cmls asset management

CMLS mortgage fund

Q1 2025 report

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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

As at Mar 31, 2025, the Fund had total Mortgages Under Administration ("MUA") of $209.1 million compared to $174.3 million as at Dec 31, 2024, an increase of $34.8 million quarter-over-quarter. As at Mar 31, 2025, the weighted average coupon of the portfolio excluding cash was 8.23% and the weighted average term to maturity was 0.90 years vs. a weighted average coupon of 8.70% and a weighted average term to maturity of 0.78 years for the quarter ended Dec 31, 2024.

Exhibit 1
Geographic composition

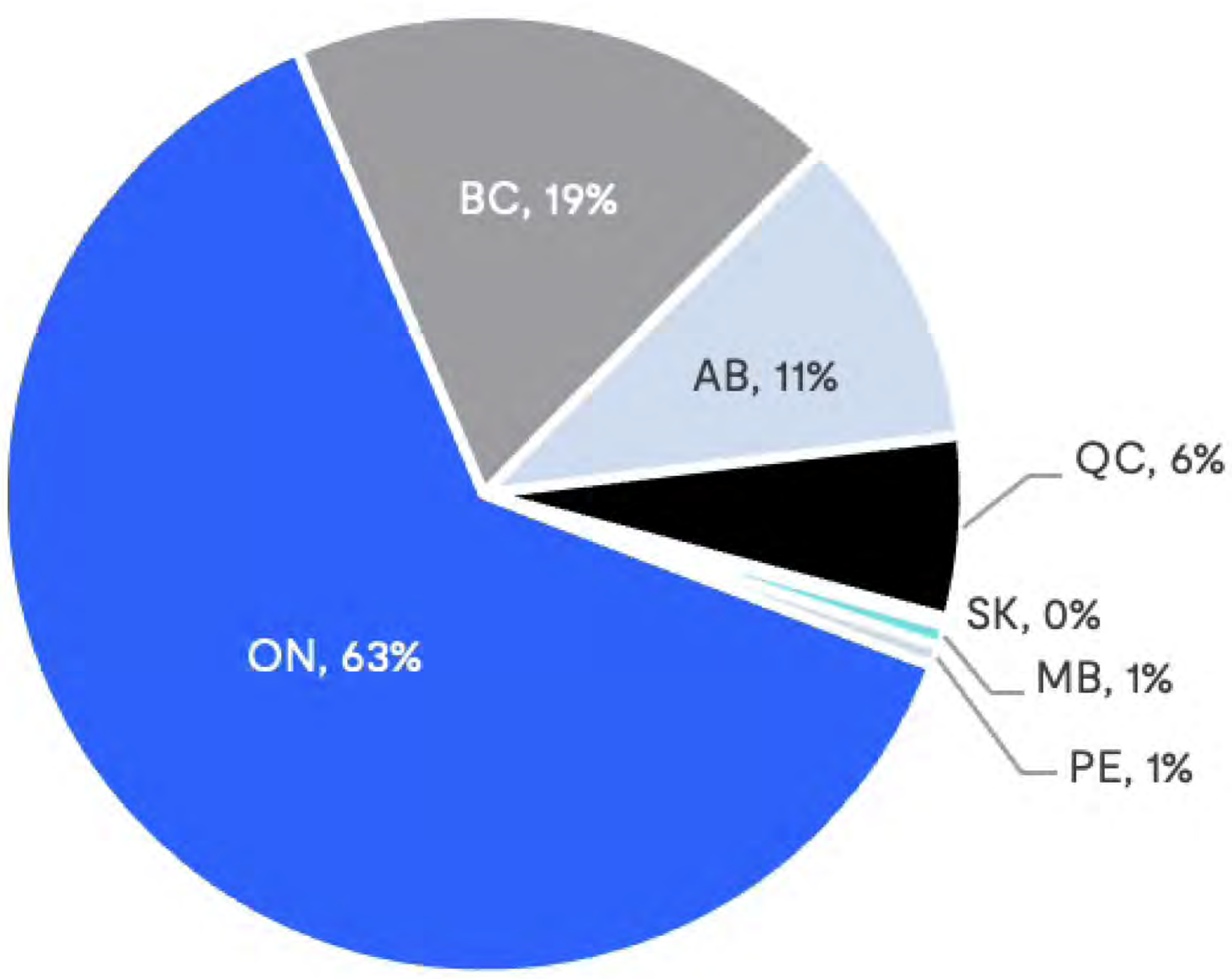
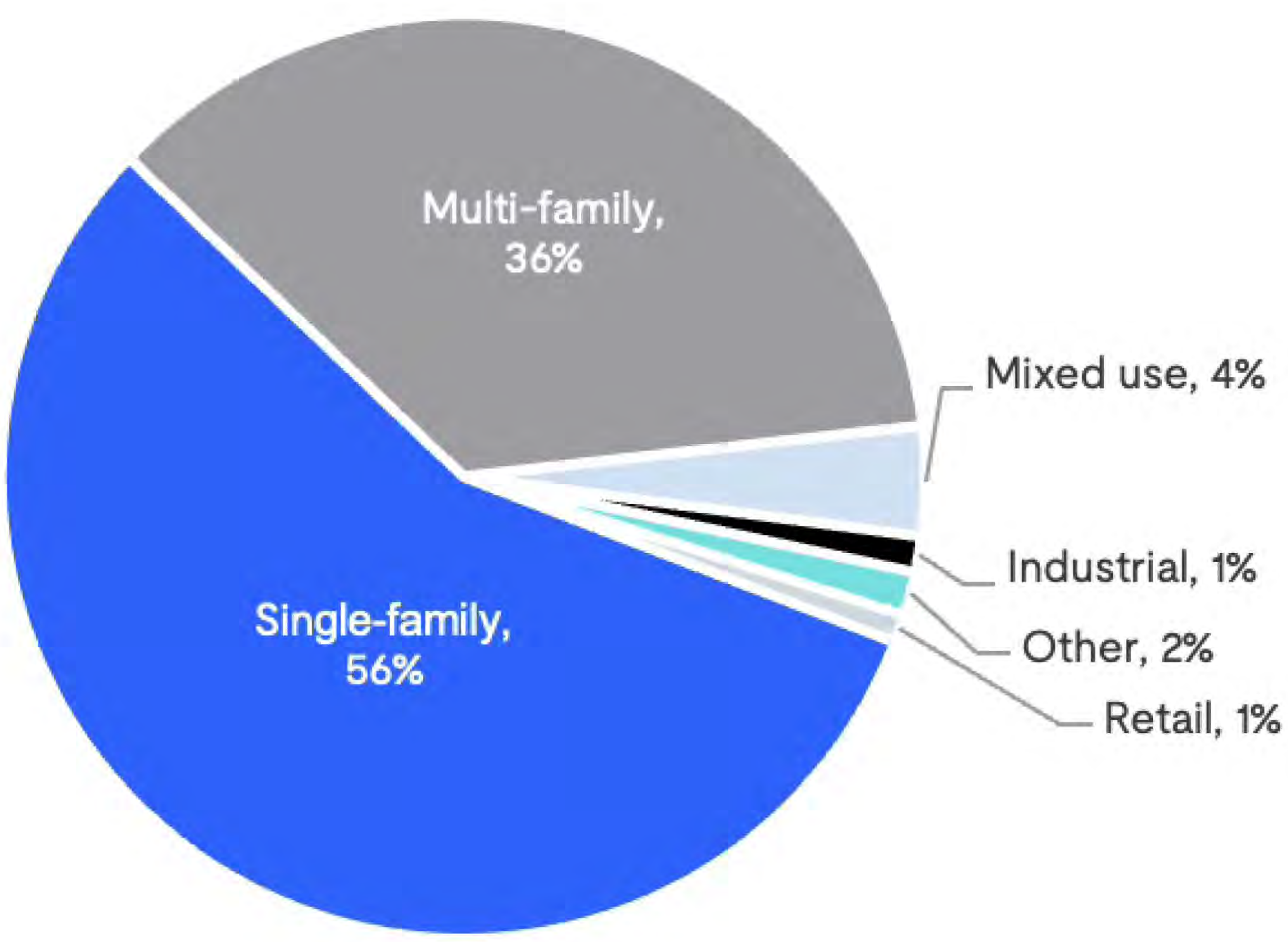


Exhibit 2
Asset class composition



Notes: as of Mar 31, 2025

Commentary & Outlook (continued)

What a wild start to 2025. With a tripling of market volatility (as measured by the VIX) from its YTD low to its high on April 8, and peak to trough S&P 500 drop of 19%, many have been comforted by the perceived safety and stability of private market investments. There are certain features of our fund, for example, that avoid incessant daily fluctuations of value. Some are observable characteristics of our permitted investments, some result from choices we make as manager, and importantly, none represent anything special or unique at the underlying asset level, only with regard to the method of delivery.

First, our targeted investments represent short duration credit provided to real estate owners. Changes in the value of the real estate do not affect the value of our investments 1-to-1. Consistent with public fixed-income securities, the value of an investment in our fund is mainly influenced by current market interest rates for similar investments. We regularly update these valuations using objective benchmarks and third party opinions. This is notably different than choosing to ignore the value of underlying investments for the benefit of stable NAV. However, because our investments are short term, changes in market rates have only a limited impact on their value.

Second, we choose to value monthly, not daily, and we permit our investors to trade units of the fund on the same schedule.

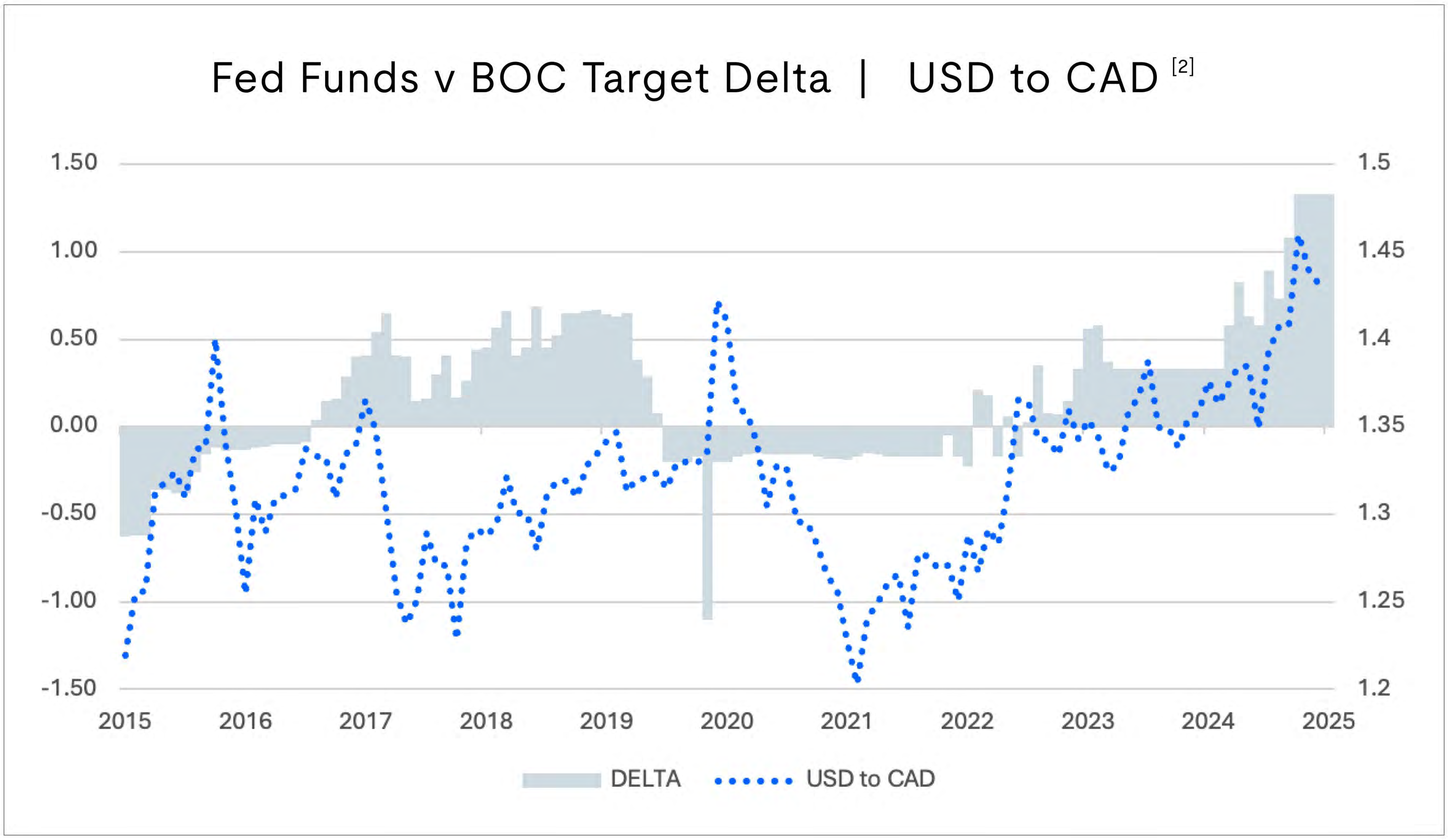
And third, we are an open-ended fund. An imbalance of buy (subscription) versus sell (redemption) trades does not move a "clearing price" of our units as it would if structured as a closed-ended fund and traded on an exchange. Over 2% of our AUM can trade on a single day as it did on March 31, with buy orders 2x sells, with no effect on price. For reference, the average daily trading volume of AAPL shares in Q1, as a percentage of market capitalization, was 0.3%.

As a result, our fund exhibits limited correlation to public markets and significantly lower volatility. We delivered a steady 6.8% annualized return through the first quarter of the year. But we should not look away when markets tank. It is rather a healthy prompt to investigate why the markets tanked, and how the fund might be impacted in the future (e.g. interest rate trajectory, inflation, unemployment).

Why indeed. The volatility in public markets has mirrored the volatility of communication from the US administration. It is difficult to ascertain the presence of a core principle or primary objective among broad-based reshoring, building negotiating leverage, or alleviating the pressure of national debt. By extension, uncertainty remains around our relationship with our southern neighbours, how the Canadian economy will be impacted and where the Bank of Canada policy rate is headed.

The Bank of Canada held steady at 2.75% in April after having made seven consecutive cuts. They continue to deal with the prospect of opposing tariff-induced pressures of economic strain and inflationary impacts. We also wonder if currency concerns stemming from the divergence of Canada and US central bank rates will limit BoC flexibility (although broader USD weakness may alleviate these concerns – see chart below). This interest rate and economic uncertainty and the general strain on consumers have kept real estate transaction activity low. In March, home sales in Canada fell 9.3% year-over-year, and the average sale price was down 3.7% over the same period.[1]

[1] https://stats.crea.ca/en-CA/



Among elevated market risks, we are placing a greater emphasis on underwriting and positioning the portfolio defensively. Specifically, this quarter, we decreased our maximum LTV in geographies most vulnerable to cross-border trade. We also increased the magnitude of pricing differential between higher and lower risk lending opportunities (e.g. rewarding those with LTVs below 50% and borrower credit scores above 800). Our continued focus on low leverage loans to strong borrowers in core markets has served us well. Arrears have remained low (2.0% at the end of Q1) and we have continued our record of zero losses of principal since fund inception.

During a time when public markets can swing massively in response to posts on social media, we look to provide consistency in our approach as manager. Our focus remains on sustainable returns driven by well-underwritten real estate debt investments. We thank our investors for their continued trust and are excited for the quarter ahead.

[2] Federal Reserve Economic Data, Federal Reserve Bank of St. Louis; Bank of Canada

Financial Highlights

Mortgage Investments

	Quarter ended Mar 31, 2025	Quarter ended Dec 31, 2024
Mortgage investments	$209,069,274	$174,291,742
Total number of mortgage investments	276	246
Average mortgage investment	$757,497	$708,503
Weighted average interest rate	8.23%	8.70%
Weighted average LTV ratio	59.61%	60.07%
Weighted average term to maturity (years)	0.90	0.78
Leverage	0%	0%
Net assets attributable to holders of redeemable units	$223,982,812	$205,740,218
Net Asset Value ("NAV") per unit	$10.00	$10.00

Net Asset Value ("NAV")

NAV – Dec 31, 2024	$205,740,218
Subscriptions	18,939,073
Redemptions	(2,848,900)
Reinvested distributions	2,191,336
Unrealized Gain	(38,915)
NAV – Mar 31, 2025	**223,982,812**

Portfolio Allocation

As at Mar 31, 2025, the Fund's portfolio included mortgage investments of $209 million and was comprised of 276 investments, which were allocated across the categories listed below (excludes cash).

Geography

	Number of mortgages	Outstanding balance	% of portfolio
ON	172	$ 131,230,042	63%
BC	51	38,992,090	19%
AB	41	22,605,753	11%
QC	3	12,754,906	6%
MB	6	1,473,454	1%
PE	1	1,449,259	1%
SK	2	563,769	0%
	276	**$ 209,069,274**	**100%**

Asset Type

	Number of mortgages	Outstanding balance	% of portfolio
Single-family	247	$ 117,532,790	56%
Multi-family	22	75,671,133	36%
Mixed use	2	8,000,000	4%
Other	1	3,180,000	2%
Industrial	2	2,633,504	1%
Retail	2	2,051,847	1%
	276	**$ 209,069,274**	**100%**

Maturity

	Number of mortgages	Outstanding balance	% of portfolio
Less than 1 year	232	$ 155,142,405	74%
1 to 3 years	42	49,477,610	24%
More than 3 years	2	4,449,259	2%
	276	**$ 209,069,274**	**100%**

Portfolio Allocation (continued)

Interest Rate

	Number of mortgages	Outstanding balance	% of portfolio
Less than 6.00%	23	$ 12,671,504	6%
6.00% to 6.49%	19	7,683,936	4%
6.50% to 6.99%	22	16,128,365	8%
7.00% to 7.49%	19	27,682,493	13%
7.50% to 7.99%	26	19,683,445	9%
Greater than 7.99%	167	125,219,531	61%
	276	**$ 209,069,274**	**100%**

Loan-to-appraised value

	Number of mortgages	Outstanding balance	% of portfolio
60% or below	111	$ 79,199,920	38%
60% to 70%	114	92,029,111	44%
70% to 80%	51	37,840,243	17%
above 80%	0	-	0%
	276	**$ 209,069,274**	**100%**

Emissions Tracking

Emissions

	*Q4 2024	Q1 2025
Total Financed Emissions (KT of CO_2)	1.483	1.224
Total Financed Emissions (KT of CO_2) per $100M	0.847	0.586

Data Accuracy

	*Q4 2024	Q1 2025
Energy usage: directly reported; Energy source: directly reported	0%	0%
Energy usage: market avg; Energy source: directly reported	81%	89%
Energy usage: market avg; Energy source: market avg	19%	11%

*2024 emissions restated due to incorrect historical weighting of one loan.

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 Mar 31, 2025 (unaudited)

	Mar 31, 2025	Dec 31, 2024
Investment income		
Interest	$ 3,872,098	$ 4,254,871
Other fees	457,020	162,747
	4,329,118	4,417,618
Expenses		
Management fee, net of rebates	463,173	427,601
Mortgage service fees	82,955	76,959
Standby fees	55,479	68,633
Legal and audit	9,677	54,806
FundServ	32,548	39,817
Accounting and recordkeeping	55,607	37,762
Other Expense	(35,423)	90,311
Consulting	12,075	9,025
Interest Expense	6,260	5,086
Custodian	14,408	4,483
Trustee	-	2,454
Total Expenses	696,759	816,937
Expenses waived/absorbed by the Manager	(16,482)	(122,368)
Total Expenses (net)	680,277	694,569
Net investment income	$ 3,648,841	$ 3,723,049
Unrealized Gain/(Loss)	(38,915)	(89,573)
Net investment income	$ 3,609,926	$ 3,633,476

Statement of Net Assets
For the quarter ended Mar 31, 2025 (unaudited)

		Mar 31, 2025		Dec 31, 2024
Assets				
Cash	$	**14,912,634**	$	31,266,408
Net Mortgage investments		**209,069,274**		174,291,742
Investment income receivable		**1,198,828**		1,232,060
Other receivables		**819,886**		1,194,794
Prepaids		**3,540**		3,604
Due from Manager		**0**		649
		226,004,162		207,989,257
Liabilities				
Bank indebtedness		**0**		0
Accounts payable and accrued liabilities		**338,394**		472,050
Subscriptions received in advance		**350,018**		350,000
Distribution payable		**1,332,938**		1,426,989
		2,021,350		2,249,039
Net assets	$	**223,982,812**	$	205,740,218
Units outstanding		**22,393,640**		20,568,545
Net assets per unit	$	**10.00**	$	10.00

Statement of Net Assets Attributable to Holders of Redeemable Units
For the quarter ended Mar 31, 2025 (unaudited)

Balance, beginning of period	**$**	**205,740,218**
Net income		**3,609,926**
Issuance of units		**18,939,073**
Units reinvested		**2,191,336**
		24,740,335
Unitholder redemptions		**(2,848,900)**
Distributions to unitholders		**(3,648,841)**
		(6,497,741)
Balance, end of period	**$**	**223,982,812**