

# CMLS Mortgage Fund



CMLS Asset Management.....	3
Portfolio Management .....	4
Management Team .....	5
Investment Philosophy .....	6
Strategy Overview .....	7
Opportunity – Benefits of the CMLS Mortgage Fund .....	8
Investment Process .....	10
Commercial Loan Process.....	11
Single-Family Residential Process.....	12
Portfolio Construction .....	13
Holdings Based Characteristics.....	14
Portfolio Highlights .....	16
Portfolio Returns.....	17
Appendix.....	19
FAQ .....	22

## CMLS ASSET MANAGEMENT

---

### Profile

- CMLS Asset Management Ltd. (“CMLS AM”) is an affiliate of CMLS Financial, one of the largest independent and the highest rated mortgage finance firms in Canada.
- CMLS has over \$21B of assets under administration, and \$200MM of assets under management as of December 31, 2018
- Registered Investment Fund Manager (“IFM”)
- Offices in Vancouver, Toronto, Calgary, Winnipeg, Ottawa, Montreal and Halifax totaling 260+ employees
- CMLS was founded in 1974 by Phillips Hager & North – now management owned
- Servicing and default management ratings – DBRS and Fitch

### CMLS Mortgage Fund Overview

- Mortgage investment fund, which was originally established as a partner fund in 2008
- Distributed more widely since 2017
- Secured by first and second priority mortgages on commercial and residential single-family real estate located in Canada

## PORTFOLIO MANAGEMENT

---

### Deep Resources

CMLS has been investing in the mortgage market for over 40 years and is one of the largest, most sophisticated firms in the space. With one of the deepest mortgage investment teams in the industry, CMLS covers the entire spectrum of mortgage related assets.

- Holistic 360-degree view of holdings, access to all major Canadian markets
- Integrated approach – Origination (deal flow), Credit Risk and Portfolio Management teams work together
- Disciplined active portfolio construction

## PORTFOLIO MANAGEMENT

**Sean Adamick, CFA, CPA, CA |**  
Portfolio Manager

- Responsible for the investment management of the Fund
- Over 10 years' of experience in real estate finance and investment management
- Previous experience with RBC Capital Markets' top-ranked mortgage & housing equity research team. Began his career in 2004 with KPMG LLP
- Graduated from the University of British Columbia; holds the CFA and CA designations

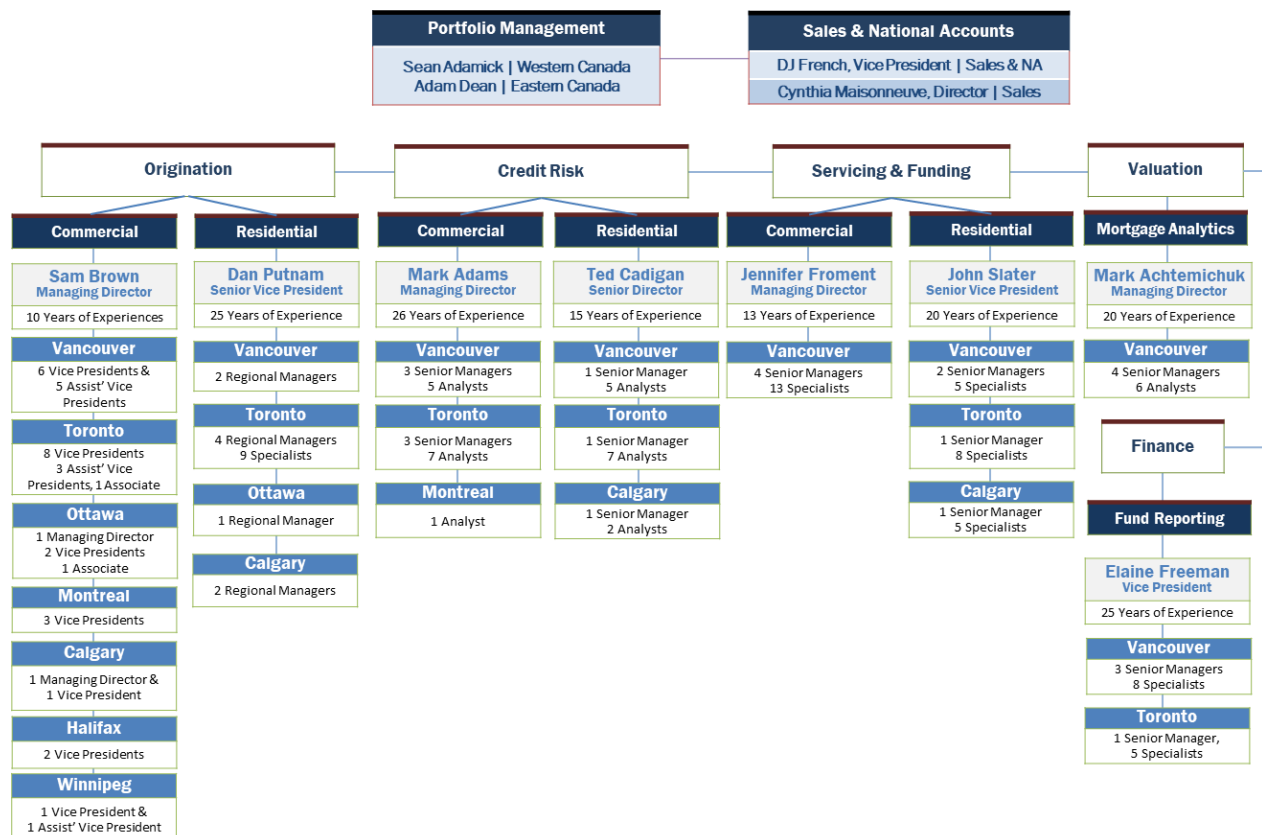
**Adam Dean, CFA |**  
Portfolio Manager

- Responsible for the investment decisions of the Fund
- Over 7 years' experience in the real estate finance industry during which he has structured and managed complex securitization transactions totaling over \$2 billion
- Obtained his Bachelor of Commerce Degree from the University of British Columbia, and holds the CFA designation

**Ryan McArthur |**  
Analyst

- Responsible for credit analysis and portfolio reporting functions of the Fund
- Experience in mutual fund administration, REITs, and consulting
- Obtained his Bachelor of Commerce Degree from Dalhousie University, and graduated with distinction

## Organizational Overview



## INVESTMENT PHILOSOPHY

---

- Investors don't like negative surprises in their fixed income holdings
- We construct portfolios that focus first and foremost on downside protection and volatility minimization
- We have built a long-term track record and trust based on this simple philosophy.

### Investment Objectives

- **To preserve capital**
  - This is reflected in the loan to value ratio, calculated by dividing the loan amount by the collateral property value. The average loan to value ratio of the CMLS Mortgage Fund is 59%, meaning property values could compress 41% on average prior to the Fund incurring a loss
  - Short duration minimizes interest rate risk in a rising rate environment
  - No loan losses since inception
- **To provide investors with a dependable, recurring income distribution**
  - This is reflected in debt service coverage ratios, indicating the borrower's ability to pay contractual monthly loan payments.
    - For commercial mortgages, this is calculated by dividing property-level income (that is, contractual income from tenants at the property) by the contractual monthly loan payment.
    - For residential mortgages, this is calculated by dividing the borrower's annual income into the contractual annual loan payments.
- **To capture the illiquidity premium available in mortgage investments**
  - The fund yielded 5.57% over the trailing twelve months, representing a net yield 376 bps higher than the return over the same period of FTSE Short Term Bond Index

## STRATEGY OVERVIEW

---

- Enhance returns by investing in less competitive/inefficient markets
- Protect income by focusing on quality borrowers and stable underlying collateral
- Reduce idiosyncratic risk by investing in a broad selection of mortgages
- Reduce interest rate risk by investing in short duration mortgages

### Why invest in this strategy?

- Flexibility to pursue the most attractive opportunities
- Untethered to a traditional benchmark; the strategy has the ability to tactically allocate across Canadian residential and commercial mortgage markets, CMLS AM will source the best risk-adjusted returns in the private mortgage market.

### Targeting consistent returns

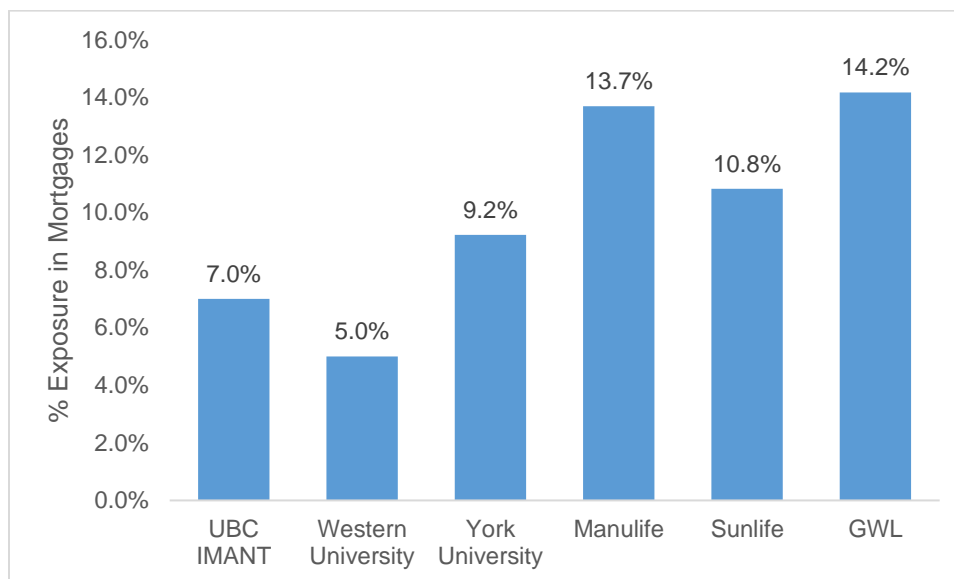
- Seeking attractive returns across full market cycles, CMLS AM actively manages the Fund's exposure to a variety of risk factors, including interest-rate risk and credit risk.

## OPPORTUNITY - BENEFITS OF THE CMLS MORTGAGE FUND

---

Investors with a longer time horizon have historically used alternative assets for two reasons: (1) absolute return strategies; or (2) reduce portfolio correlations. These strategies typically target private markets using managers with in-depth knowledge of the inefficiencies therein.

Institutional investor exposure to private mortgages:



Source: Public Annual Report for each institution

### 1. High yield – average 6.41% over 10 years

- Mortgage yields remain attractive in the current rate environment compared to other senior and subordinate secured debt
- Stable monthly cash flows
- Hedge against rising interest rates by achieving these high yields on short duration mortgages

### 2. Low risk

- Investment is secured by real assets
- Added downside protection by occupying a secured position (current weighted average LTV of 59%)
- Income used to service commercial mortgage debt is ultimately derived from multiple tenants spanning several industries
- Diversified portfolio by geography (across Canada) and by property type accessing core commercial and residential mortgage investments



## OPPORTUNITY - BENEFITS OF THE CMLS MORTGAGE FUND

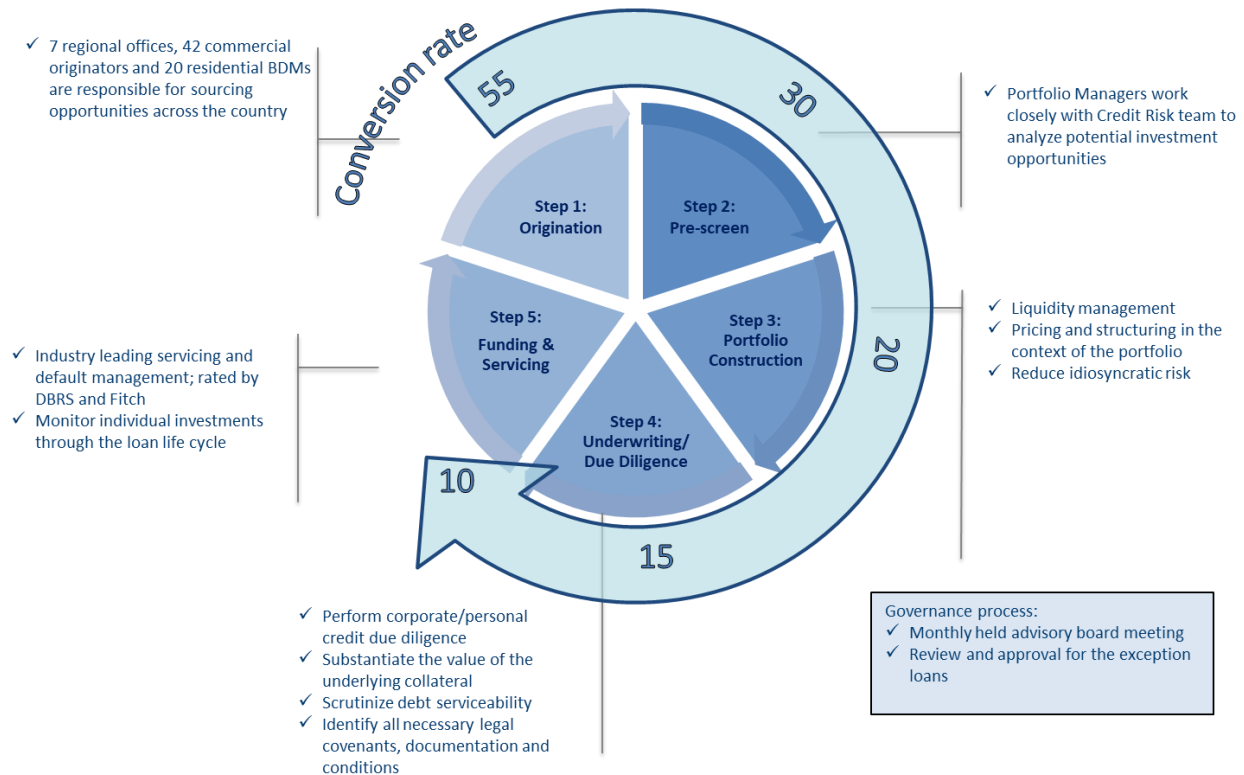
### 3. Low correlation

- Asset class diversification – mortgages exhibit low correlation with other assets including stocks, bonds, and direct investment in real estate equity.

	<i>CMLS Mortgage Fund</i>	<i>REALPAC/IPD</i>	<i>S&amp;P 500</i>	<i>S&amp;P/TSX</i>	<i>Blackrock iShares XSB</i>	<i>MSCI Emerging Market Index</i>	<i>Barclays US High Yield Index</i>
<i>CMLS Mortgage Fund</i>	1.00						
<i>REALPAC/IPD</i>	0.09	1.00					
<i>S&amp;P 500</i>	0.10	-0.32	1.00				
<i>S&amp;P/TSX</i>	0.15	-0.17	0.80	1.00			
<i>Blackrock iShares XSB</i>	0.23	0.18	-0.37	-0.19	1.00		
<i>MSCI Emerging Market Index</i>	0.33	-0.18	0.73	0.82	-0.12	1.00	
<i>Barclays US High Yield Index</i>	0.50	-0.12	0.63	0.81	0.05	0.85	1.00

## INVESTMENT PROCESS

Fully **integrated** in-house investment management process. The PMs work closely with the Origination and Credit Risk teams on an individual loan basis which allows them to view a large private market opportunity set and select the most attractive investments for the Fund



### Alignment of interest

- Manager paid on equity managed not total assets, reducing the conflicts of leverage

## COMMERCIAL LENDING PROCESS

---

- The Fund employs a maximum LTV of 85% and minimum DSCR of 1.0x in exchange for higher coupons than lower risk conventional mortgages<sup>1</sup>
- Source of income to service debt comes from contractual leases to a diversified roster of tenants and additional portfolio income from the investments of the well-capitalized, experienced sponsors/guarantors, if applicable
- Focus on lending in dense, major markets where trades occur more frequently

### Key Commercial Underwriting Considerations



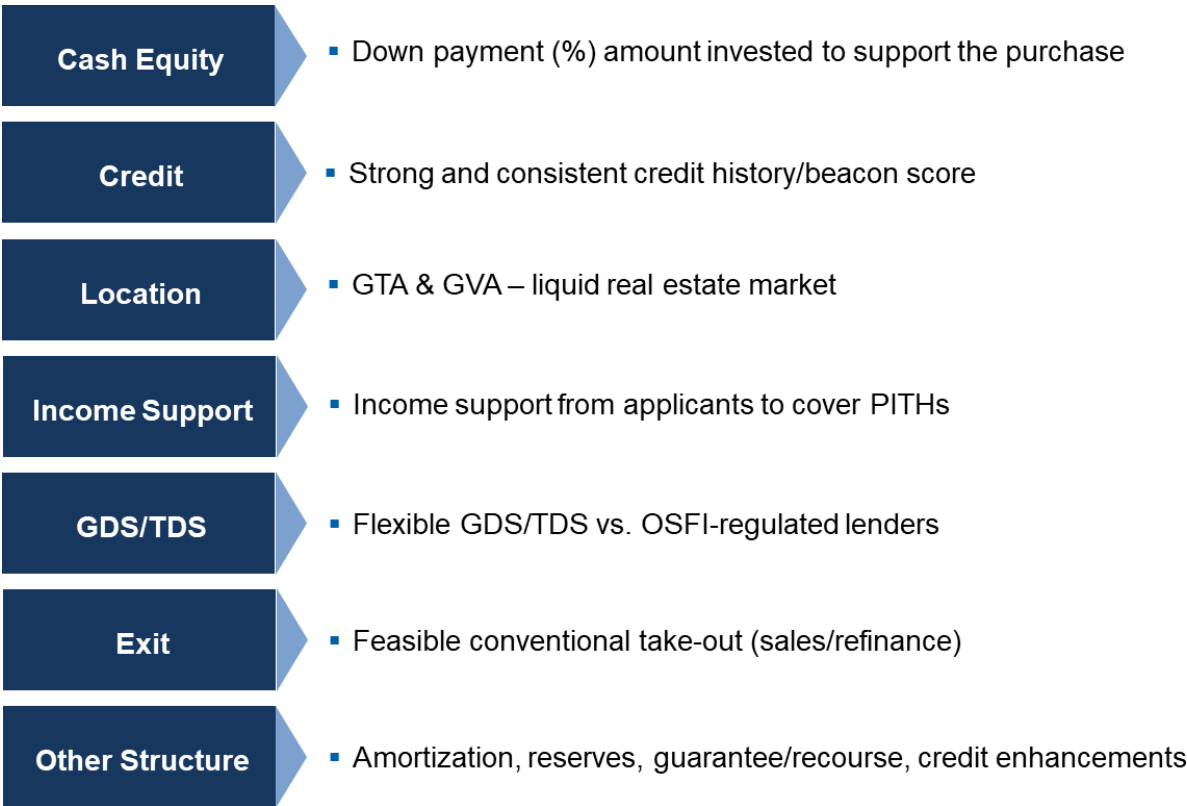
<sup>1</sup>: Conventional mortgage is any type of home/property buyer's loan that is not offered or secured by a government entity, but rather available through or guaranteed by a private lender (banks, credit unions, mortgage companies).

**SINGLE-FAMILY RESIDENTIAL PROCESS**

---

- Conventional first mortgages up to 80% LTV for six to twelve month terms <sup>(1)</sup>
- LTV is limited to 65% for loans sourced through CMLS’ “Equity” program, under which less income support is required from the borrower
- Second mortgages permitted only for bridge financing on 0 to 90 day terms. These loans are designed to bridge the gap for a borrower between the purchase of a new home and sale of an existing home, and are secured by charges on both such homes
- Offers more flexibility to how underwriting is supported vs. OSFI-regulated lenders – e.g.; no requirement to calculate debt service ratios at stressed interest rates and amortization
- Typically faster turnaround than OSFI-regulated lenders

Key Single Family Residential Underwriting Considerations



(1) Maximum LTV to 90% on exception basis (limited to lesst han 10% of motgages outstanding on origination).  
 (2) PITH: Principle, Interest, Taxes, Heating Costs  
 (3) GDS (Gross Debt Service Ratio): a comprehensive measure of all of a borrower’s monthly housing expenses.  
 (4) TDS: (Total Debt Service Ratio): adding up monthly debt obligations and dividing them by gross monthly income.

## PORTFOLIO CONSTRUCTION

---

- Commercial & residential high yield mortgages
- Eligible investments: Mortgages secured against real property in Canada including syndicated mortgages and liquid investments. (Liquid investments up to 20% as market conditions and cash flows dictate)
- Maximum exposure: 10%
- Maximum loan size: 10% of mortgages outstanding
- Minimum loan size: none
- Targeted portfolio LTV: 65%
- Max leverage ratio: 85% LTV for commercial and 90% on single-family (Board sign-off required on loans over 90% LTV)
- Minimum DSCR: 1.00x on cash flow for commercial only (except for land/development)
- Targeted return: 6-8%
- Targeted Fund leverage: 0%
- Investments in real property: 0

## HOLDINGS BASED CHARACTERISTICS

---

### Summary of Loans by Asset Type

	<b>Number of mortgages</b>	<b>Outstanding balance</b>	<b>% of portfolio</b>
Single-family	12	6,992,893	35%
Multi-family	7	3,892,485	19%
Residential	19	10,885,378	54%
Retail	5	4,207,536	21%
Office	3	1,300,756	6%
Mixed use	1	750,000	4%
Land	1	1,700,000	8%
Industrial	1	897,729	4%
Senior housing	1	443,044	2%
	<b>31</b>	<b>20,184,443</b>	<b>100%</b>

### Summary of Loans by Priority

<b>Type of mortgage</b>	<b>Number of mortgages</b>	<b>Outstanding balance</b>	<b>% of portfolio</b>
First	14	9,737,893	48%
Junior First	5	3,186,190	16%
Second	12	7,260,360	36%
	<b>31</b>	<b>20,184,443</b>	<b>100%</b>

### Summary of Loans by Province

	<b>Number of mortgages</b>	<b>Outstanding balance</b>	<b>% of portfolio</b>
ON	16	9,945,345	49%
QC	5	2,474,733	12%
BC	3	3,304,230	16%
AB	3	2,642,100	13%
NS	2	1,441,667	7%
SK	1	190,914	1%
MB	1	185,453	1%
	<b>31</b>	<b>20,184,443</b>	<b>100%</b>

## HOLDINGS BASED CHARACTERISTICS

---

### Summary of Loans by Maturity

	<b>Number of mortgages</b>	<b>Outstanding balance</b>	<b>% of portfolio</b>
Less than 1 year	15	9517840.75	47%
1 to 3 years	11	6792364.52	34%
More than 3 years	5	3874237.3	19%
	<b>31</b>	<b>20,184,443</b>	<b>100%</b>

### Summary of Loans by Interest Rate

	<b>Number of mortgages</b>	<b>Outstanding balance</b>	<b>% of portfolio</b>
Less than 6.00%	5	3,618,671	18%
6.00% to 6.49%	9	5,203,309	26%
6.50% to 6.99%	6	5,180,616	26%
7.00% to 7.49%	5	2,012,018	10%
7.50% to 7.99%	4	2,452,100	12%
Greater than 7.99%	2	1,717,729	9%
	<b>31</b>	<b>20,184,443</b>	<b>100%</b>

### Summary of Loans by Loan-to-Appraised

	<b>Number of mortgages</b>	<b>Outstanding balance</b>	<b>% of portfolio</b>
Less than 60%	9	6,521,656	32%
60% to 69%	14.00	9,035,618	45%
70% to 79%	7.00	4,117,475	20%
80% to 89%	1.00	509,693	3%
	<b>31</b>	<b>20,184,443</b>	<b>100%</b>

## PORTFOLIO HIGHLIGHTS

---

Financial metrics relating to the loans in the funds mortgage portfolio

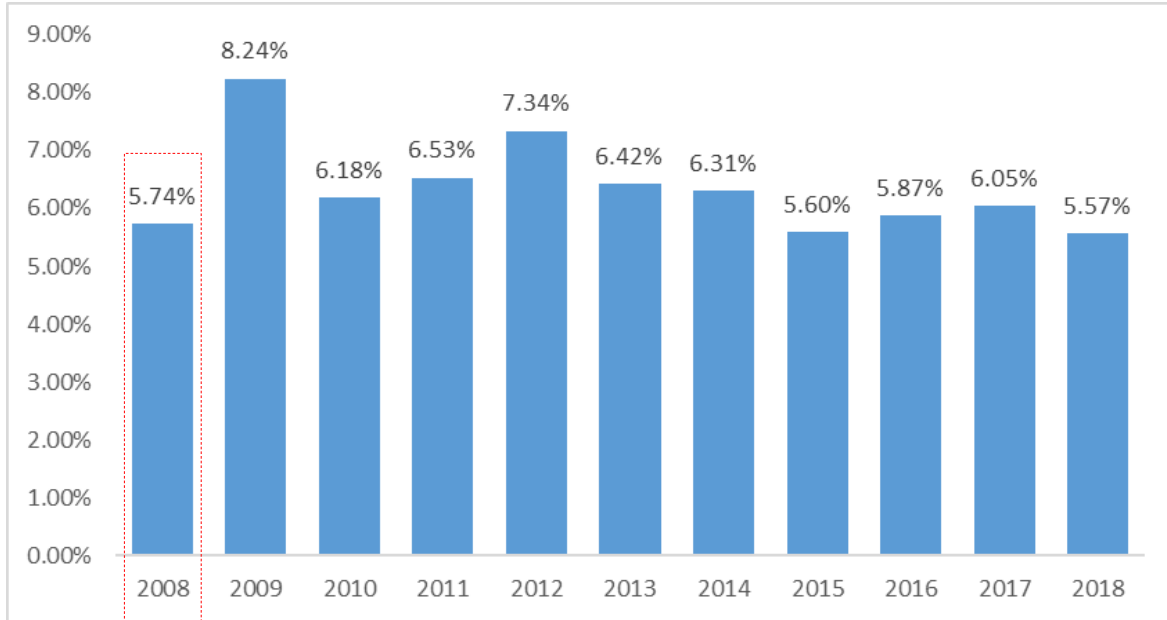
<b>Portfolio Metric (as of Q4 2018)</b>	
Weighted Loan-To-Value Ratio	59.3%
Weighted Debt Service Coverage	1.1x
Weighted Term to Maturity (years)	1.62
Weighted Interest Rate	6.59%



## PORTFOLIO RETURNS

---

### Annualized Returns Since Inception (%)



**Stable performance during market downturn**

Source: CMLS Asset Management Ltd.

Notes: CMLS Mortgage Fund returns are actual net returns on class I units (MER of 1.50%, reduced to 0.90% in April 2017) and assume distributions have been reinvested through the period. Historical returns are not indicative of future returns. Data is as of Dec. 2018

---

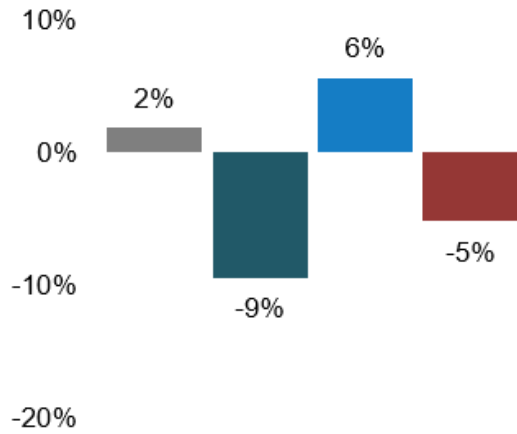
For Institutional Investor and Investment Professional Use Only

## PORTFOLIO RETURNS

### Comparative Performance – Cumulative Return

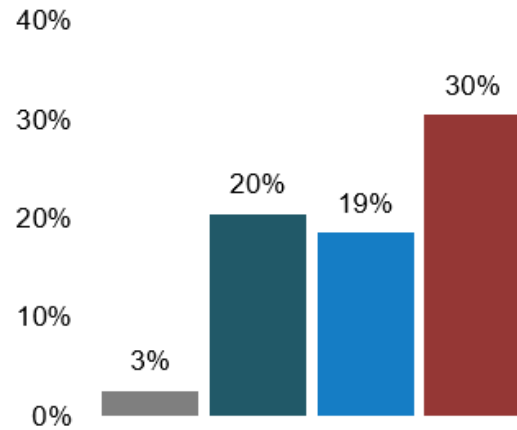
#### 1 Year Performance

(%)



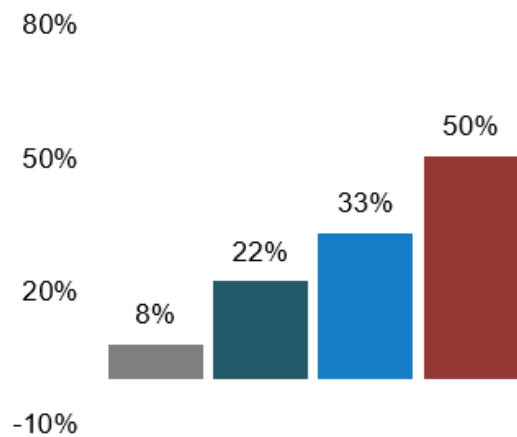
#### 3 Year Performance

(%)



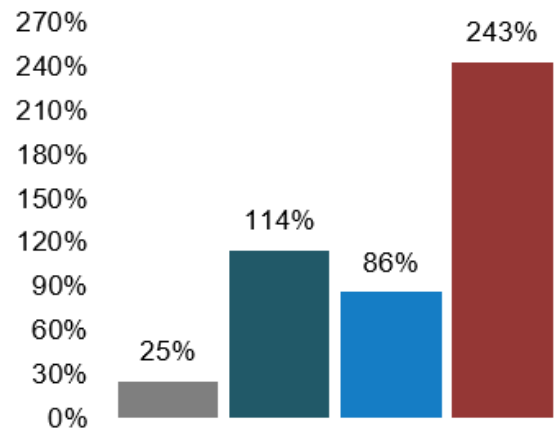
#### 5 Year Performance

(%)



#### 10 Year Performance

(%)



- CMLS Mortgage Fund
- Short Term Bond Index

- S&P 500 Total Return
- S&P/TSX Total Return

## APPENDIX

## IMPORTANT INFORMATION

---

### Distribution Policy

- The fund will make monthly distributions of net income to unitholders
- The fund is required to distribute all its net income and net capital gains in each fiscal year as calculated on the distribution date

### Distribution Reinvestment

- If cash distribution option is not selected unitholder will receive distributions in the form of units

### Redemption of Units

- Unitholders are entitled to redeem all or a portion of their units on the last business day of any month by providing advance written notice of 15 days before the proposed redemption date. 60 days' notice is required if redemption exceeds \$1M.

### Short-Term Trading Fees

- within one (1) year after the date of subscription, the Fund will deduct 1% from the redemption amount otherwise payable to such Unitholder in order to discourage short-term trading. The 1% fee is payable to remaining Unitholders, not the Manager.

### Management Fees

<i>Class A Units</i>	1.25% per annum
<i>Class B Units</i>	1.45% per annum
<i>Class F Units</i>	1.00% per annum
<i>Class I Units</i>	Annual percentage to be stipulated by the Manager based on the amount invested

## IMPORTANT INFORMATION

---

### Compensation - trailer

<i>Class A Units</i>	0.25% per annum
<i>Class B Units</i>	0.45% per annum
<i>Class F Units</i>	0.00% per annum
<i>Class I Units</i>	0.00% per annum

### Subscription Procedure

- Minimum initial investment \$25,000
- Minimum additional \$5,000
- Fundserv code: CLS
- Complete and sign subscription agreement
  - Accredited Investor, sign and certify Accredited Investor form and complete risk acknowledgement form
  - Offer memorandum, complete risk acknowledgement form
  - Minimum Investment (for non-individual only)
- Subscription price per unit will be an amount equal to the NAVPU on the valuation date of the calendar month in which the subscription is received and accepted
- Closing will occur monthly on a continuous basis

### Two Day Cancellation Right for All Subscribers

- You can cancel your agreement to purchase these securities. To do so, you must send a notice to the Manager by midnight on the 2nd business day after you sign the agreement to buy the securities.

## FAQ

---

**How are lending fees split?** – many mortgages in the alternative space require upfront fees paid by the borrower at the time of funding.

Our lending fees are split between CMLS Financial, to pay for the costs associated with originating and underwriting the loan, and the Fund, which forms a component of the total return of the loan. We view it to be important that the Fund participate materially in origination fees as it provides an alignment of interests between the originator and the Fund. CMLS Financial retains no more than 50% of the fee paid by the borrower, and no origination fees are paid to the manager.

**Who is qualified to invest in the Fund?**

Investors must generally qualify as “accredited investors” as defined in applicable securities laws.

**When can I invest in the Fund?**

Purchases take place the first business day of the month.

**Can I hold units in a registered plan?**

Yes. RRSP, RRIF, RESP, TFSA and other registered plans.

**Will the Fund pay a fixed interest rate?**

No, but the Fund intends to distribute all its income to unitholders monthly. The distribution amount generally reflects the actual income the Fund has produced.

**Does the Fund have a target for its rate of return?**

Yes, 5-7% net to unitholders. Over the past 11 years, CMLS mortgage portfolio has been highly predictable year-to-year and has averaged approximately 6.35% return per annum.

**When will distributions be paid?**

Distributions will be paid on or about the 21<sup>st</sup> day of every month for unitholders of record.

**How are units priced? Will the unit price fluctuate?**

The purchase price is net asset value per unit. The net asset value of the Fund is determined on a monthly basis.

**What is the minimum number of units that an investor may purchase?**

For investors purchasing through an investment professional via the FundServ network, the minimum is \$25,000.

## FAQ

---

### **Can I withdraw money from the Fund?**

Units may be redeemed on a monthly basis at their net asset value after a one year holding period. A 1% fee will be charged if redeemed in year one. Redemption forms must be received before the 15th of the month for redemption the following month and are processed in order of receipt.

### **What management fees are associated with the Fund?**

There is a 1% management fee. If investors wish to redeem units that have been held for less than one year, a 1% redemption fee is applied. Management fees do not include Fund expenses, which are charged back to the Fund.

### **Are the monthly distributions taxable?**

Distributions are fully taxable as trust income. Consult a professional adviser to obtain advice on the tax consequences that apply to you or your client.

### **How will I know how the Fund is performing?**

The trustees report to investors on a quarterly basis. The report summarizes the activities of the Fund and includes unaudited financial statements. The annual report, which includes audited financial statements is also provided and is discussed during the annual investor meeting.

### **Who will answer investor questions on an ongoing basis?**

The Investor Relations Department at 1-416-646-1005.

### **Is the Fund audited?**

Yes, the Fund is audited annually by Deloitte.

## BENEFITS OF INVESTING IN OUR REAL-ESTATE MORTGAGE INVESTMENT FUND

---

**Security of capital** – one of the most important benefits is the security offered by a real estate income fund for investment capital. Secured lending takes precedence over unsecured lending. Each debt owed by a business is compounded into what’s called the “stack”, or capital structure. Secured debt stays at the top of the capital structure and must be repaid before other types of loans.

**Access to deals otherwise unavailable** – conventional real estate investors have access to only a fraction of what’s available on the market, resulting in high barriers to entry. We are investing in debt secured by retail centers, office buildings, industrial properties and multi-family housing units, and have the ability to participate in large transactions with strong counterparties and partners.

**Professional management** – investing in the CMLS Mortgage Fund can ensure that you have the active, professional management that you not only need for peace of mind, but for the foundation of true wealth building.

**Significant returns/protection from inflation** – inflation is present in most of the Western world today as governments print money to encourage economic growth. Printing of money creates many issues – one major problem is that as inflation increases, the less your money is worth, and that applies to your investments, especially your fixed income investments. However, the CMLS Mortgage Fund maintains a short duration which allows the manager to roll over contractual coupons as prevailing rates respond to inflation.

**Earn an income return** – when most people think about ROI, they think about capital value return. But this doesn’t solve your cash flow issues. The CMLS Mortgage Fund offers current income to offset cost of living and provides the flexibility to grow your income as prevailing rates respond to higher inflation.

**High Yields Without the Risk** – In 2010, over \$1 trillion in stock value was completely erased in 15 minutes. That doesn’t happen in real estate investing. Instead you can enjoy steady appreciation, capital preservation along with lower volatility than traditional investments.

By Investing in the CMLS Mortgage Fund you can protect your capital, ensure that you have monthly cash flow and avoid the cost and pitfalls of owning a property outright.