Accrued Interest

CMLS mortgage fund



October 2026

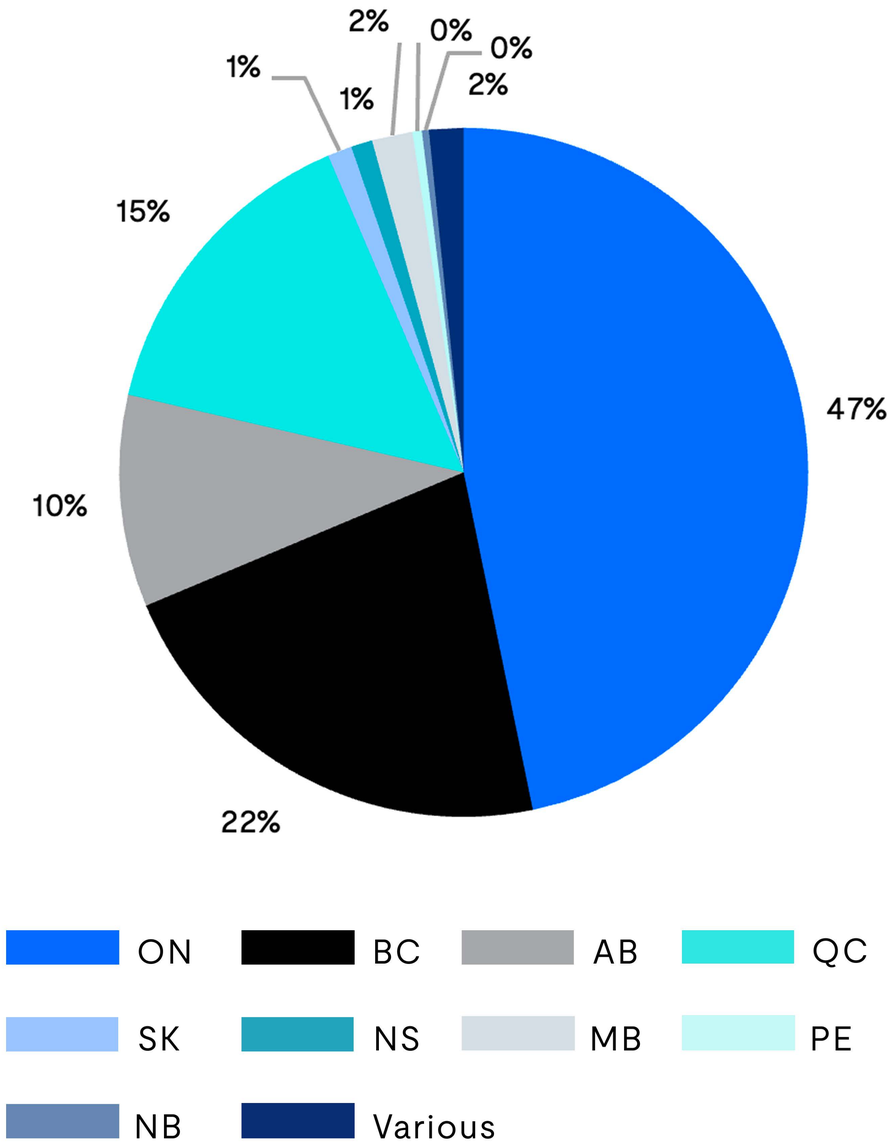
cmls asset management

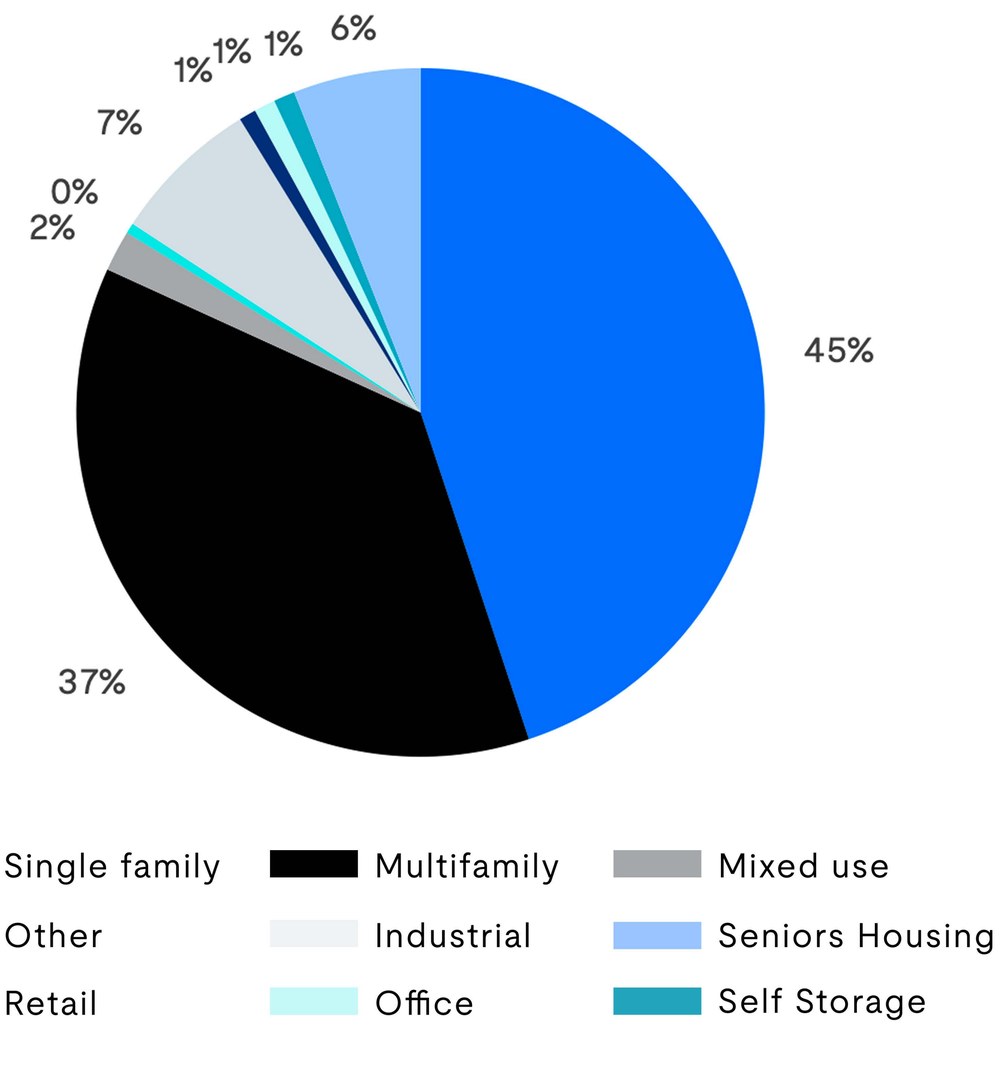
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Thank you for reading the October edition of **Accrued Interest**. This will also be included in our forthcoming third quarter report. Year-to-date, the CMLS Mortgage Fund has delivered an annualized return of 5.25%. Our weighted average coupon is 7.64% 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.

For most of the past five years or so we have observed a market of conflicting signals in the debt markets. Lenders and investors blessed with excess liquidity have been much more eager to transact than asset owners, leading to muted property sales of both commercial and residential property and rate/spread compression as a result. For example, between 2021 and 2025 commercial property sales, according to CoStar, dipped nearly 25%, whereas commercial mortgage lending increased nearly 60% driven by both increased CMHC-insured multifamily lending and increased refinance activity in general. CMLS and nesto's single family lending volumes doubled against transaction activity falling 30%[1]. In the meantime, condominium and rental construction activity has slowed considerably as pro formas remain challenged. According to National Bank, despite signs of life in Q2 the year-to-date pace of Canadian home sales as of September 30 is at its lowest level since 2003. General sentiment has grown anxious among increasing interest rates, increasing delinquency rates, plateauing rents, trade pressures, polarization, global conflict and global unrest, big bets on artificial intelligence, rogue artificial intelligence … the list could go on.

[1]Canadian Real Estate Association

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We have not been immune to areas of market weakness, expecting to incur our first loss in the commercial/multifamily allocation of our portfolio since inception of the Fund. You will have seen a negative return in the month of August as our valuation agent incorporated feedback from the marketing of two commercial properties (representing 1.60% of the portfolio at current value) in connection with enforcing our rights under the related mortgages. Distributions have been reduced for the remainder of the year to ensure we are not overdistributing taxable income and allow NAV to progress upward back toward $10.

Where we gain comfort, however, is the stability and strength in the remainder of the portfolio. Single family arrears remain at three-year lows at 0.73% of the portfolio, having more than halved from higher levels experienced in late 2024 and early 2025. Commercial and multifamily arrears are limited to the two commercial properties discussed above. Our multifamily lending allocation continues to demonstrate strong performance, as near-term refinances originally underwritten with high conviction and downside protection are achieved at or before loan maturity. With land and new development values under continued pressure, property valuations underlying new commercial and multifamily loan investments are subject to an added layer of scrutiny, avoiding instances where redevelopment value is being recognized. Our intention with the Fund is not to provide you with the shiniest, most expensive house on the block, but one which remains standing after the storm.

The Fund delivered an annualized return of 5.25% as of September 30, year-to-date, below target and reflective of the markdown referenced above. Our weighted average coupon remained steady as we focus on maintaining our desired credit profile in a competitive market landscape. Objectives for the final three months of the year include navigating that market landscape to prudently deploy existing liquidity and return to target leverage of 10-20% of the portfolio. A strong pace of new fundings drives fee revenues to the Fund which is additive to our primary source of income: interest. Funded volumes in Q3 were below capacity at $24 million commercial/multifamily and $27 million single family residential, decreasing from $37 million and $46 million, respectively, in Q2.

Single family residential currently represents approximately 45% of the portfolio and multifamily residential (including independent living seniors residences, at 6% of assets) represents approximately 43%, with limited movement through the third quarter. Provincial allocation experienced greater variation, primarily driven by elevated repayments of Quebec loans. The allocation of the portfolio to subordinate mortgages decreased from $110 million, or 37% of assets, at the end of Q2, to $86 million, or 30% of assets at the end of Q3. As a reminder, we target strong sponsors with high-conviction takeout strategies when investing in subordinate mortgages. Despite the reduction in allocation, we continue to view the opportunity set of established, well-capitalized multifamily owners seeking transitional subordinate financing toward an eventual CMHC-insured term takeout to be attractive. We would expect this allocation to remain range-bound between 30-40% of the portfolio in the near term.

Unitholder equity grew from $257 million as of June 30 to $269 million at September quarter end, continuing a trend of positive net subscription activity in 2026. At a time when real estate investments are under scrutiny, we are both proud of and grateful for the trust investors place in CMLS. We intend to continue channeling that energy into a disciplined approach investing in this market.