cmls mortgage fund

Q4 2024 report

Contents

cmls asset management

cmls mortgage fund
Q4 2024 report

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

As at Dec 31, 2024, the Fund had total Mortgages Under Administration ("MUA") of $174.3 million compared to $175.5 million as at Sep 30, 2024, a decrease of $1.2 million quarter-over-quarter. As at Dec 31, 2024, the weighted average coupon of the portfolio excluding cash was 8.70% and the weighted average term to maturity was 0.78 years vs. a weighted average coupon of 9.14% and a weighted average term to maturity of 0.70 years for the quarter ended Sep 30, 2024.

Exhibit 1
Geographic composition

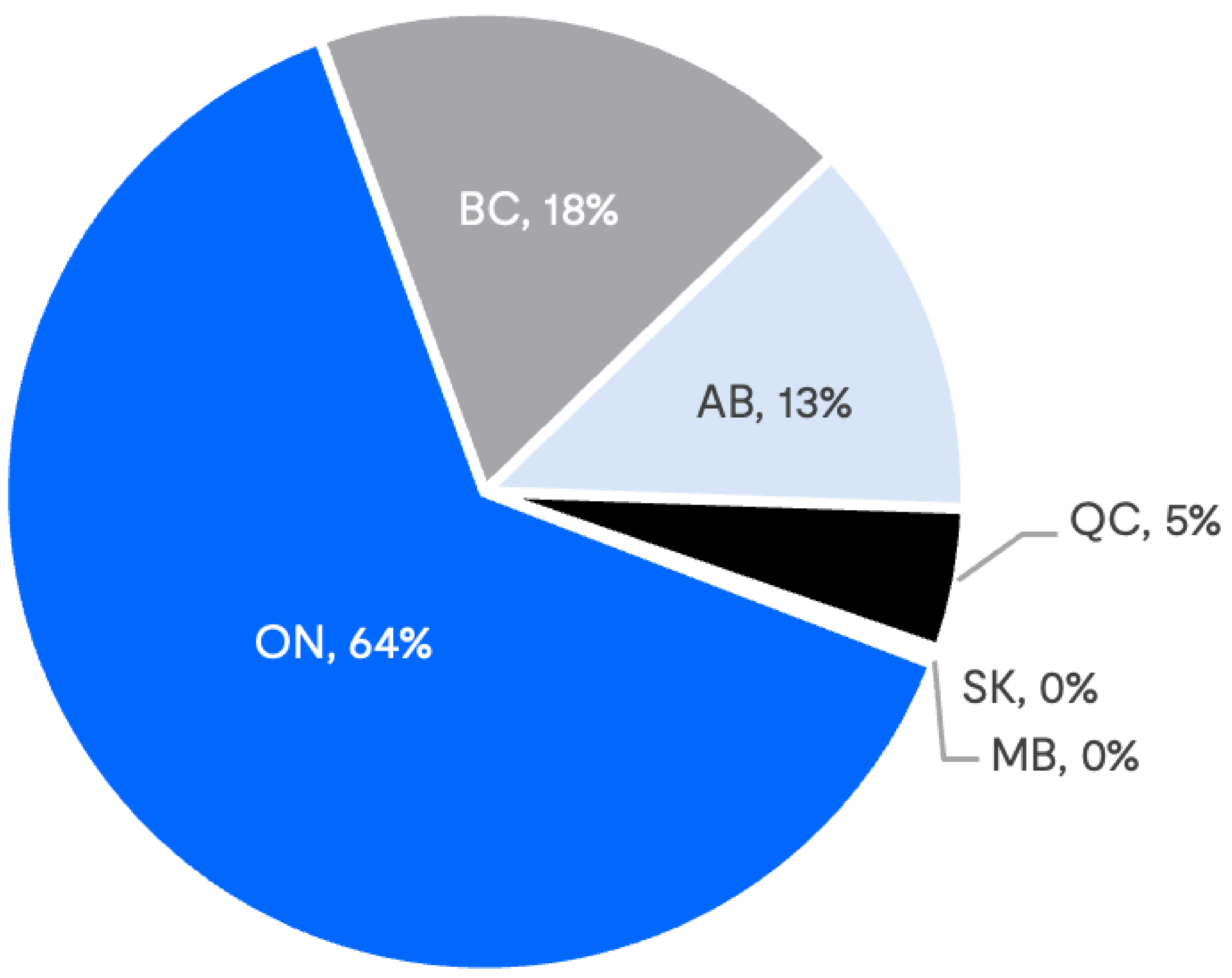
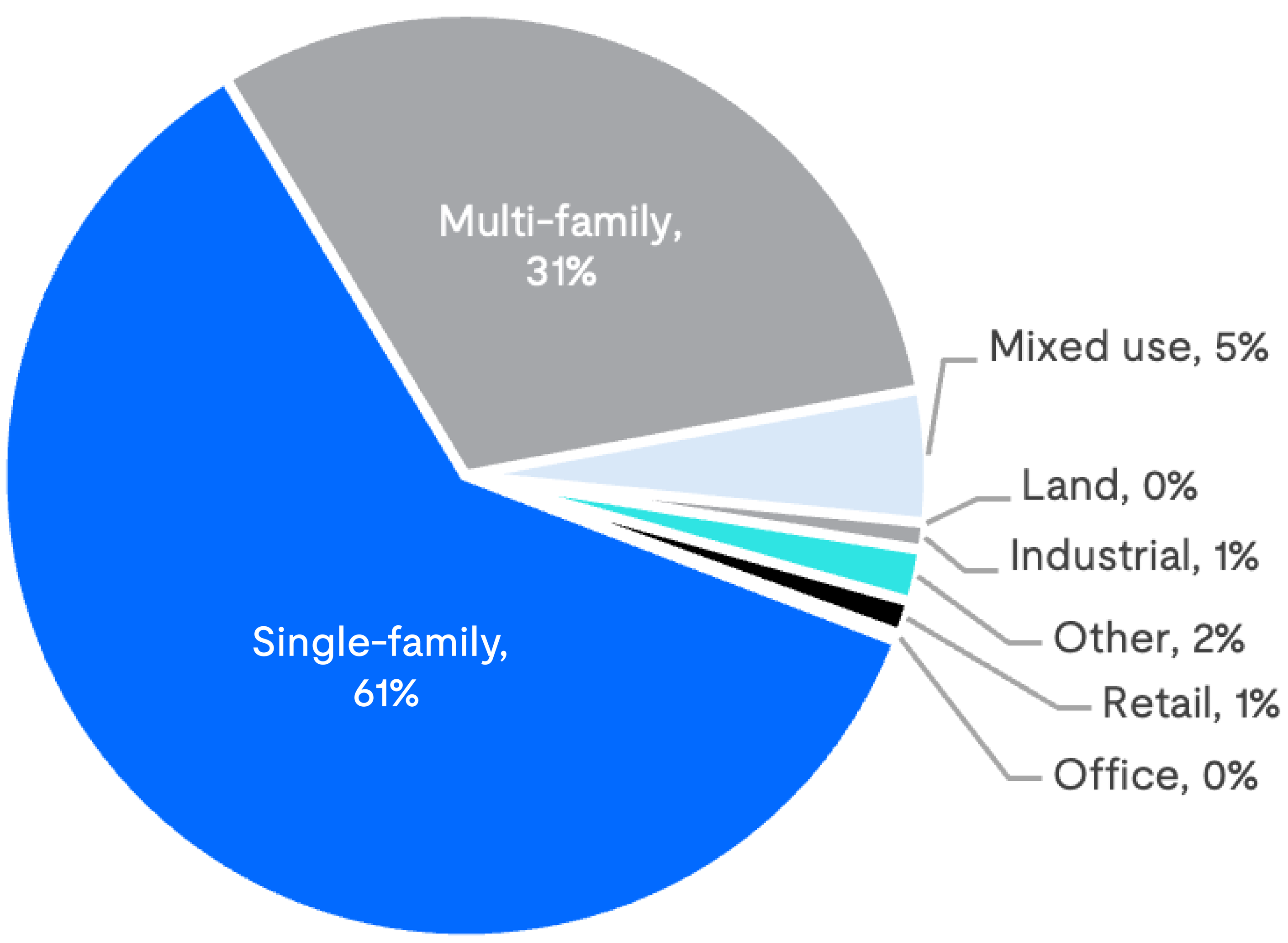


Exhibit 2
Asset class composition



Notes: as of Dec 31, 2024

Commentary & Outlook (continued)

As we move into 2025, we are mindful of several uncertainties, such as the impact of tariffs, how policy rates will evolve in the face of both inflationary pressures and a shifting economic climate, and the resiliency of consumers amid these pressures.

Looking back on the past 12 months, 2024 was a record year for the Fund with an annual return of 8.24%. The first half of the year had a notably higher return (8.78% annualized) compared to the second half of the year (7.79% annualized). While some of this delta can be attributed to the decreasing rate environment we found ourselves in, this doesn't paint the whole picture. For instance, the weighted average coupon in the Fund only decreased by 32 bps between the end of 2023 and the end of 2024, compared to the Bank of Canada Policy rate which decreased by 175 bps over the same period. As a byproduct of the combination of subdued real estate sales activity and significant capital inflows to the Fund (57% increase in AUM through 2024), we held cash through the latter half of the year, which put a drag on returns. To be specific, we ended the year holding 15% cash.

While we are pleased that the Fund achieved its highest annual return to date in 2024, we remain committed to maximizing risk-adjusted returns by optimizing our capital structure and minimizing cash drag. We are happy to report that we have made inroads to start 2025, with the cash position having been reduced to 7% as of the end of February, and there being a clear line of sight to this coming down further. Expect to see a slight shift in the Fund's allocations going forward, with a higher percentage allocated to multi-family residential loans, which has been a strong performing segment of the Fund. We will continue to work towards removing cash drag, and expect for this to be achieved in the near term.

The reduction in the Bank of Canada Policy Rate in 2024 contributed to an increase in home sales, with a 10%[1] increase of sales in December compared to May (the month preceding the first rate cut). However, this did not translate into price appreciation. Single-family home prices actually softened after the rate cut, with prices falling 4%[2] between May and December. It is important to remember that both buyers and sellers were waiting for interest rates to come down prior to entering the market, so there have been increases in both the supply and demand sides of the equation.

The emergence of large cross-border tariffs has left the market wondering how the economy will be impacted and how this will affect policy rates. On one hand, rates could be driven lower in an effort to boost the economy. On the other hand, there could be hesitancy to decrease rates further due to the inflationary nature of tariffs. It is hard to know exactly what will happen and where home prices will go from here, but the Fund is well positioned to handle market volatility. The Fund performed well through 2022 when home prices in Canada fell by 18%[3], and has experienced zero losses of principal since inception. The Fund's weighted average loan-to-value (LTV) ratio is 60.1%, with no loan exceeding an 80% LTV, providing a strong buffer against potential shifts in property values.

Higher interest rates have put pressure on consumers over the past two years, but we have been encouraged by the performance of our loan portfolio and with the resilience we've seen from borrowers in general. Although Canada's overall mortgage delinquency rate ended higher in 2024 than the low point we saw in 2022, it is still below that of pre-pandemic levels[4], and we are pleased with the arrears rate for the Fund, ending 2024 at 2.5%. Throughout this high interest-rate environment, we have strengthened the credit quality of our borrowers, with the average credit score for borrowers on single-family residential loans in the Fund increasing from 714 in 2022, to 734 in 2023, and reaching 746 at the end of 2024. On the multi-family residential and commercial segments of the Fund, we have experienced zero instances of arrears since 2020.

Looking ahead, we remain focused on maintaining our disciplined approach, ensuring that the Fund continues to prioritize stability and consistent returns amidst the dynamic market conditions. We are excited to reach our desired capital structure as we look to benefit from the accretive impact on returns that comes from an increase in deployment. As always, we thank our investors for their continued trust and look forward to another strong year in 2025.

[1] https://www.crea.ca/media-hub/news/fourth-quarter-housing-data-hints-at-home-sales-rebound-for-2025/
[2] https://stats.crea.ca/en-CA/
[3] https://stats.crea.ca/en-CA/
[4] https://www.cmhc-schl.gc.ca/professionals/housing-markets-data-and-research/housing-data/data-tables/mortgage-and-debt/mortgage-delinquency-rate-canada-provinces-cmas

Financial Highlights

	Quarter ended Dec 31, 2024	Quarter ended Sep 30, 2024
Mortgage investments	$174,291,742	$175,489,723
Total number of mortgage investments	246	244
Average mortgage investment	$708,503	$719,220
Weighted average interest rate	8.70%	9.14%
Weighted average LTV ratio	60.07%	62.11%
Weighted average term to maturity (years)	0.78	0.70
Leverage	0%	0%
Net assets attributable to holders of redeemable units	$205,740,218	$188,141,958
Net Asset Value ("NAV") per unit	$10.00	$10.01

Net Asset Value ("NAV")

NAV – Sep 30, 2024	$188,141,958
Subscriptions	18,541,242
Redemptions	(2,910,040)
Reinvested distributions	2,056,630
Unrealized Gain	(89,573)
NAV – Dec 31, 2024	205,740,218

Portfolio Allocation

As at Sep 30, 2024, the Fund's portfolio included mortgage investments of $175 million and was comprised of 244 investments, which were allocated across the categories listed below (excludes cash).

Geography

	Number of mortgages	Outstanding balance	% of portfolio
ON	159	$ 110,857,145	64%
BC	41	31,974,340	18%
AB	38	22,264,437	13%
QC	4	8,294,987	5%
SK	2	565,746	0%
MB	2	335,087	0%
	246	$ 174,291,742	100%

Asset Type

	Number of mortgages	Outstanding balance	% of portfolio
Single-family	221	$ 105,466,454	60%
Multi-family	18	53,453,157	31%
Mixed use	2	8,050,377	5%
Other	1	3,180,000	2%
Retail	2	2,052,510	1%
Industrial	1	1,637,964	1%
Office	1	451,280	0%
	246	$ 174,291,742	100%

Maturity

	Number of mortgages	Outstanding balance	% of portfolio
Less than 1 year	216	$ 135,084,045	78%
1 to 3 years	28	38,541,697	22%
More than 3 years	2	666,000	0%
	246	$ 174,291,742	100%

Portfolio Allocation (continued)

Interest Rate

	Number of mortgages	Outstanding balance	% of portfolio
Less than 6.00%	13	$ 5,004,057	3%
6.00% to 6.49%	18	11,029,661	6%
6.50% to 6.99%	11	4,857,261	3%
7.00% to 7.49%	6	7,332,215	4%
7.50% to 7.99%	9	9,134,206	5%
Greater than 7.99%	189	136,934,343	80%
	246	$ 174,291,742	100%

Loan-to-appraised value

	Number of mortgages	Outstanding balance	% of portfolio
60% or below	108	$ 71,605,121	40%
60% to 70%	91	65,282,306	37%
70% to 80%	47	37,404,314	21%
above 80%	0	0	0%
	246	$ 174,291,742	100%

Emissions Tracking

Emissions

	Q3 2024	Q4 2024
Total Financed Emissions (KT of CO_2)	1.650	1.623
Total Financed Emissions (KT of CO_2) per $100M	0.939	0.927

Data Accuracy

	Q3 2024	Q4 2024
Energy usage: directly reported; Energy source: directly reported	0%	0%
Energy usage: market avg; Energy source: directly reported	82%	82%
Energy usage: market avg; Energy source: market avg	18%	18%

How to interpret the charts above: we have separated into three levels of increasing data accuracy, the first and lowest being a calculation using average energy usage per unit (e.g. square footage) and CO_2 intensity for a given property type (e.g. single family residential); second, in most instances we can confirm the specific energy sources (e.g. natural gas) used at the related property, improving our estimates of CO_2 intensity; and third, where our borrower has directly reported energy sources and usage at the related property.

Statement of Net Income
For the quarter ended Dec 31, 2024 (unaudited)

	Dec 31, 2024	Sep 30, 2024
Investment income		
Interest	$ 4,254,871	$ 3,857,395
Other fees	162,747	218,954
	4,417,618	4,076,349
Expenses		
Management fee, net of rebates	427,601	390,548
Mortgage service fees	76,959	78,049
Standby fees	68,633	50,411
Legal and audit	54,806	44,620
FundServ	39,817	18,153
Accounting and recordkeeping	37,762	39,584
Other Expense	90,311	15,543
Consulting	9,025	9,822
Interest Expense	5,086	7,597
Custodian	4,483	4,314
Trustee	2,454	2,454
Financing fees	-	24,252
Total Expenses	816,937	685,347
Expenses waived/absorbed by the Manager	(122,368)	(40,576)
Total Expenses (net)	694,569	644,771
Net investment income	$ 3,723,049	$ 3,431,578
Unrealized Gain/(Loss)	(89,573)	137,403
Net investment income	$ 3,633,476	$ 3,568,981

Statement of Net Assets
For the quarter ended Dec 31, 2024 (unaudited)

	Dec 31, 2024	Sep 30, 2024
Assets		
Cash	$ 31,266,408	$ 4,126,510
Net Mortgage investments	174,291,742	175,489,723
Investment income receivable	1,232,060	1,443,338
Other receivables	1,194,794	1,039,002
Prepaids	3,604	6,441
Due from Manager	649	14,420
Short-term investments	0	7,800,000
	207,989,257	189,919,434
Liabilities		
Bank indebtedness	0	0
Accounts payable and accrued liabilities	472,050	677,530
Subscriptions received in advance	350,000	100,000
Distribution payable	1,426,989	999,946
	2,249,039	1,777,476
Net assets	$ 205,740,218	$ 188,141,958
Units outstanding	20,568,545	18,800,779
Net assets per unit	$ 10.00	$ 10.01

Statement of Net Assets Attributable to Holders of Redeemable Units
For the quarter ended Dec 31, 2024 (unaudited)

Balance, beginning of period	$	188,141,958
Net income		3,633,476
Issuance of units		18,541,242
Units reinvested		2,056,630
		24,231,349
Unitholder redemptions		(2,910,040)
Distributions to unitholders		(3,723,049)
		(6,633,089)
Balance, end of period	$	205,740,218