CMLS Mortgage Fund

Q4 2020 Report

CMLS Asset Management®

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Business Overview

The CMLS Mortgage Fund (the "Fund") is a mortgage investment fund, which was established in 2008. The Fund lends money to borrowers secured by first and second priority mortgages on commercial and single-family real estate located in Canada. The Fund was established by the Declaration of Trust, as an unincorporated investment unit trust, under the laws of the Province of British Columbia on May 2, 2008.

The Fund qualifies as a 'unit trust' under the Income Tax Act (Canada). As such, units are qualified investments under the Tax Act for registered retirement savings plans ("RRSPs"), tax-free savings accounts ("TFSAs"), deferred profit-sharing plans ("DPSPs"), or registered retirement income funds ("RRIFs").

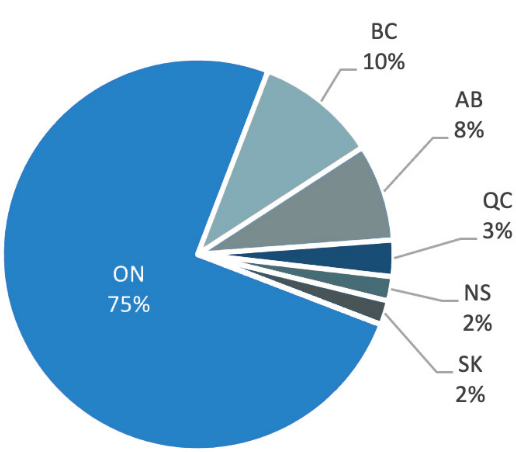
The investment objectives of the Fund are to preserve investor capital and provide investors with an attractive monthly distribution. The Fund meets its investment objectives by investing in a diversified portfolio of high yielding mortgage investments, secured by first and second priority mortgages on commercial and single-family residential real estate located primarily in large urban markets in Canada.

Commentary & Outlook

We are very pleased with the performance of our mortgage portfolio in the face of what was an unprecedented year. Prior to the pandemic, we had been taking steps to migrate our portfolio to lower volatility asset classes such as multi-family and single-family residential assets, and the resiliency of the portfolio showed during the peak of the pandemic as we had no loan losses and minimal arrears/deferrals. We ended 2020 with only one loan in arrears out of a total of 54 loans in the portfolio, a testament to our underwriting and risk management process.

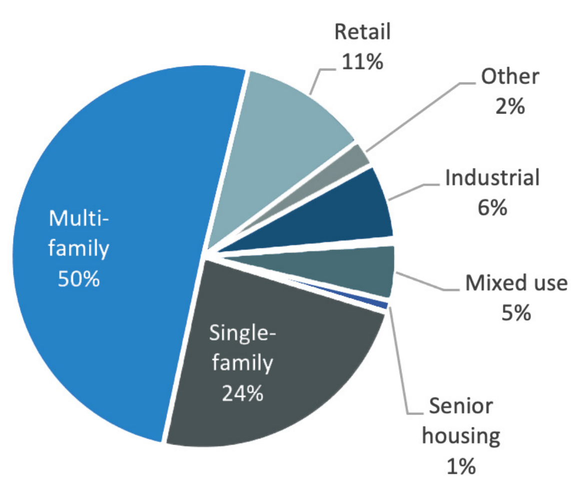
As at December 31, 2020, the Fund had total Assets Under Management ("AUM") of $47.2 million compared to $35.7 million as at December 31, 2019. The increase in AUM year-over-year was due primarily to net investment inflows of $11.5 million including reinvested distributions. As at December 31, 2020, the weighted average coupon of the portfolio excluding cash was 6.65% and the weighted average term to maturity was 1.09 years vs. a weighted average coupon of 6.86% and a weighted average term to maturity of 1.46 years for the prior year.

Exhibit 1 – Geographic dispersion



Notes: as at December 31, 2020

Exhibit 2 – Asset class composition



Notes: as at December 31, 2020

Commentary & Outlook (continued)

The single-family side of the portfolio represented 24% of AUM as at year-end. The weighted average loan-to-value was approximately 56% and the average credit score was 713. The single-family portfolio continued to perform well, with only one loan in arrears at year-end. The mortgage in arrears at year-end had a low loan-to-value ratio of 45% and was paid out subsequent to year-end. As of the date of publishing, there were no loans in arrears or deferred.

Despite the employment damage to the economy as a result of the pandemic, single-family home price appreciation continued to make record highs in both of Canada's major markets that the Fund is focused, Toronto and Vancouver. We believe there are tailwinds that are supportive of single-family housing prices through 2021 and beyond. The ingredients to this recipe include:

- Mortgage rates at historical lows, down over 1.0% in 2020 (positive for demand);
- federal government measures during the pandemic such as income replacement, payment deferral/bank and insurance company reserve ratio exemptions and rent supplements suggest to investors that the real estate market is being classified as an "endangered asset class" by the government worthy of protection (positive for demand);
- federal government mandate to bring in over 1.2 million new immigrants over the next three years, with most new immigrants destined for Toronto and Vancouver (positive for demand, particularly in these markets);
- local government missteps and political struggles (e.g., NIMBY-ism) in creating new stock (negative for supply).

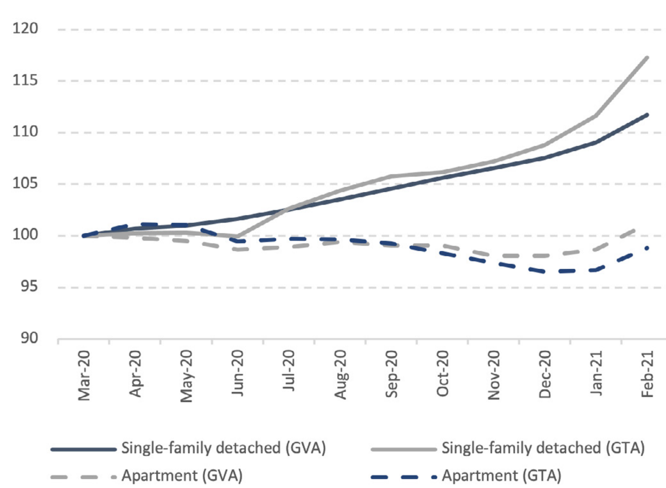
While the above factors are all supportive of higher housing price appreciation, our view is tempered slightly by the potential for macro-prudential measures to cool the rate of housing price appreciation similar to what we witnessed after the last round of monetary easing after the 2008/2009 recession.

We're also closely monitoring housing price appreciation divergences between condos and single-family detached homes witnessed since the start of the pandemic (see Exhibit 3). While we're still constructive on single-family detached valuations, it is possible we'll see this divergence in housing price appreciation mean-revert as the economy reopens.

The commercial side of the portfolio was largely concentrated in multi-residential real estate at year-end (50% of the total portfolio), with retail making up the second largest, but noticeably smaller, asset class at 11%. The balance of the portfolio was made up of other commercial sub-asset classes such as industrial, office and mixed use (see Exhibit 2). As at year-end, and as of the date of printing, we had no arrears or deferrals in our commercial mortgage portfolio.

Our commercial mortgage strategy will continue to focus on lending against value-add strategies on multi-family residential buildings, which tend to offer a good balance between risk and return. We like the multi-family asset class for a variety of reasons, including: (1) it attracts some of the cheapest debt capital in Canada, with access to government-sponsored insurance and securitization vehicles, and as a corollary; (2) it is one of the deepest and most liquid asset classes in Canada, representing almost 1/3rd of total investment volumes; (3) the counter-cyclical nature of multi-family buildings provides a lower correlation to our single-family exposure, reducing overall risk in the portfolio, and finally; (4) multi-family buildings have a higher lease turnover rate and are therefore considered a better inflation hedge than other asset classes.

Exhibit 3 – Single-family detached vs. apartment price appreciation



Source: CREA, CMLS Asset Management

Financial Highlights

Mortgage Investments

	Year Ended Dec 31, 2020	Year Ended Dec 31, 2019
Gross Mortgages Receivable	$42,403,538	$32,333,087
Total Number of Mortgage Investments	54	50
Average Mortgage Receivable	$785,251	$646,662
Weighted Average Interest Rate	6.65%	6.86%
Weighted Average LTV Ratio	62.55%	63.89%
Weighted Average Term To Maturity (Years)	1.09	1.46
Leverage Ratio	0.00%	0.00%
Net Assets Attributable To Holders of Redeemable Units	$47,218,925	$35,769,799
Net Asset Value ("NAV") per unit	$9.99	$10.01

Net Asset Value ("NAV")

NAV - Dec 31, 2019	$	35,769,799
Subscriptions		11,969,980
Redemptions		(2,189,552)
Reinvested Distributions		1,725,101
Unrealized Loss		(56,403)
NAV - Dec 31, 2020	**$**	**47,218,925**

Portfolio Allocation

As at December 31, 2020, the Fund's portfolio included mortgage investments of $42.4 million and was comprised of 54 investments, which were allocated across the categories listed below (excludes cash).

Geography

	Number of Mortgages	Outstanding Balance	% of Portfolio
ON	37	$ 31,373,541	75%
BC	8	4,301,059	10%
AB	4	3,505,704	8%
QC	2	1,173,725	3%
NS	1	886,388	2%
SK	1	989,784	2%
MB	1	173,337	0%
	54	**$ 42,403,538**	**100%**

Asset Type

	Number of Mortgages	Outstanding Balance	% of Portfolio
Multi-family	28	$ 21,391,675	50%
Single-family	14	10,015,678	24%
Retail	5	4,664,576	11%
Industrial	2	2,732,694	6%
Commercial Special Use	1	2,030,000	5%
Mixed Use	2	972,520	2%
Senior Housing	1	423,058	1%
Office	1	173,337	0%
	54	**$ 42,403,538**	**100%**

Portfolio Allocation (continued)

Maturity

	Number of Mortgages		Outstanding Balance	% of Portfolio
Less than 1 year	40	$	23,094,508	54%
1 to 3 years	12		17,326,043	41%
More than 3 years	2		1,982,987	5%
	54	**$**	**42,403,538**	**100%**

Interest Rate

	Number of Mortgages		Outstanding Balance	% of Portfolio
Less than 6.00%	18	$	15,441,415	37%
6.00% to 6.49%	12		11,179,821	26%
6.50% to 6.99%	9		4,627,831	11%
7.00% to 7.49%	3		980,591	2%
7.50% to 7.99%	4		2,790,433	7%
Greater than 7.99%	8		7,383,447	17%
	54	**$**	**42,403,538**	**100%**

Loan-to-appraised value

	Number of Mortgages		Outstanding Balance	% of Portfolio
60% or below	20	$	13,020,589	30%
60% to 70%	22		18,930,078	45%
70% to 80%	8		7,198,746	17%
above 80%	4		3,254,125	8%
	54	**$**	**42,403,538**	**100%**

Statement of Net Income

For the year ended December 31, 2020
(Unaudited)

	Dec 31 2020	Dec 31 2019
Investment Income		
Interest	$ **2,525,510**	$ 1,871,563
Other fees	233,809	227,730
	2,759,319	2,099,293
Expenses		
Management fee, net of rebates	283,251	166,425
Administration fee	101,973	63,394
Mortgage service fee	61,793	45,254
Interest expense	-	2,346
Other expense	13,820	2,724
	460,837	280,143
Net investment income	$ **2,298,482**	$ 1,819,150
Unrealized (Loss) Gain	(56,403)	23,659
Net investment income	$ **2,242,079**	$ 1,842,809

Statement of Net Assets

For the year ended December 31, 2020
(Unaudited)

	Dec 31 2020	Dec 31 2019
Assets		
Net mortgage investments	**$ 42,403,538**	$ 32,333,088
Cash	**5,452,865**	3,642,730
Investment income receivable	**263,461**	164,217
	48,119,864	36,140,034
Liabilities		
Accounts payable and accrued liabilities	**628,250**	205,979
Distribution payable	**272,689**	164,257
	900,939	370,235
Net assets	**$ 47,218,925**	$ 35,769,799
Units outstanding	**4,724,541**	3,573,715
Net assets per unit	**$ 9.99**	$ 10.01

Statement of Net Assets Attributable to Holders of Redeemable Units

For the year ended December 31, 2020
(Unaudited)

Balance, beginning of period	**$**	**35,769,799**
Net income		2,242,079
Issuance of units		11,969,980
Units reinvested		1,725,101
		15,937,160
Unitholder redemptions		(2,189,552)
Distributions to unitholders		(2,298,482)
		(4,488,034)
Balance, end of period	**$**	**47,218,925**

CMLS MORTGAGE FUND
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