Accrued Interest

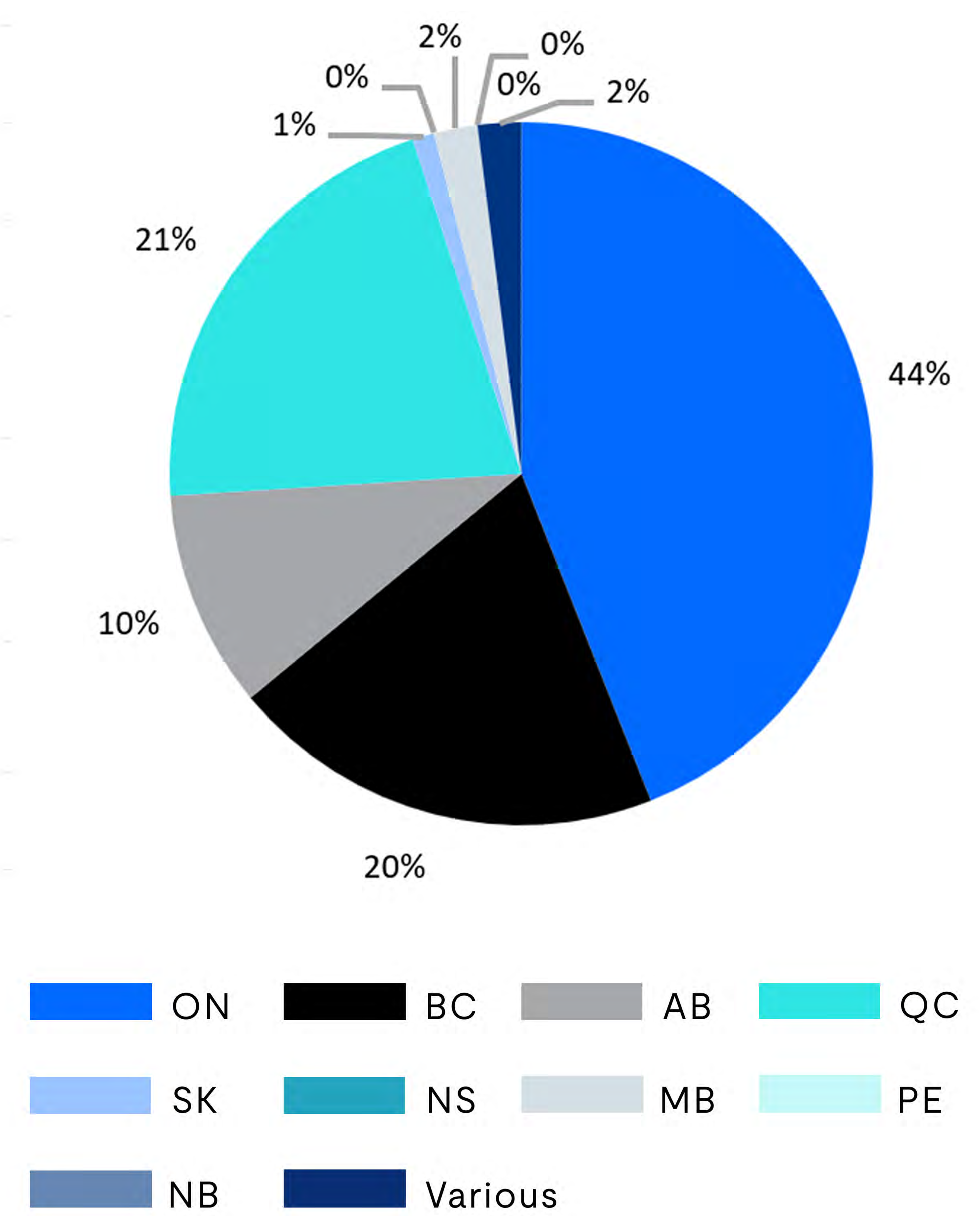
CMLS mortgage fund

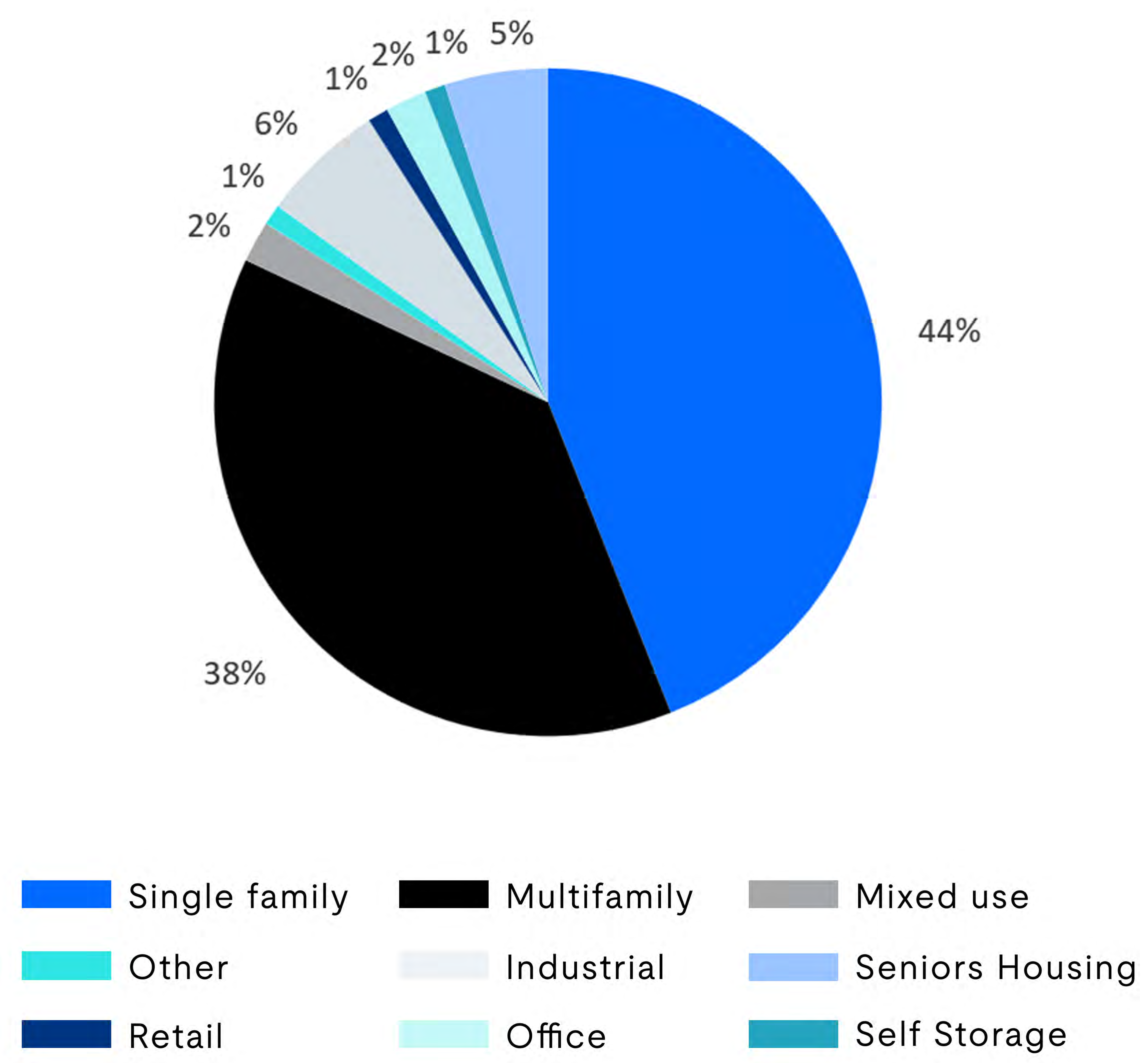
August 2026

cmls asset management

Thank you for reading the August edition of **Accrued Interest**. In July the CMLS Mortgage Fund delivered a monthly return of 0.52%, with a year-to-date annualized return of 6.40%. Our weighted average coupon is 7.73% 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.

Another note on private markets

PwC estimates that global allocations to alternative investments will grow from $21.6tn in 2024 to $34.2tn by 2030, representing a modest increase in portfolio allocations from 15% to 17% in the period. The largest contributors to growth in overall investable assets reside in the private wealth channel (high net worth and mass affluents), contributing to nearly $100tn in new investable assets. Institutional categories (pension, insurance, and sovereign wealth funds) are expected to contribute growth of approximately $40tn[1].

[1] https://www.pwc.com/gx/en/1/issues/reinvention/asset-wealth-management-revolution.html

Advisors have caught on to the trend. According to Hamilton Lane, 86% of global wealth professionals plan to increase allocations to private markets in 2026, citing portfolio optimization as the most influential driver behind the decision[2].

To steal from a popular framing in the midst of today's artificial intelligence boom, observers from the outside can run with private market optimism or doomerism. The optimistic take views this as a natural progression from growing institutional allocations to private markets over the last 20-30 years, introducing investment assets with low volatility and low correlation to public alternatives and capturing opportunities for return premiums along the way. Regulatory pathways to evergreen and semi-liquid structures are a prudent response to increasing demand. So long as the investor base is provided a balanced education regarding the risks to their investments and maintain a diversified portfolio, they should have the opportunity to invest.

Doomers may argue that institutional interest largely ballooned in a zero-interest rate, lower-for-longer environment and that today's increasing private wealth demand is being manufactured as a response to slowing growth in institutional demand as these investors are already fully allocated. They view the increasing prevalence of evergreen vehicles as placing a square peg (illiquid assets) into a round hole (liquid offerings) and convincing indiscriminate buyers it's round … for now. Specific to private equity, the collapse of IPO markets has introduced the need for secondary buyers willing to accept aggressive valuations – who better than a group of investors who always wanted to deal with the biggest names in private markets investing? Now is their chance.

As a private debt fund distributed primarily through private wealth channels, we certainly fall in line with the optimists but with certain conditions attached (cue the soapbox). We are not dealing with new underlying asset classes, so innovation in fund structuring needs to thoughtfully address liquidity mismatches. You do not need to look deep into today's market of real estate-related evergreen funds in Canada to conclude that when objectively viewing redemption provisions as a liability (similar to a callable loan) there is a current asset-liability mismatch. Investors need to be made aware that for private funds with frequent liquidity offered, backstopped by the ability to suspend redemptions, the most likely outcome is simple: in periods of strong performance, liquidity exists, and in periods of poor performance, redemptions can become elevated and liquidity is not guaranteed; the likelihood of gating provisions being triggered by the manager increases. It is important to note that these provisions represent a mechanism to optimize outcomes for investors collectively. The question should surround whether investors were adequately prepared for the risk they are triggered.

Portfolio composition should accordingly target more frequent and dependable liquidity elsewhere in the portfolio. Advisors and investors should also diligently scrutinize the factors affecting a target fund's liquidity – duration of investments (i.e. frequency of loan repayments in private credit or asset sales in other asset classes) and diversification of both assets and funding sources (i.e. investors) – to estimate the likelihood of eventual liquidity restrictions. As managers of the CMLS Mortgage Fund, an open-ended structure, this is where we focus to ensure our portfolio best supports the monthly liquidity offered – a short weighted average term of approximately one year, and a well-diversified investor base.

Separately, the desired lack of correlation needs to be demonstrated in connection with defendable and frequent marks to market. An asset which doesn't trade frequently or at all will benefit from lack of sentiment-driven volatility, so we would push back against broad associations of private markets with "volatility laundering". However, appraisals and revaluations based on asset fundamentals, market comparables and, in the case of private debt, market movements in interest rates, are important to answer the question regarding value in the event a sale of assets is required.

In short, we believe access to private markets is beneficial to all investors, institutional or otherwise. Lack of correlation and volatility contribute to a well-diversified portfolio position, and capturing the illiquidity premium provides additional yield. Growing allocations in private wealth reflect increased sophistication and education of the investor and advisor community. It is not ideal that education can sometimes arrive by experience with assets trapped in a gated fund, so it is on us as managers to be transparent regarding our holdings and related redemption provisions.

[2] https://explore.hamiltonlane.com/2026-global-private-wealth-survey/home