Accrued Interest

CMLS mortgage fund

June 2026

cmls asset management

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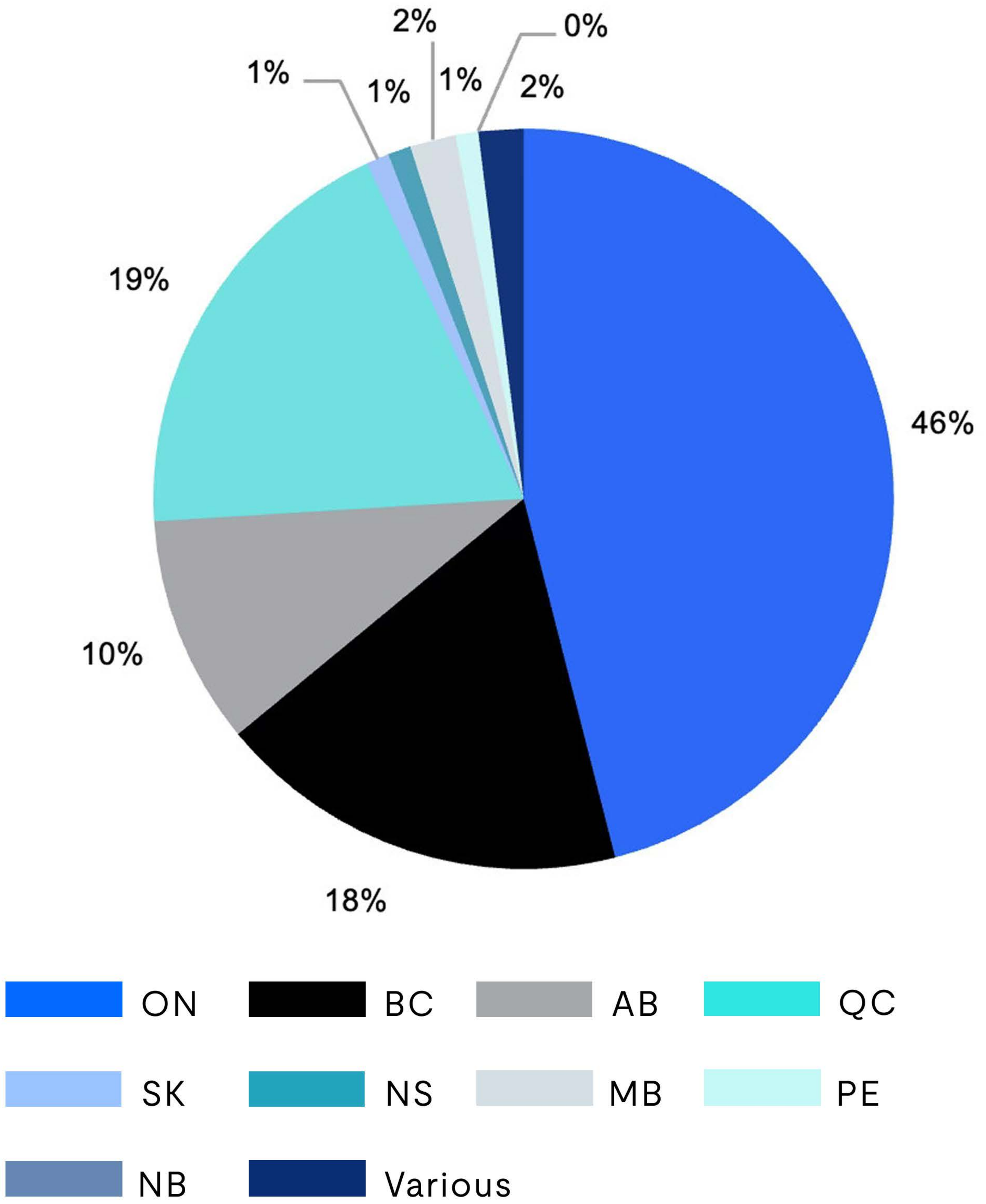
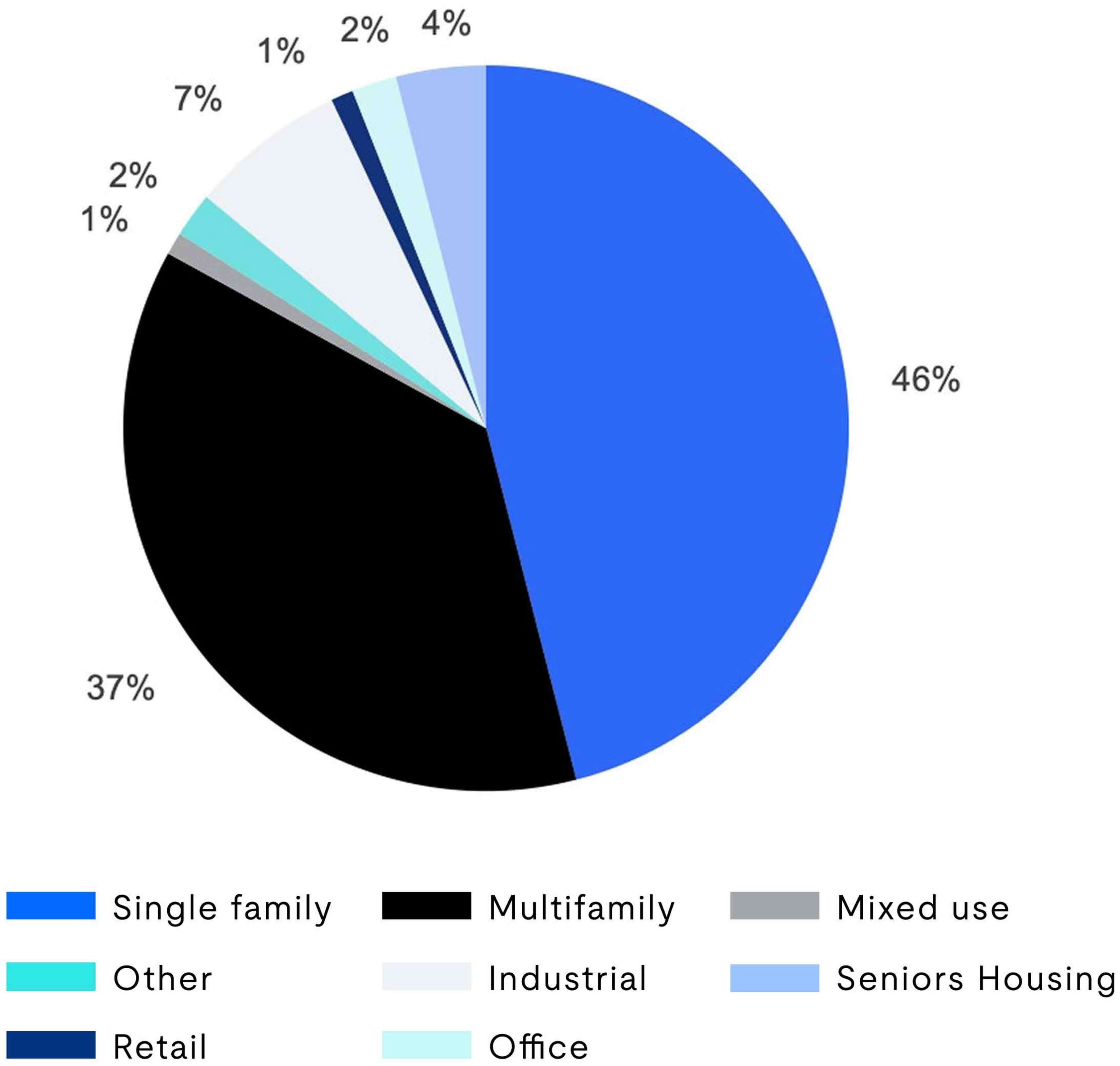
Thank you for reading the June edition of **Accrued Interest**. In May, the CMLS Mortgage Fund delivered a monthly return of 0.41%, with a year-to-date (annualized) return of 6.32%. Our weighted average coupon is 7.74% and our weighted average loan-to-value ratio is 63%.

Our portfolio is composed as follows:





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

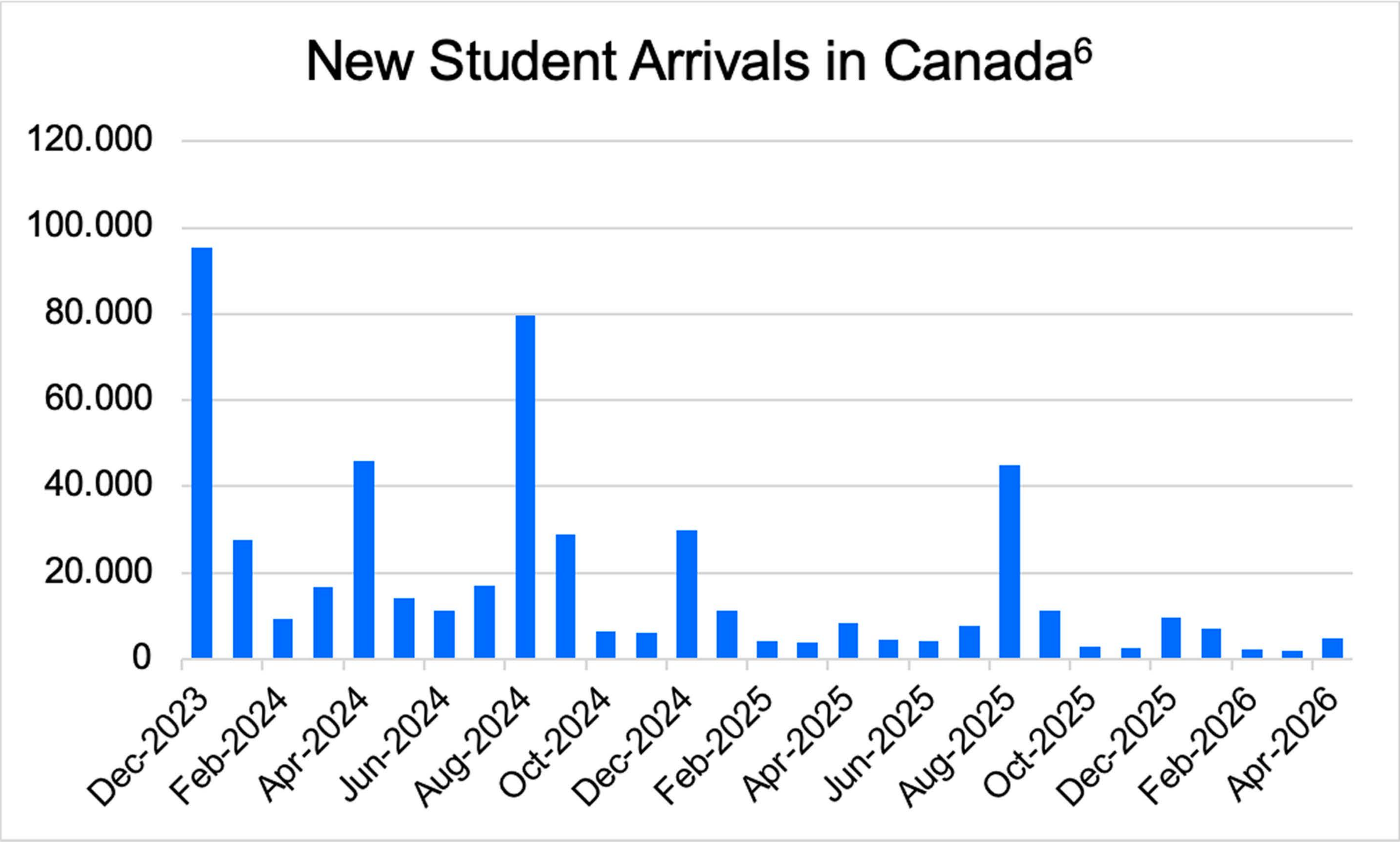
Supply, Demand, and Policy: Canada's New Student Housing Framework

Housing is a core focus of the CMLS Mortgage Fund. There are generally four categories of housing that make up the market in Canada: single-family residential, multi-family residential, seniors housing and student housing. The state of the housing market is watched closely, with monthly housing starts, sales numbers, and prices often being a topic of discussion. In this month's newsletter, we're going to explore one of the less talked about, but highly pertinent categories, student housing. It is worth noting upfront, that while student housing is a permitted investment in our Investment Policy Statement, we do not currently have an allocation to this asset class.

When people think of student housing, they typically think of dormitories that are solely filled by students. The reality is that this makes up a small fraction of the housing used by students. In fact, purpose-built student accommodation (PBSA) accounts for only ~10%[1] of the total beds needed by the student renter population, with the remainder coming from other forms of private rentals. The result of this mismatch is that changes in student rental demand impacts the broader rental market, not just PBSA.

After years of rampant growth in rental rates and record low vacancy rates, the rental housing market as a whole has cooled off. One of the major contributing factors to this is the lack of population growth in recent years following years of heavy inflows from immigration. To improve housing affordability, the federal government is leveraging a widespread strategy of targeted immigration cuts, a focus clearly visible in new policies that curb international student enrollment, which directly impacts student housing.

At its peak in late 2024, temporary residents accounted for 7.4%[2] of the population in Canada, and the federal government is committed to bringing that number down below 5% by the end of 2027[3]. Part of the reason for the growth leading up to 2024 and therefore an area of focus going forward is the high number of international students in the country. For reference, applications for study permits increased by 121% between 2019 and 2023[4]. The result of this was that while overall post-secondary enrollment in Canada was stagnant (decreased by 5.7% between 2013 – 2023), the opposite was true for international students (increased by 235% between 2013 – 2023)[5]. The government is addressing this from several angles. The most obvious change they've made is to impose an intake cap on study permit applications, which was introduced in 2024 and has been reduced every year since. After Immigration, Refugees and Citizenship Canada sets the cap for the year, they allocate amounts to each province. The province then determines how to allocate these between institution type and school. It is worth noting that Master's and PhD students are exempt from this cap. As can be seen in the below graph, this policy change has had an immediate impact on international student enrollment.



[1] RAYSolute Consultants – Canada Student Housing (PBSA) Market Report 2026

[2] Statistics Canada

[3] Immigration, Refugees and Citizenship Canada

[4] Office of the Auditor General of Canada – International Student Program Reforms

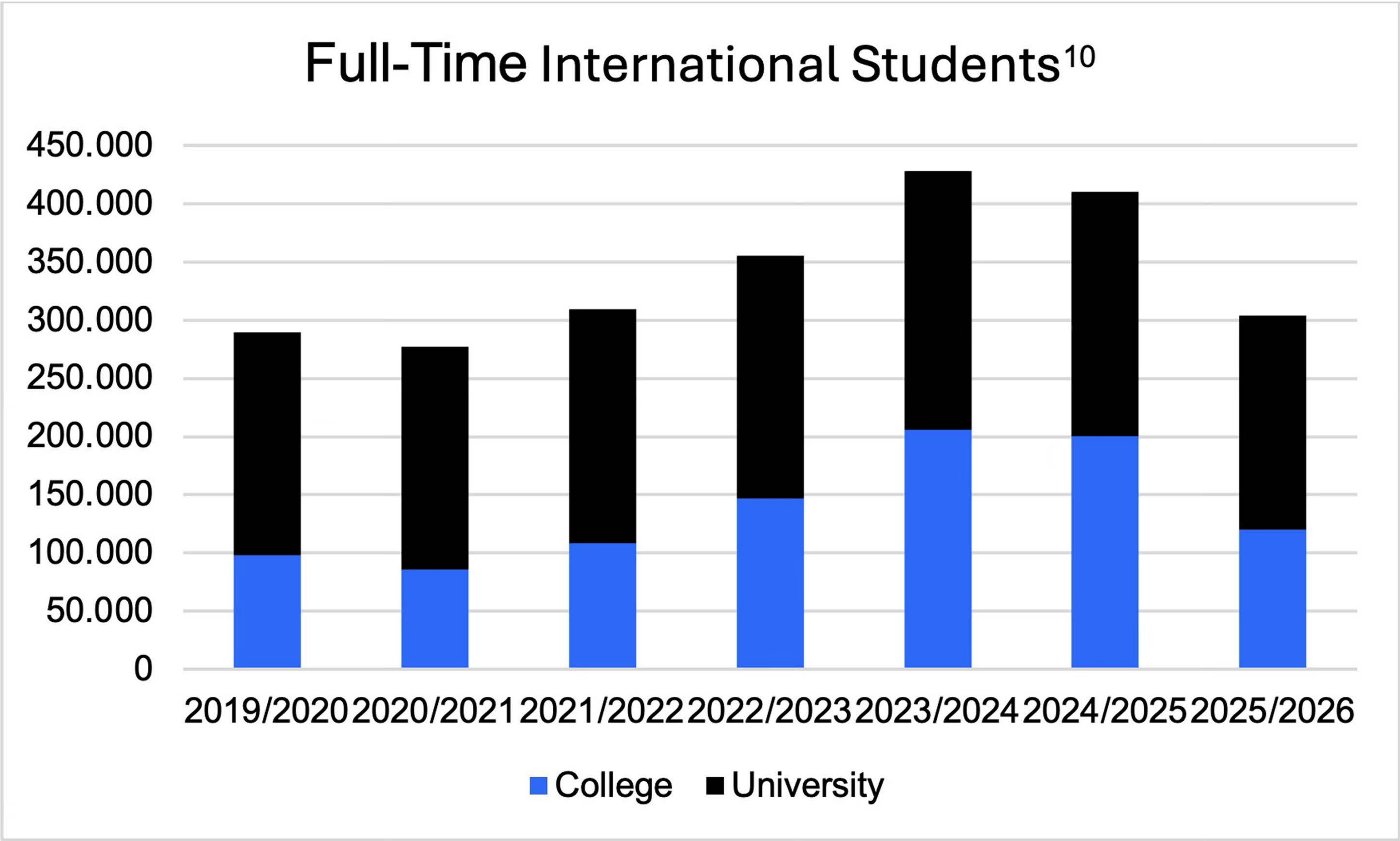
[5] Statistics Canada

[6] Immigration, Refugees and Citizenship Canada

The cap on study permits is the broadest policy change implemented by the federal government, but they have also taken a more pointed approach at reducing the number of international students at colleges specifically, which had accounted for a disproportionately high percentage of the total. Of the previously mentioned 235% increase of international students between 2013 and 2023, the majority of this jump came from colleges. International student enrollment in colleges increased by a staggering 375%[7] during this period.

Public colleges, like universities, had historically been able to attract international students through the fact that students were automatically guaranteed a Post-Graduation Work Permit (PGWP) after graduation. Public colleges further leveraged this policy through curriculum licensing agreements, whereby a public college could license its curriculum to a private college, with the guarantee of a PGWP being passed along as well. The federal government is directly targeting a reduction to this segment of immigration. While PGWPs are still provided to university graduates (Bachelor's, Master's and PHD), they are no longer automatically granted to college graduates, which has reduced demand at public colleges and has resulted in a significant drop in demand for the public-private college curriculum programs.

Most universities and colleges have already felt the impacts from these changes, but the magnitude is not equal. It should come as no surprise that colleges are being hit the hardest, with international student enrollment dropping by 42%[8] since 2023/2024. This compares to universities which have seen a 17%[9] decline over the same period (see chart below).



Taking a step back from international student enrollment, we can see that the picture isn't quite as bleak as one might expect. While total student enrollment (domestic and international) numbers in Canada are still in the process of being compiled for 2025/2026, we can look at some of the major schools to get a sense of what is happening. For instance, the two largest universities in Canada (University of Toronto and The University of British Columbia) have actually seen modest increases to overall student enrollment in 2025/2026 (0.5%[11] and 1.7%[12] respectively).

[7] Statistics Canada

[8] Statistics Canada

[9] Statistics Canada

[10] Statistics Canada

[11] Universities Canada

[12] University of British Columbia Annual Enrolment Report 2025/26

Due to the fact that PBSA represents a small portion of the supply needed by students, these changes in federal policy need to be considered when analyzing all rental properties, especially if there is a school nearby. The first step is to look at the school directly to get a sense of their exposure to international students and the type of institution it is. For instance, rental properties that are near colleges that had a high percentage of international students are likely facing pressure. Looking at the property itself (i.e. the layout of the units, the average tenure of tenants, and the marketing materials of the property), we can get a sense of the demographic they are targeting. If the majority of tenants have been there for 10 years, the property's primary demographic likely isn't students, so it would just be indirectly impacted through a reduction in overall rental demand. Finally, looking through to the makeup of the borrower/guarantor's portfolio of assets is imperative, as this can either support or weaken their capacity to cover mortgage payments.

We take a measured approach to investment selection in the CMLS Mortgage Fund, with a holistic view of the entire market in mind. As previously mentioned, we don't currently have an allocation to PBSA in the fund, and have turned down loans that we deemed were reliant on schools that were overexposed to international students. All multi-family residential loans in the fund undergo an in-depth analysis to ensure that they are well protected from the risks mentioned above prior to funding. The Nesto Group's significant mortgage origination capacity ($26 billion originated in 2025) allows us to be highly selective when reviewing mortgage opportunities, with only the ones in which we have the strongest conviction making their way into the fund.