Accrued Interest

CMLS mortgage fund

January 2026

cmls asset management

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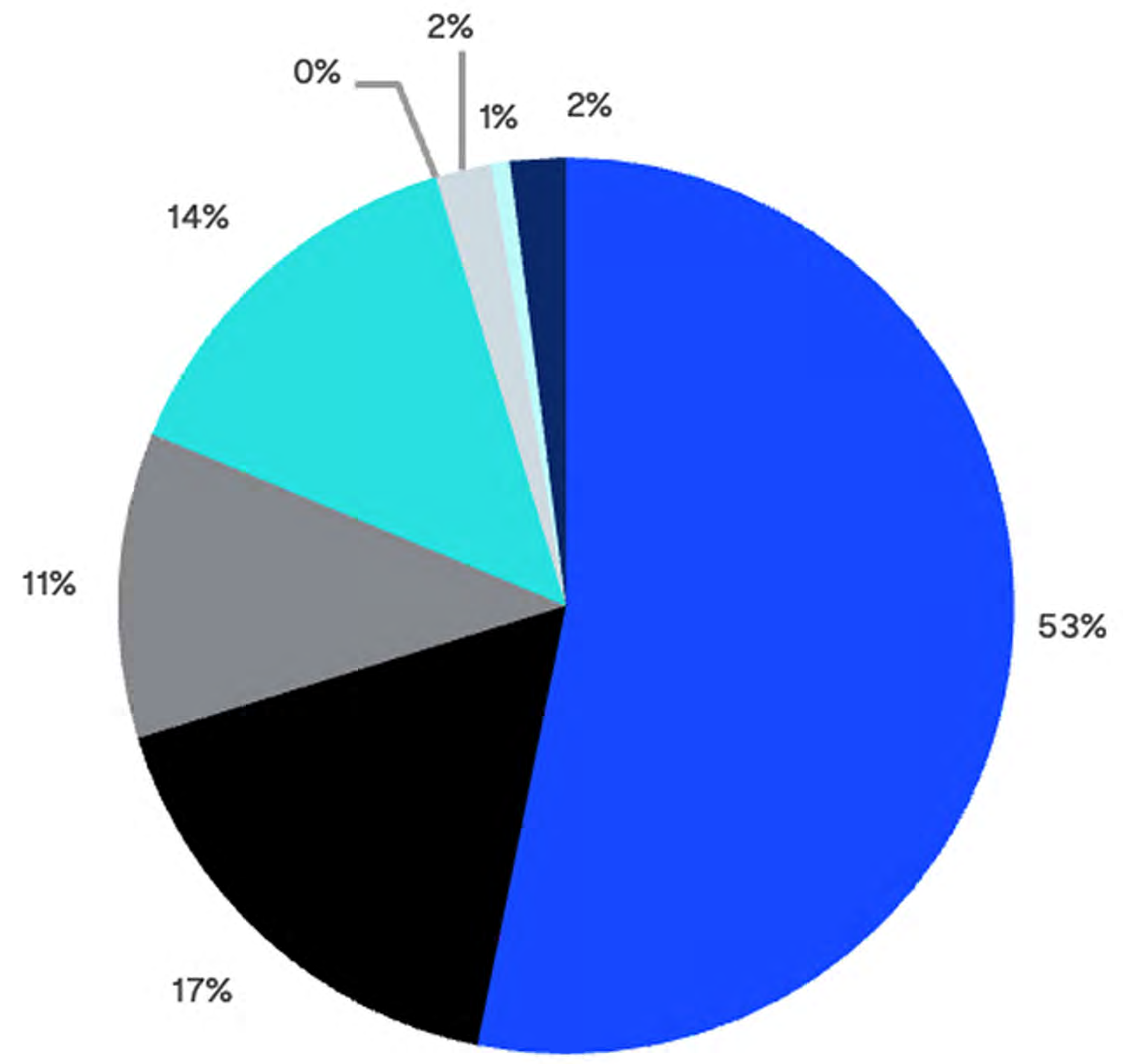
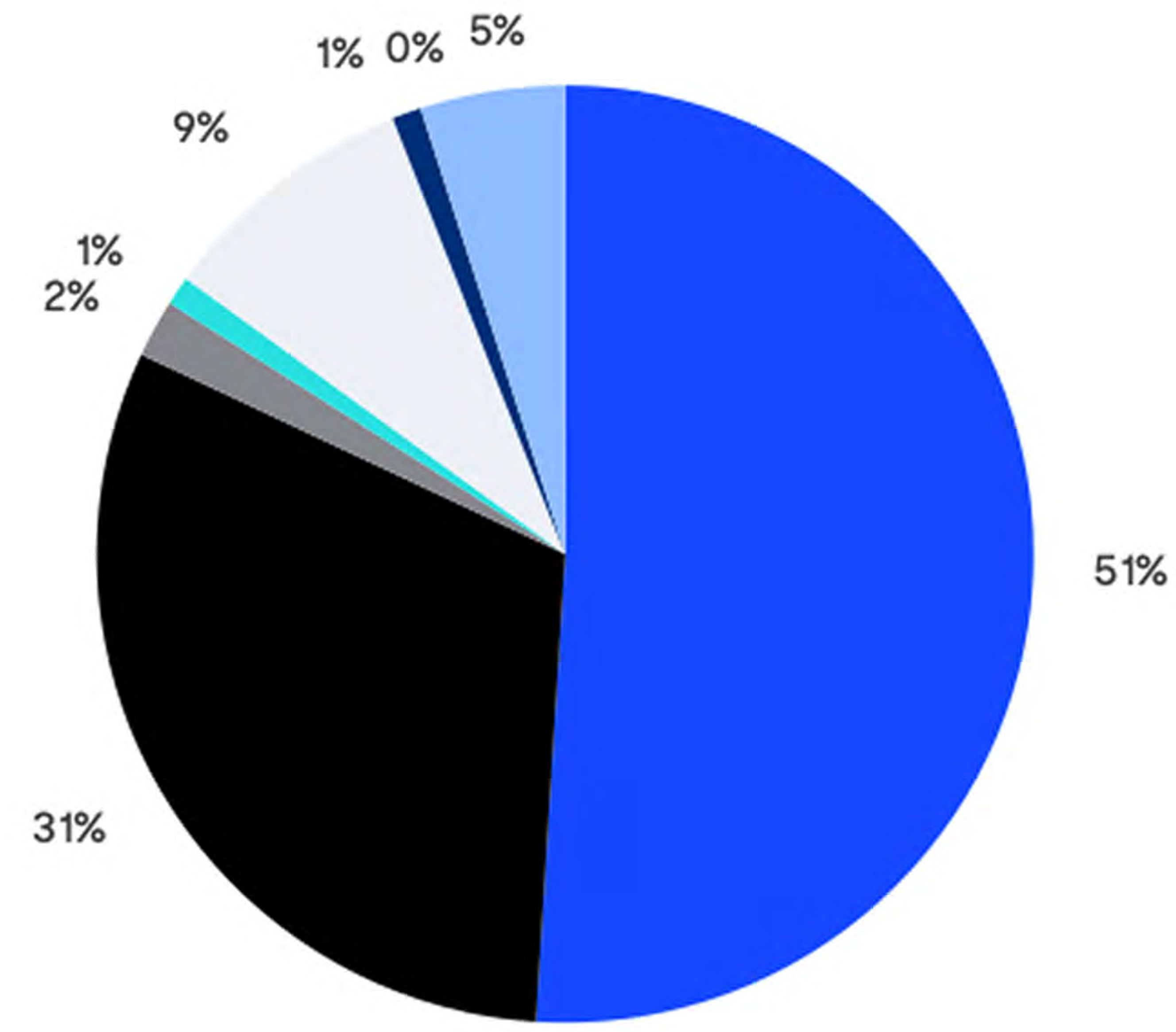
Thank you for reading the January edition of **Accrued Interest**. This will also be included in our upcoming fourth quarter report. In the fourth quarter, the CMLS Mortgage Fund delivered an annualized return of 7.12%. As of year-end, our weighted average coupon is 7.86% and our weighted average loan-to-value ratio is 59%.

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

Reflecting on 2025, the market was defined by two dominant themes: persistent political uncertainty and the caution it instilled in Canadian consumers. In the first half of the year, the world tuned in to find their country's tariff rate in small font on the lawn of the White House. The resulting trade uncertainty caused a ripple effect as consumer confidence plummeted. Entering the year, many had expected continued interest rate cuts (1.75% in total in 2024, a further 1.00% expected in 2025) to bring housing activity back to "normal". Lower interest rates, however, were overshadowed by economic uncertainty, and by the end of 2025 home sales had retreated 1.9%[1]. Consumer confidence in Canada fell from 47.9 in December 2024 to 45.4 in April (after the tariff announcement), rebounding to 46.4 by December 2025[2].

[1] Canadian Real Estate Association
[2] IPSOS

The CMLS Mortgage Fund delivered steady returns through 2025, with an annual return of 7.06%. Due to strong funding volume and mortgage performance this past quarter, we ended the year on an up-trend (Q4 annualized return of 7.12%) even though policy rates decreased through the year. We continue to see plenty of attractive lending opportunities and have a healthy pipeline heading into 2026. Due to the fund's short duration (13 months), the vast majority (85%) of loans currently in the portfolio were either funded or renewed in 2025. While this turnover means that the interest rates in the fund move closely with the rates in the market, it also protects investments from prolonged movements in real estate values. On top of the strong returns, the fund experienced significant growth of assets under management (21%) over the past twelve months and is sitting at a steady arrears rate of 3% as of year-end.

We experienced the first loss of principal in the fund's history in 2025. The loss was incurred on a single-family residential mortgage, with the overall loss equivalent to 0.01% of AUM. As a byproduct of our monthly calculation of NAV, this mortgage had already been marked down to the expected net realizable value of the property. Our priority has always been capital preservation with strong risk-adjusted returns. While we look to limit instances such as these, we are pleased that the low loan-to-value ratio of the fund (59%) has proven to provide strong downside protection. We continue to monitor the portfolio closely and structure mortgages conservatively.

Entering 2026, we are still facing the headwinds and uncertainty from trade (notably tariffs and USMCA), and interest rates appear to be at or near the bottom. While this environment isn't one that screams a housing boom, there are reasons for optimism. The low interest rates and lack of expectations for further cuts should bring some buyers off the sidelines that were waiting for rates to bottom out. Market expectations are for a modest rebound in home sales and prices (5.1% and 2.8% respectively[3] per the Canadian Real Estate Association). With policy rates having dropped by more than 50% since their peak, borrowers with variable rate debt have already seen material interest savings and homeowners with mortgages coming up for renewal will experience more manageable rates than had been feared. Against this backdrop, we are pleased with the performance of the fund in 2025 and are well positioned heading into 2026.

We look to maintain a consistent approach of targeting single-family and multi-family residential mortgages in the fund. The aggregate allocation to these segments (including independent living seniors housing) is 86%. Our geographic exposure is similar to what it was a year ago, but we did reduce our allocation to Ontario (allocation of 53%, compared to 64% in 2024) and had an offsetting increase to our exposure in Quebec (allocation of 14%, compared to 5% in 2024). This coincides with the organization's growing presence in Quebec (joined forces with nesto in 2024, and added 10 commercial originators in Quebec in 2025) and our comfort with the market. While the real-estate market was generally sluggish in Canada this past year, the market in Quebec performed quite well. Quebec had the second highest increase in home prices in 2025 (behind Saskatchewan) and it is projected to see the third highest increase in 2026 (behind Saskatchewan and Newfoundland)[4].

Our borrowers have a weighted average credit score of 758, which has shown a consistent upward trend over the years (up from 746 in 2024, 734 in 2023, and 714 in 2022). This nicely illustrates an adaptation to newfound pressure on real estate values in an environment of elevated interest rates. We do not plan on changing our approach or making large changes to our allocations in 2026, as we have yet to see signs of a sustained rebound. However, we will continue to observe the evolving economic landscape when analyzing new lending opportunities.

Our goal for 2026 is to continue to provide investors with a dependable fixed income alternative that performs well in all market environments. We appreciate the trust that has been placed in us over the years, and we are excited for what 2026 will bring.

[3] Canadian Real Estate Association
[4] Canadian Real Estate Association