Accrued Interest

CMLS mortgage fund

July 2025

cmls asset management

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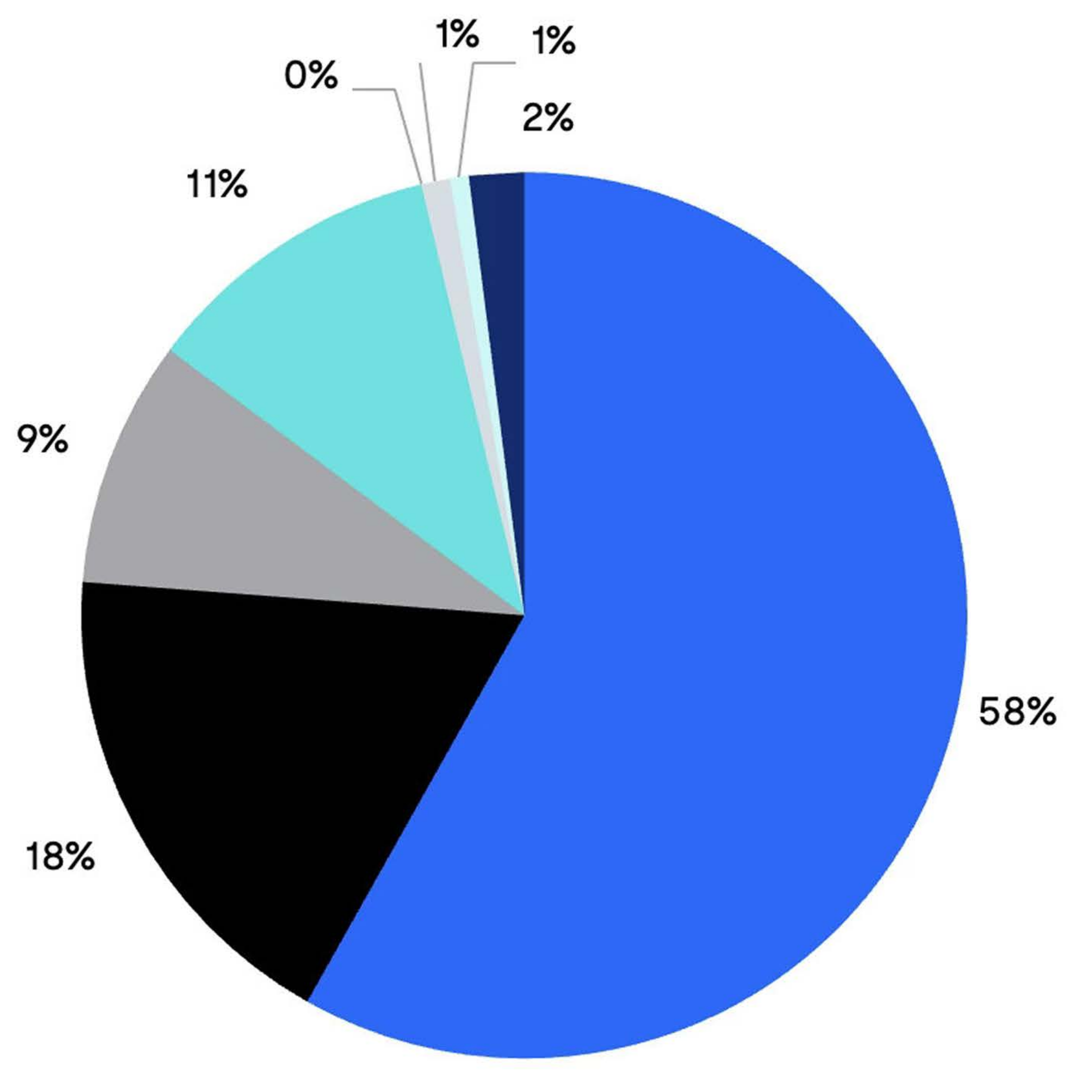
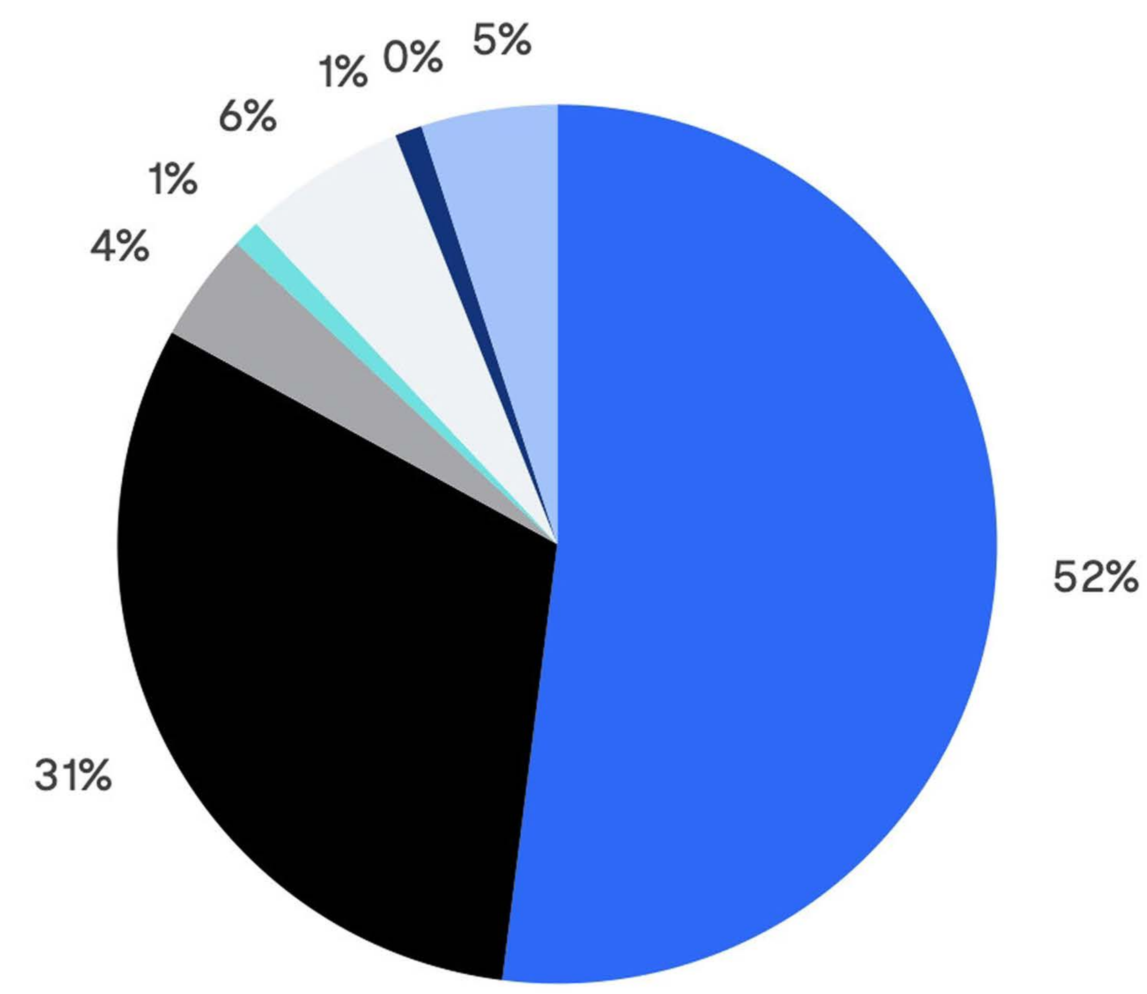
Thank you for reading the July edition of **Accrued Interest**. This will also be included in our upcoming second quarter report. As of quarter end, our weighted average coupon is 8.02% and our weighted average loan-to-value ratio is 60%. With market interest rates not changing through the quarter and our constant targeted risk profile, we haven't seen much change in either of these metrics through the year.

Our portfolio is composed as follows:



ON BC AB QC
SK MB PE Various



Single family Multifamily Mixed use
Other Industrial Seniors Housing
Retail Office

More detailed and up-to-date portfolio information can be found in our monthly Fund Facts, available on our website [here](#).

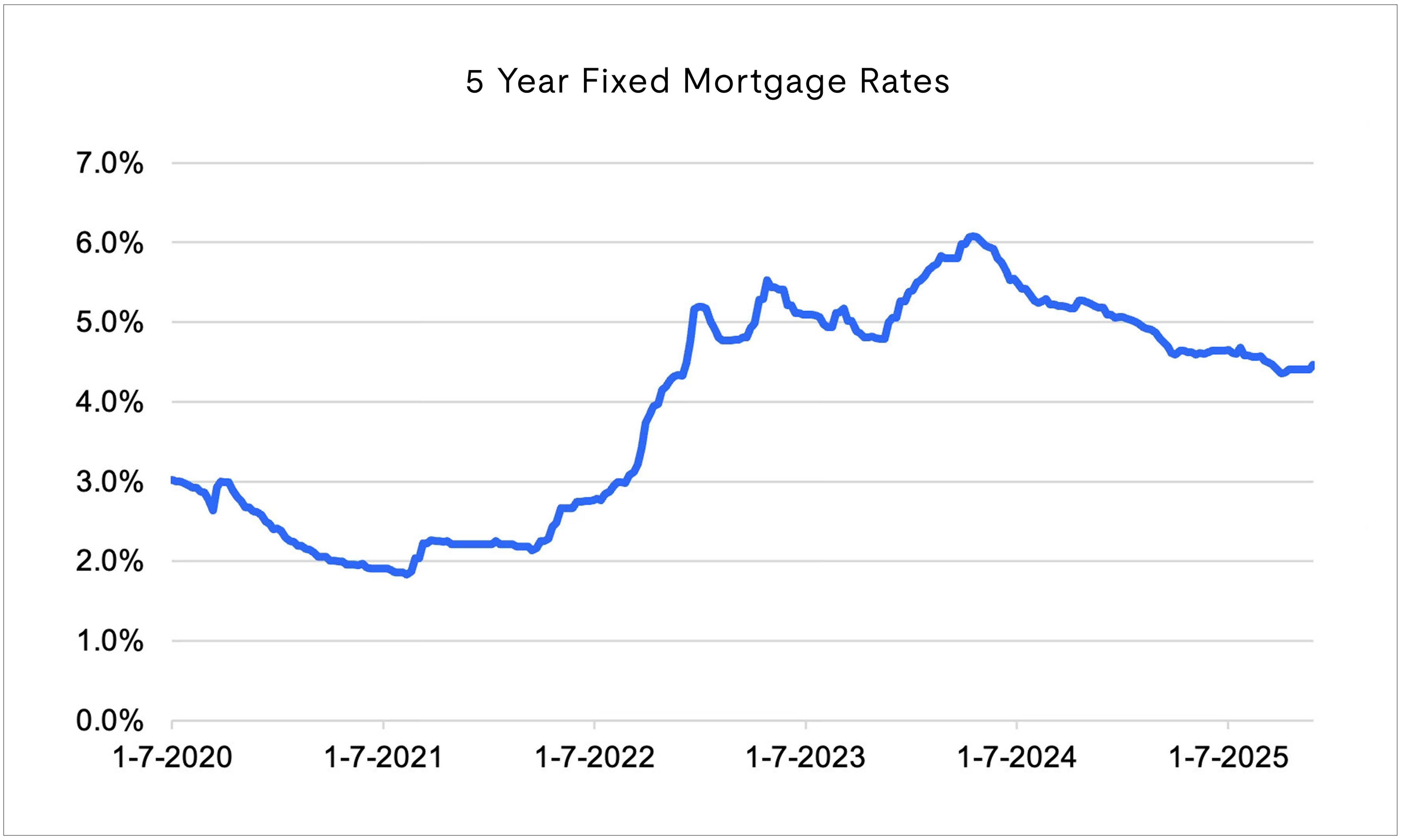
We've continued to see success in our capital deployment through the second quarter of the year, bringing our cash balance from 7% last quarter to now being 1% levered. This is in line with our goal of removing cash drag from the fund to enhance returns. The Fund provided an annualized return of 7.53% 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're 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