Accrued Interest

CMLS mortgage fund

March 2025

cmls asset management

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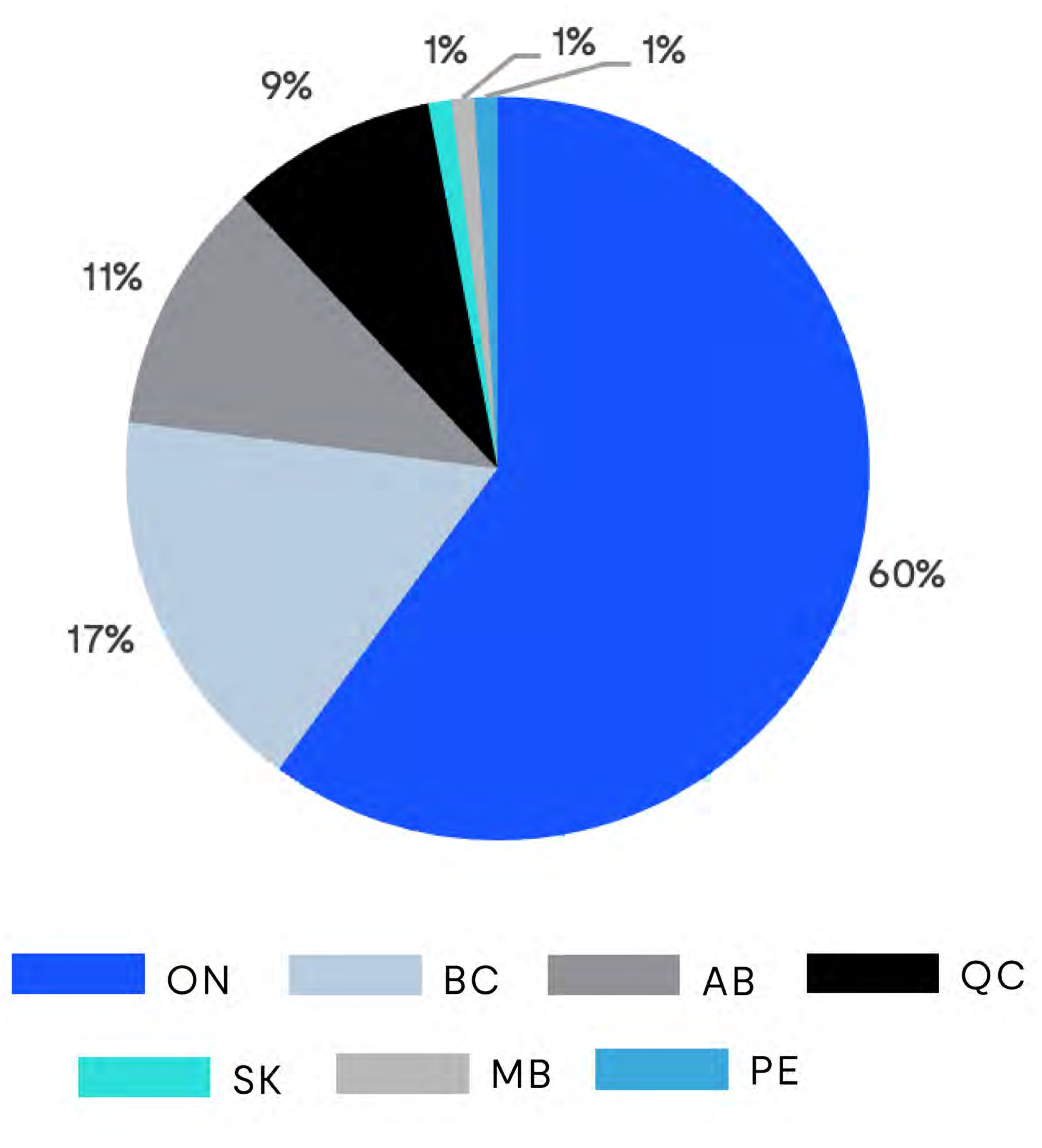
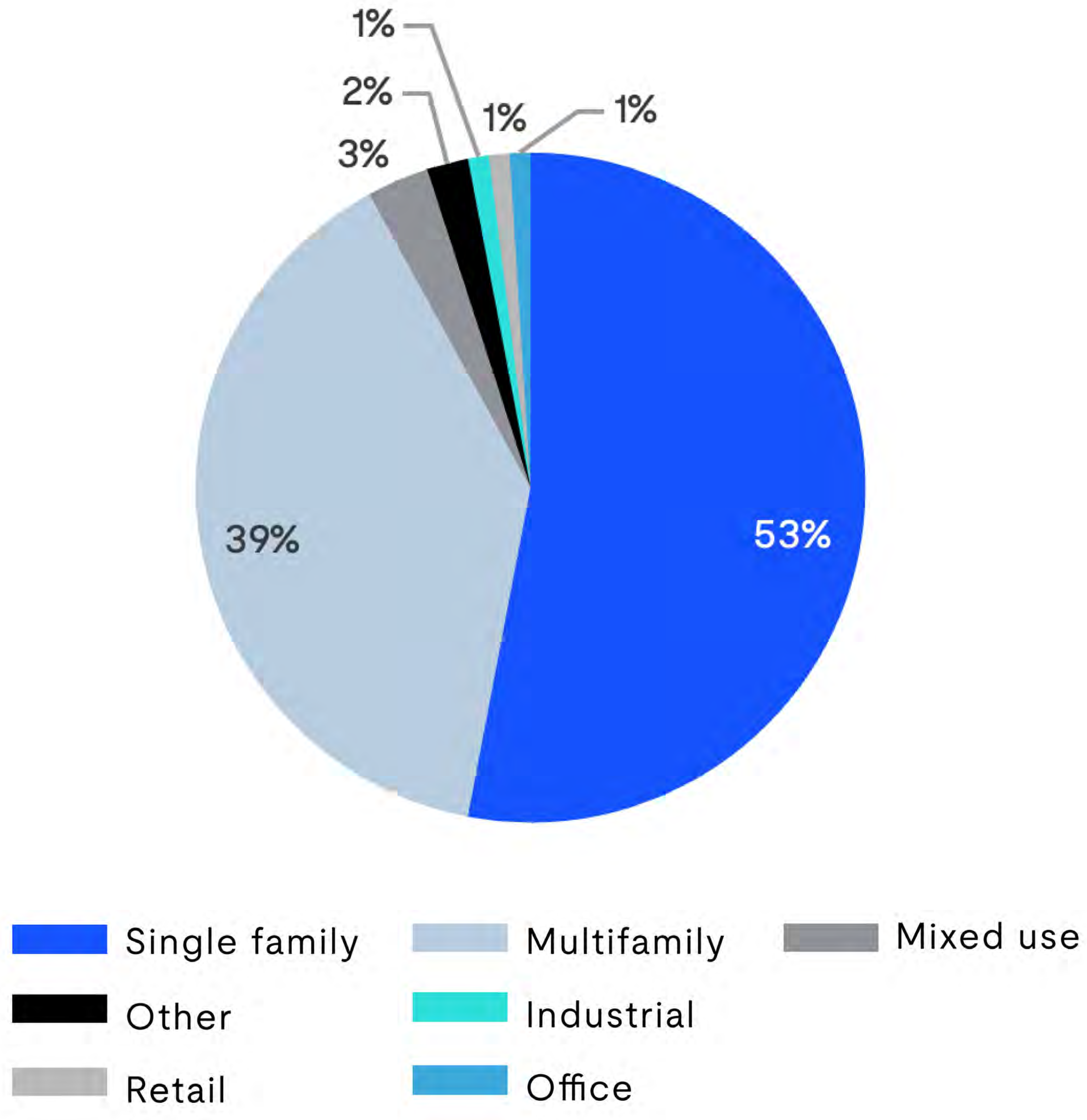
Welcome to the newly established monthly newsletter for the CMLS mortgage fund, titled **Accrued Interest**. This will give you a brief updated snapshot of portfolio composition and performance, and subsequently go a little deeper in explaining our views on current market events, the state of real estate debt as an investment strategy, or how we approach portfolio management.

The structure of the first section is not intended to change, only the numbers and brief related commentary, and we will not take it personally if that is all you read (or at least we'll suppress any related emotion). At each quarter end (4x per year), our regular quarterly commentary will be included, whereas the interim releases will tend to divert beyond portfolio composition and performance and into our thought processes, approach, or interesting and relevant market commentary. Without further introduction …

In February we delivered a net monthly return of 0.54%, or 7.27% annualized. Our weighted average coupon declined slightly month over month from 8.47% to 8.29%, reflective of broader rate pressures. Our ability to maintain higher returns in the face of declining interest rates will continue to depend on our ability to pursue and maintain optimal capital structure. We made good progress in February, reducing our cash position to 7% of portfolio assets.

Our portfolio is composed as follows:





More detailed and up-to-date portfolio information can be found in our monthly Fund Facts, available on our website **here.**

The trade-off between flexibility and consistency

Our investment policy is purposefully flexible for an important reason: we are connected to a mortgage origination ecosystem with complete market coverage. If at any point we become concerned with the health of a particular segment of the real estate debt market – for example, higher priced or luxury homes – we can simply shift away from this segment in exchange for investments in which we hold greater conviction. Supported by nesto and CMLS, we can do so with confidence in the years of history and experience held by the team sourcing and underwriting these investments on our behalf. This is notably different than forcing a pivot into a market segment in which we do not have access to relevant expertise.

But how much flexibility is too much? We know that we play an important role in our investors' asset allocation objectives, which include desired exposures to certain risk factors. We take that role seriously. If the risk bucket we're providing is broadly categorized as "Canadian real estate debt", we therefore can avail ourselves of policy flexibility and continue to serve our purpose for said investor. Alternatively, if an investor has a specific view on the attractiveness of single family residential real estate versus multifamily real estate and spreads their Canadian real estate debt exposure among the CMLS mortgage fund and a handful of our peers, pureplay in their respective categories, then a significant shift in our portfolio composition from its historical norms can tilt them away from desired risk exposures.

Our IPS gives us the flexibility to shift our portfolio entirely to single family residential, commercial, or multifamily residential exposure. However in light of the above we believe it is our responsibility to remain more tightly rangebound in our allocations to single family residential and multifamily residential/commercial to maintain a consistent risk profile for our unitholders. Keeping the composition of the Fund in mind, along with the role this plays in our investors' overall portfolios, we use the flexibility afforded to us in the IPS to strategically find loans with strong risk adjusted returns in a rapidly evolving market environment.

If you've followed or invested in our fund for some time now, you are likely aware of how we view risk exposures within the fund. Our single family portfolio allocation obtains excess yield by focusing on borrowers who lack the income verification required for a traditional bank mortgage. This reduces the options available to them for home financing, increases their cost of financing and therefore increases the risk of financing their homes. The excess yield we obtain is compensation for added sponsor, or borrower, risk, whereas we offset this risk with a focus on lower leverage (60% on average) and high borrower credit scores (700+ on average), the latter meaning that regardless of income verification these borrowers have a history of paying their debts. Our biggest protector of downside is that losses are minimized in an event of default by our access to liquid underlying property collateral.

Our commercial and multifamily residential portfolio allocation obtains roughly the same excess yield but with notably different risk exposure. Our borrowers are often the largest and most well-capitalized real estate owners in the country (average net worth >$100m) and have very strong relationships with the dominant, traditional Canadian banks. We obtain excess yield by providing these borrowers flexible financing structures (e.g. second mortgages, transitional assets) at higher leverage (up to 85%, current wtd. avg. of 60%). Our biggest protector of downside is the significant resources our sponsors have to service the mortgage in the event property-level performance deteriorates.

We are constantly in motion reviewing our portfolio composition and engaging with CMLS and nesto regarding current market activity and opportunities. Our current bias is toward multifamily residential lending to strong sponsors. However, the prospect of lower interest rates may provide a needed boost to residential sales activity and resiliency to home prices that will allow us to maintain or increase our single family residential exposure. This monthly newsletter will provide updates as 2025 evolves.