cmls asset management

CMLS mortgage fund

Q2 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 Jun 30, 2025, the Fund had total Mortgages Under Administration ("MUA") of $233.8 million compared to $209.1 million as at Mar 31, 2025, an increase of $24.8 million quarter-over-quarter. As at Jun 30, 2025, the weighted average coupon of the portfolio excluding cash was 8.02% and the weighted average term to maturity was 1.08 years vs. a weighted average coupon of 8.23% and a weighted average term to maturity of 0.90 years for the quarter ended Mar 31, 2025.

Exhibit 1
Geographic composition

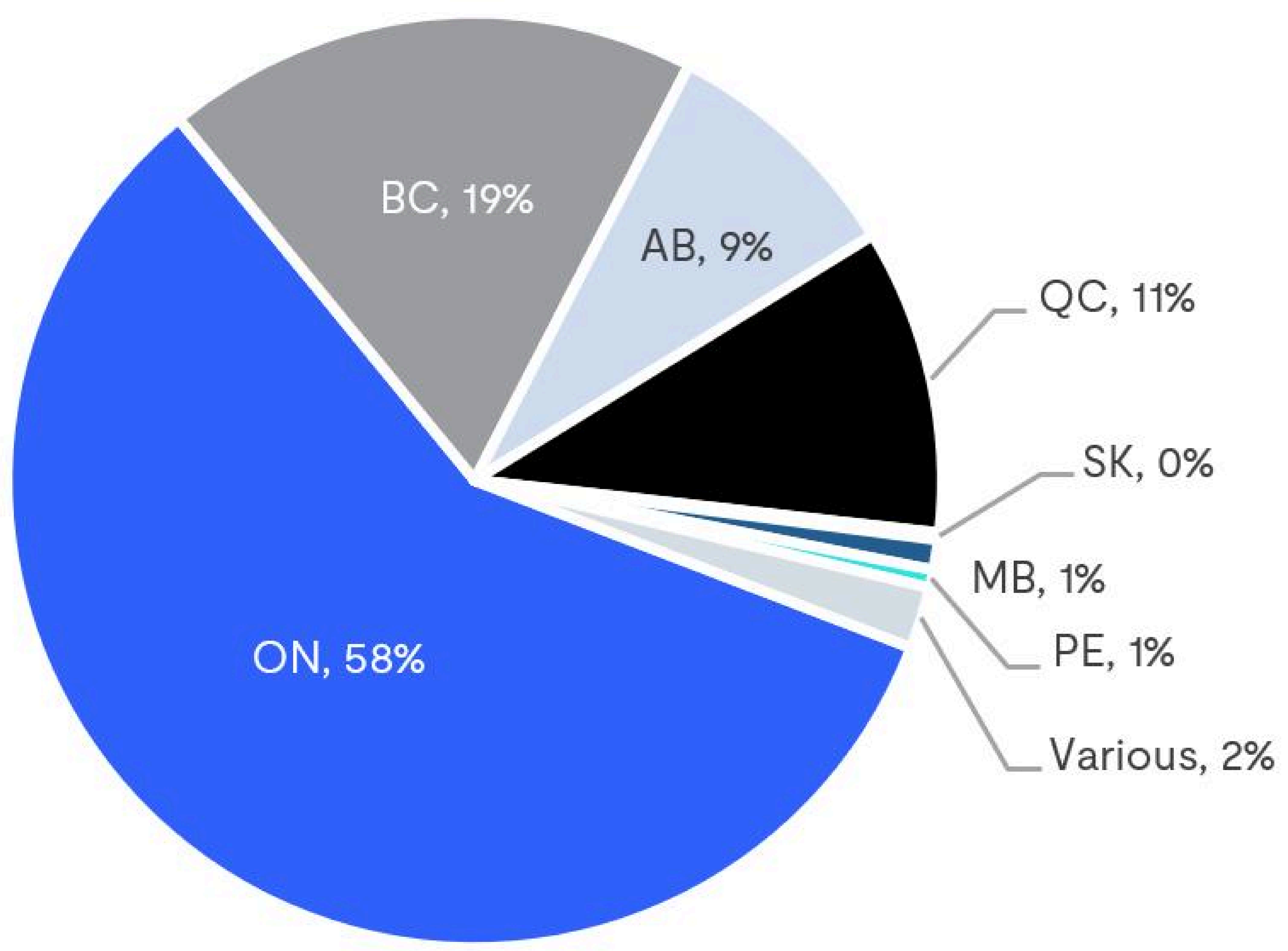
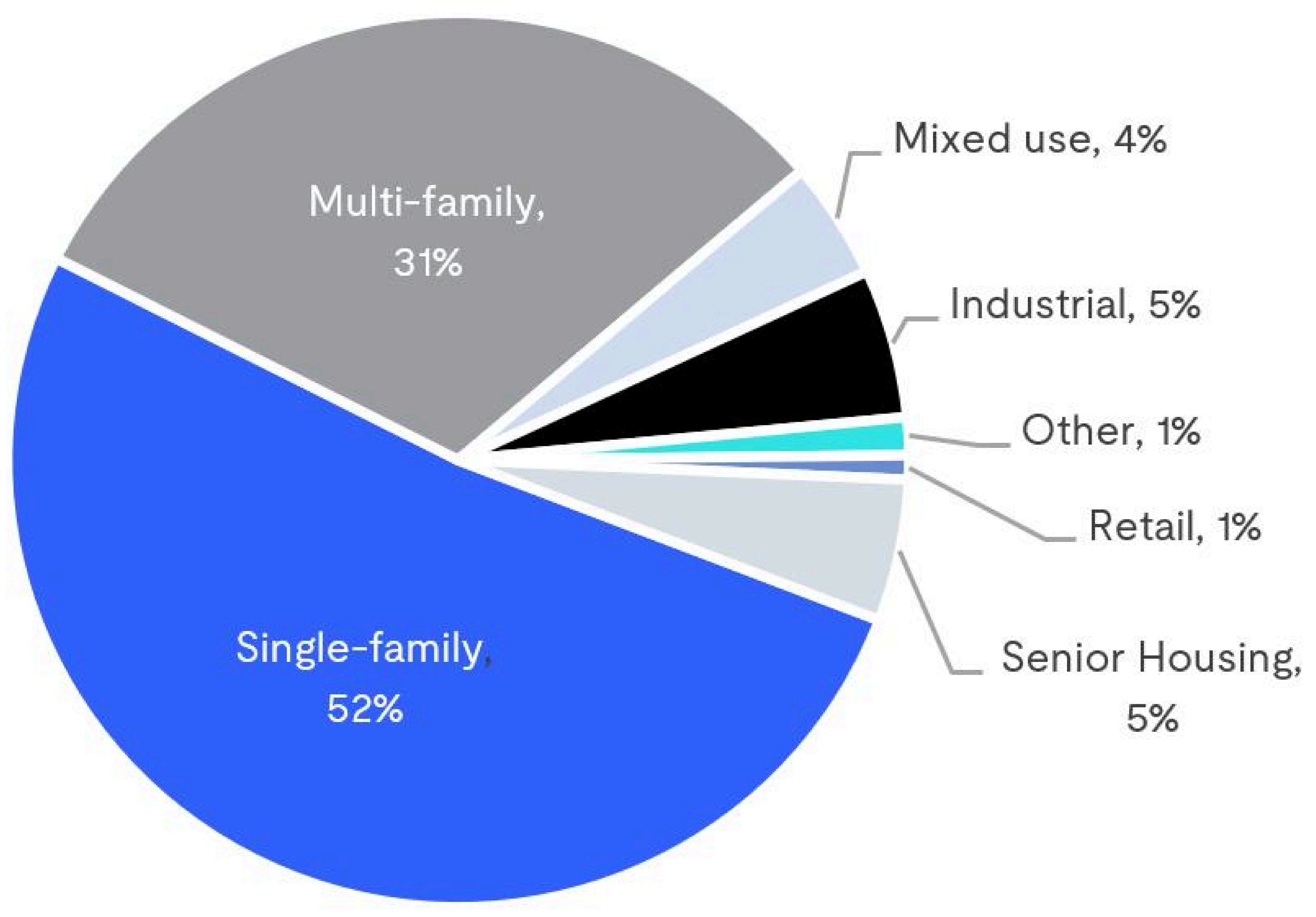


Exhibit 2
Asset class composition



Notes: as of Jun 30, 2025

Commentary & Outlook (continued)

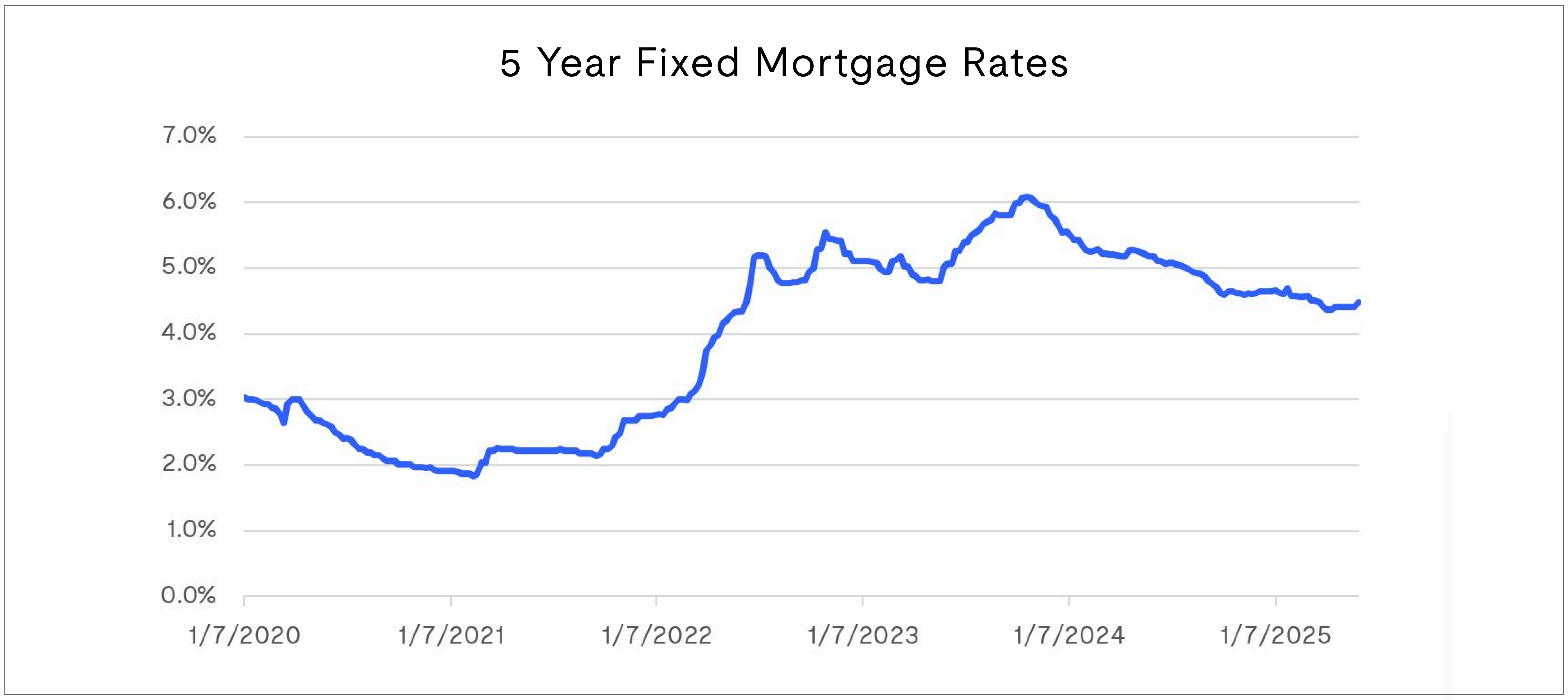
We have continued to see success in our capital deployment through the second quarter of the year, bringing our cash balance from 7% last quarter to now being 1% levered. This is in line with our goal of removing cash drag from the fund to enhance returns. The Fund provided an annualized return of 7.53% in the second quarter of the year and we are sitting at a 1.9% arrears rate. We're happy with the steady performance of the Fund through what has been a volatile market. With continued headlines about the so-called "mortgage cliff" (see below), increased delinquencies in other types of debt, and general trade tensions south of the border, we're paying close attention to the various forms of stress in the market and how they might impact the Fund.

Breaking Down the Mortgage Cliff

In this quarter's commentary we are zooming in on market conditions related to the single family residential segment of our portfolio.

The term "mortgage cliff" has been widely used over the past couple of years, and it seems as though it will continue to populate headlines for at least one more year. As a lender that predominantly focuses on residential mortgages, this is an area of particular interest. To start, what is the mortgage cliff? To put it simply, the "cliff" embodies a large swath of mortgages that were originated at low interest rates throughout the pandemic and are now coming up for maturity, whose borrowers will be faced with significantly higher rates at renewal. To quantify this, approximately 60% of outstanding mortgages in Canada are expected to renew in 2025 or 2026[1].

This would place us squarely at the edge of the cliff, looking down. What exactly does this look like for a homeowner? Looking back 5 years to Q2 2020, the majority of new mortgages had 5-year terms (~60%), 25-year amortization periods (roughly two-thirds), and fixed interest rates circling 2.40%[2]. With the typical 5-year loan now coming up for maturity, there could be some sticker shock for a borrower seeing 5-year fixed rates now at 4.47%[3]. Although the interest rate has almost doubled, the picture isn't as grim as one might think.



[1] Bank of Canada | Research
[2] Bank of Canada | Indicators of financial vulnerabilities
[3] Bank of Canada | Indicators of financial vulnerabilities

Let's break down exactly what the change in payments would be for the borrower carrying the typical loan conditions described above. To start, their mortgage would have amortized down by 16%. If the borrower brings their amortization period back up to 25 years for their refinance, their annual payment only increases by 5% at today's higher interest rate. This is due to the balance having been paid down during the initial term, and the benefit of re-amortization. This is probably much less impactful than someone whose mortgage is coming up for maturity might expect.

We can also take this analysis one step further and account for wage growth. Wages have increased by 16%[4] over the past 5 years, which, for the individual in the scenario above, actually means a renewed mortgage payment representing a lower percentage of their income than prior to renewal. While this scenario is only looking at the most common structure of mortgage, there are obviously structures that are more and less conservative than this that will result in varying levels of stress to a homeowner. However, when looking at the relatively modest overall impact to payments for this common structure, we get some comfort that the mortgage cliff in the headlines more closely resembles Blue Mountain than Whistler.

Our Fund has a short duration of 1 year, so the borrowers we are exposed to already have interest rates that reflect current market rates. In fact, they are generally seeing lower rates when they come up for maturity as rates have decreased over the past 12 months. If the rise in rates results in a homeowner moving from a bank loan to a private lender, we have the opportunity to underwrite the loan in the context of today's environment to determine first if we want to offer them a mortgage and then how to structure it.

Understanding that there will be stress for some homeowners when their mortgages mature, and the general uncertainty in the market today, we are sticking to our principles of targeting low leverage opportunities in core markets for strong borrowers. This defensive positioning has allowed us to maintain a low rate of arrears and steady returns through the history of the Fund. We thank our investors for their continued trust and look forward to the last half of the year.

[4] Statistics Canada

Financial Highlights

Mortgage Investments

	Quarter ended Jun 30, 2025	Quarter ended Mar 31, 2025
Mortgage investments	$233,860,454	$209,069,274
Total number of mortgage investments	296	276
Average mortgage investment	$790,069	$757,497
Weighted average interest rate	8.02%	8.23%
Weighted average LTV ratio	59.92%	59.61%
Weighted average term to maturity (years)	1.08	0.90
Leverage	0%	0%
Net assets attributable to holders of redeemable units	$230,044,003	$223,982,812
Net Asset Value ("NAV") per unit	$10.01	$10.00

Net Asset Value (“NAV”)

NAV – Mar 31, 2025	$223,982,812
Subscriptions	11,308,892
Redemptions	(7,482,899)
Reinvested distributions	2,075,110
Unrealized Gain	160,088
NAV – Jun 30, 2025	**230,044,003**

Portfolio Allocation

As at Jun 30, 2025, the Fund's portfolio included mortgage investments of $234 million and was comprised of 296 investments, which were allocated across the categories listed below (excludes cash).

Geography

	Number of mortgages	Outstanding balance	% of portfolio
ON	191	$ 136,224,234	58%
BC	47	43,273,917	19%
QC	4	24,760,000	11%
AB	40	20,167,384	9%
Various	1	5,000,000	2%
MB	10	2,424,056	1%
PE	1	1,447,001	1%
SK	2	563,862	0%
	296	**$ 233,860,454**	**100%**

Asset Type

	Number of mortgages	Outstanding balance	% of portfolio
Single-family	263	$ 120,731,170	52%
Multi-family	22	73,269,186	31%
Industrial	4	12,628,933	5%
Senior Housing	1	12,000,000	5%
Mixed Use	3	10,000,000	4%
Other	1	3,180,000	1%
Retail	2	2,051,167	1%
	296	**$ 233,860,454**	**100%**

Maturity

	Number of mortgages	Outstanding balance	% of portfolio
Less than 1 year	243	$ 156,714,848	67%
1 to 3 years	50	60,698,605	26%
More than 3 years	3	16,447,001	7%
	296	**$ 233,860,454**	**100%**

Portfolio Allocation (continued)

Interest Rate

	Number of mortgages	Outstanding balance	% of portfolio
Less than 6.00%	27	$ 14,300,867	6%
6.00% to 6.49%	18	6,038,328	3%
6.50% to 6.99%	32	21,039,594	9%
7.00% to 7.49%	36	44,072,592	19%
7.50% to 7.99%	31	21,509,638	9%
Greater than 7.99%	152	126,899,435	54%
	296	**$ 233,860,454**	**100%**

Loan-to-appraised value

	Number of mortgages	Outstanding balance	% of portfolio
60% or below	121	$ 92,704,378	40%
60% to 70%	119	105,748,257	45%
70% to 80%	51	34,457,432	15%
above 80%	5	950,387	0%
	296	**$ 233,860,454**	**100%**

Emissions Tracking

Emissions

	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25
Total Financed Emissions (KT of CO2)	1.175	1.244	1.145	1.176	1.224	1.347
Total Financed Emissions (KT of CO2) per $100M	0.737	0.748	0.651	0.671	0.586	0.590

Data Accuracy

	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25
Energy usage: directly reported; Energy source: directly reported	0%	0%	0%	0%	0%	0%
Energy usage: market avg; Energy source: directly reported	75%	75%	87%	85%	89%	89%
Energy usage: market avg; Energy source: market avg	25%	25%	13%	15%	11%	11%

*1Q24 to 4Q24 emissions restated due to correction of emissions calculations related to two loans.

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 CO2 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 CO2 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 Jun 30, 2025 (unaudited)

	Jun 30, 2025	Mar 31, 2025
Investment income		
Interest	$ 4,540,413	$ 3,872,098
Other fees	278,961	457,020
	4,819,374	4,329,118
Expenses		
Management fee, net of rebates	487,075	463,173
Mortgage service fees	94,517	82,955
Standby fees	57,063	55,479
Accounting and recordkeeping	41,968	55,607
FundServ	30,470	32,548
Other expense	13,461	(35,423)
Consulting	12,791	12,075
Financing fees	11,745	–
Legal and audit	9,113	9,677
Custodian	7,426	14,408
Interest Expense	6,818	6,260
Trustee	2,454	–
Total Expenses	774,901	696,759
Expenses waived/absorbed by the Manager	(3,535)	(16,482)
Total Expenses (net)	771,366	680,277
Net investment income	$ 4,048,008	$ 3,648,841
Unrealized Gain/(Loss)	160,088	(38,915)
Net investment income	$ 4,208,096	$ 3,609,926

Statement of Net Assets
For the quarter ended Jun 30, 2025 (unaudited)

	Jun 30, 2025	Mar 31, 2025
Assets		
Cash	$ 0	$ 14,912,634
Net Mortgage investments	228,860,453	209,069,274
Other investments	5,000,000	0
Investment income receivable	1,257,501	1,198,828
Other receivables	1,184,988	819,886
Due from Manager	102,818	0
Deferred Financing Fees	79,194	0
Prepaids	10,968	3,540
	236,495,923	226,004,162
Liabilities		
Bank indebtedness	3,450,772	0
Accounts payable and accrued liabilities	645,021	338,394
Subscriptions received in advance	1,005,000	350,018
Distribution payable	1,351,127	1,332,938
	6,451,920	2,021,350
Net assets	$ 230,044,003	$ 223,982,812
Units outstanding	22,982,819	22,393,640
Net assets per unit	$ 10.01	$ 10.00

Statement of Net Assets Attributable to Holders of Redeemable Units
For the quarter ended Jun 30, 2025 (unaudited)

Balance, beginning of period	**$ 223,982,812**
Net income	**4,208,096**
Issuance of units	**11,308,892**
Units reinvested	**2,075,110**
	17,592,098
Unitholder redemptions	**(7,482,899)**
Distributions to unitholders	**(4,048,008)**
	(11,530,907)
Balance, end of period	**$ 230,044,003**