fund to get fully repaid, it seems that Issuer 10 will need to sell its assets for no less than $61.6 million. Hopefully for investors, that R&D has yielded some real value.

Update on Issuer 9: Is Michael Wekerle "under financial strain"?

As mentioned, on August 10, 2022, during Ninepoint-Waygar's fund H1 2022 review, Wayne Ehgoetz told investors that, along with Issuer 10, Issuer 9 "*will be repaying our facilities in late Q4 or early Q1 2023.*" See the excerpt highlighted in red below.

Transcript

Wayne Ehgoetz: Good morning. Thank you for your interest in the Ninepoint Canadian Senior Debt Fund. I'm Wayne Ehgoetz, President and CEO of Waygar Capital, the Loan Consultant for the fund. Over the next 10 to 15 minutes, I will provide you an update of the fund as of June 30th, 2022. The first slide provides a snapshot for the second quarter. 44 transactions totaling 817 million, as well as $535 million were declined. The portfolio grew by net 45 million[1] in Q2 after a loan payment of approximately 7 million Canadian.

1 Portfolio growth represents the estimated growth in the loan portfolio based on the existing pipeline, subject to available cash.

It's also very important to remember that at the beginning of the second quarter, Ninepoint placed a 90-day moratorium on this fund along with three other funds, to provide a timeout and redemptions due to the market frenzy caused by the failure of a non-Ninepoint private debt fund. Our moratorium was for 90 days and during this period, we intentionally did not fund any new transactions in order to preserve capital for our existing portfolio clients. We exited the moratorium on June 30th as promised. I'll speak to this in a later slide.

The bottom left portion of the slide provides some additional portfolio metrics which are largely unchanged from our Q1 overview. Number of issuers were 19. Average loan amount outstanding was approximately 19 million Canadian per issuer. There were no non-performing loans. Our average weighted yield was 12% and our average weighted loan to value ratio was 69%. Finally, the bottom right side of the slide indicates the top 10 issuers in the portfolio. Issuers are covered in more detail in this presentation. Please note, we are anticipating that issuers 2, 9, and 10 will be repaying our facilities in late Q4 or early Q1 2023.

However, as of December 2023, Issuer 9, the Canadian company that operates in the Media & Entertainment industry, is still the second largest borrower of The Ninepoint-Waygar fund, according to the fund fact sheet.

Again, it is odd that almost a year after the expected payment, Issuer 9 hasn't paid their debts to the fund.

As mentioned, The Globe And Mail corroborated our findings of the dealings between Waygar Capital and Wekerle. The Globe's reporting on a lawsuit involving the Wek paints a picture that the former CBC Dragon is struggling financially. The Globe said in March 2023:

"Over the past few years, Mr. Wekerle has been under financial strain, and Mr. Arbour claims he constantly requested money from WIN PM to help with his cash flow issues. "Wekerle would call Arbour on a monthly basis in a very depressed state because of his financial problems," according to court documents.