Accrued Interest

CMLS mortgage fund

July 2026

cmls asset management

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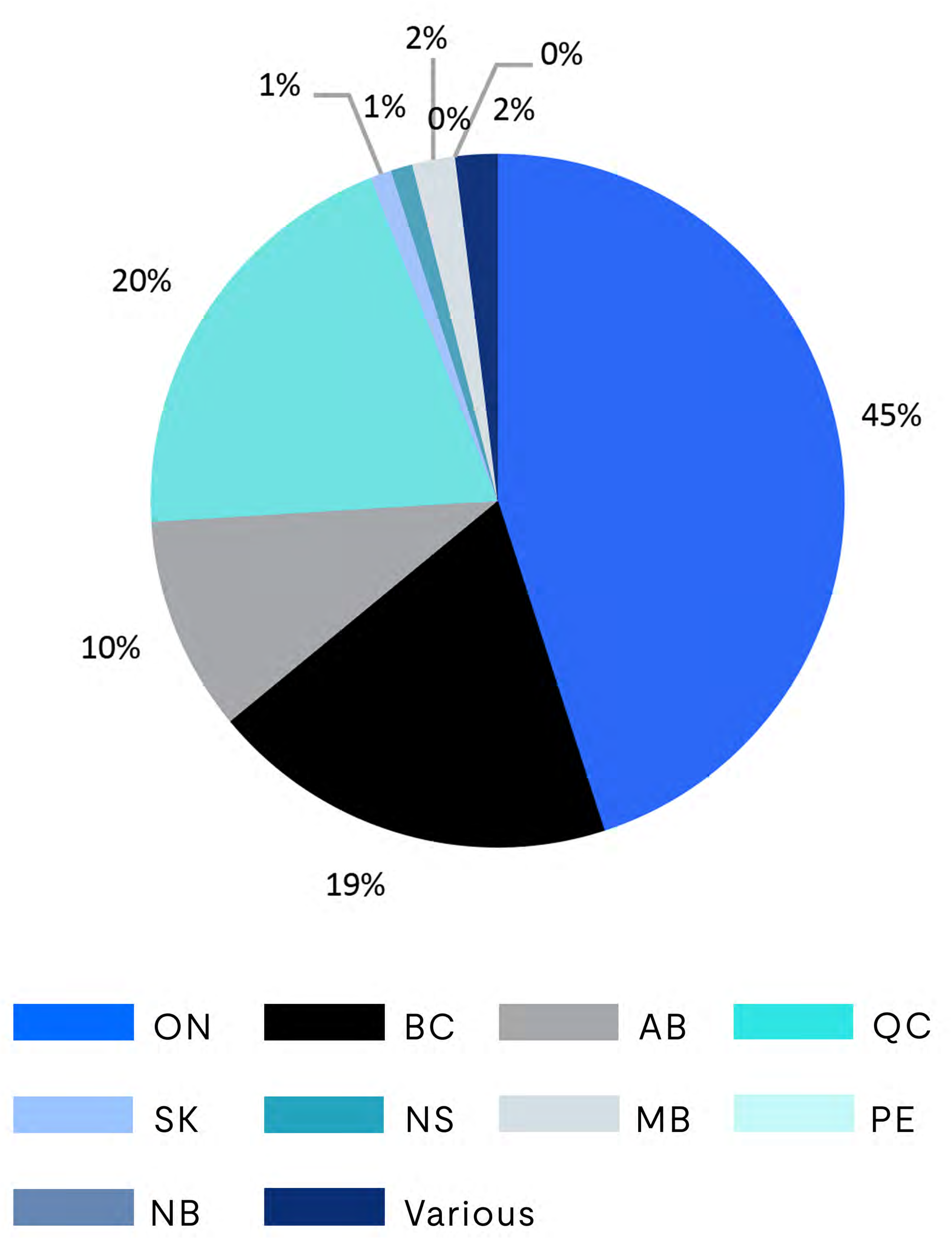
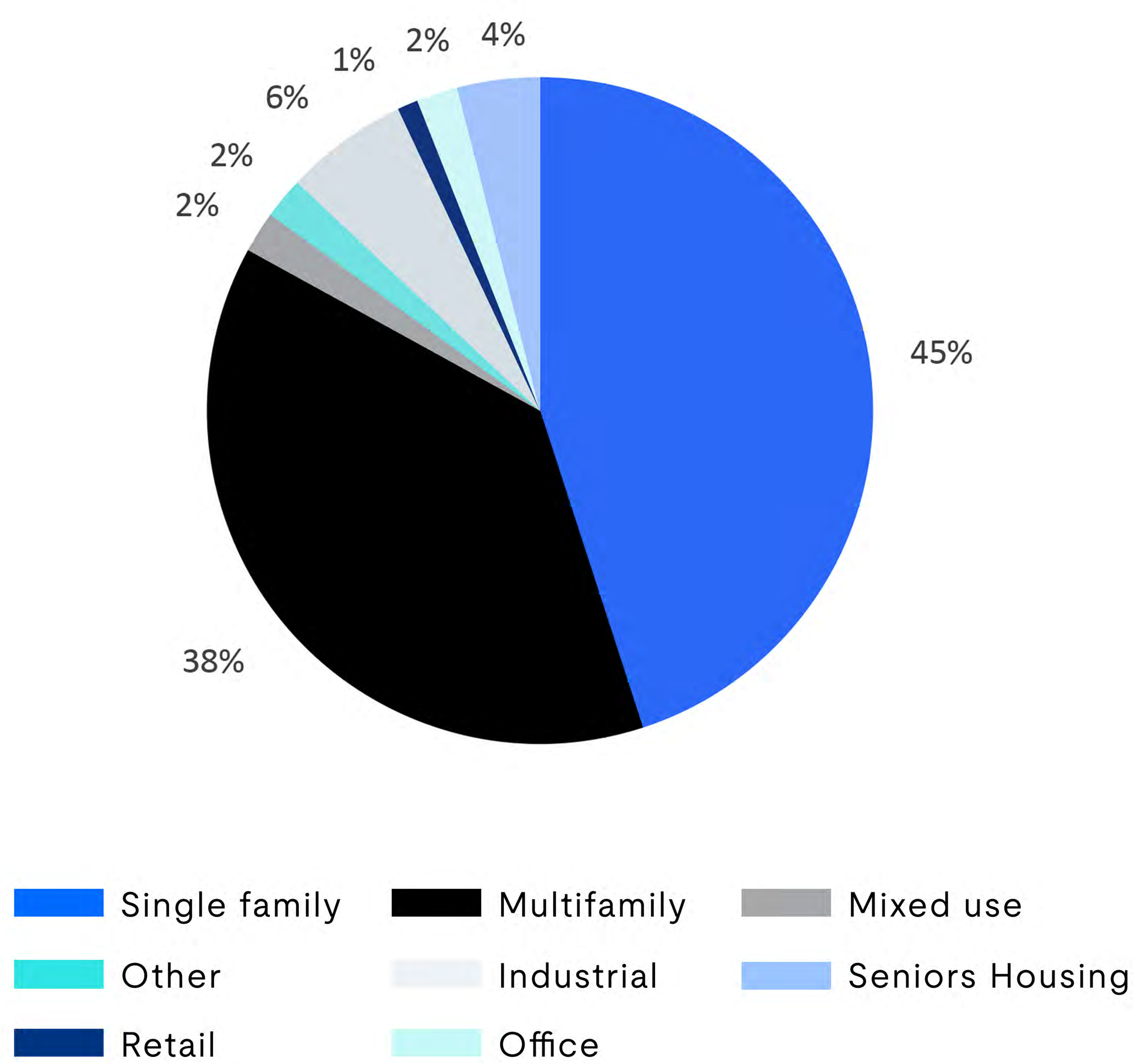
Thank you for reading the July edition of **Accrued Interest**. This will also be included in our upcoming second quarter report. Year-to-date, the CMLS Mortgage Fund has delivered an annualized return of 6.41%. Our weighted average coupon is 7.74% and our weighted average loan-to-value ratio is 62%.

Our portfolio is composed as follows:



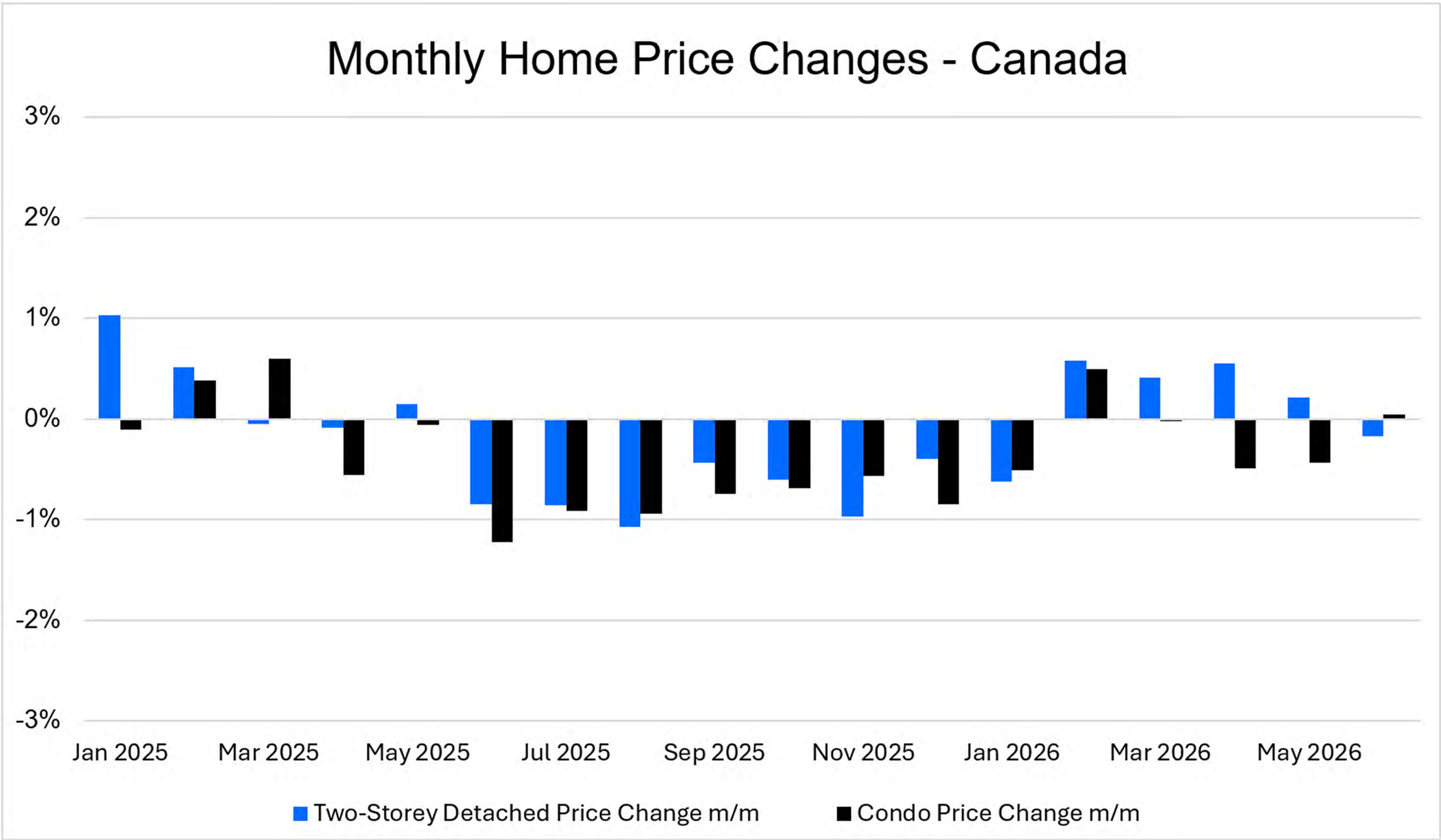


More detailed and up-to-date portfolio information can be found in our monthly Fund Facts, available on our website here.

The second quarter of the year finally saw some life coming back to the single-family real estate market. After five consecutive months of decreasing home sales heading into April, we have now had three straight months of increases[1]. While the numbers don't jump off the page (June sales are up 7% compared to March), it is a positive reversal to the prior trend. This increase in sales activity combined with declining new listings has resulted in the months of inventory in the market falling to 4.8, which is the lowest level reached in 2026. Unsurprisingly, this has supported housing prices, as we have seen them level out after falling throughout 2025. Two-storey detached prices are up 1% in 2026 and condo prices are down 1%[2]. This compares to a decrease by 5% each in 2025.

[1] The Canadian Real Estate Foundation

[2] The Canadian Real Estate Foundation



The increase in sales has corresponded with additional lending opportunities for the fund. We funded $46 million of single-family residential mortgages in Q2, exceeding the $33 million that we funded in Q1. Although not directly linked to the increasing sales activity in the single-family residential market, we also had increased multi-family residential and commercial fundings, going from $30 million in Q1 to $37 million in Q2. Due to our low duration (1.12 years), loans are frequently paid out and replaced by newly funded loans. There were $113 million of mortgages repaid in the first half of the year, which represents 42% of our average mortgage balance. The combination of strong funding volume and loan repayment has resulted in the makeup of the fund being predominantly newly funded loans. The majority of loans (81%) currently held were funded in the past twelve months, and 39% were funded in the past 6 months. We view this constant turnover as a key line of defense, not only in that it limits our exposure to swings in values over long periods of time, but also in how the loan repayments provide a consistent source of liquidity.

As usual, portfolio allocations have remained steady. One notable change is that we have continued to increase our allocation to loans in Quebec, going from 15% to 20% since Q1. As we have messaged in the past, Quebec has one of the strongest housing markets in Canada due to its relative affordability, and we are tactically allocating to this market. We had a slight downward shift in single-family residential, declining from 48% to 45%, and an offsetting increase in multi-family residential from 36% to 39%. A byproduct of the increase to multi-family residential loans is that our subordinate debt exposure increased (went from 30% to 37%), which we're expecting to come back down in the latter half of the year. The weighted-average loan-to-value ratio of the fund (declined from 63% to 62%) and the duration (increased slightly from 1.11 to 1.12 years) have been very steady.

To facilitate the growth of the fund, we finalized an increase to our line-of-credit, bringing it from $50 million to $100 million in capacity. Those who have read our newsletters or quarterly reports in the past will know that using leverage to enhance returns is not a core part of our strategy, we instead use it to stay fully invested as loans are repaid to avoid cash drag. This strategy is not changing, and the increase in leverage capacity is simply a result of the growth of the fund. Our targeted leverage position is 10-20%, and we are comfortably sitting at 14%. Through this increase, we are able to maintain excess capacity on our line while avoiding cash drag.

Investors likely noticed that fund returns were slightly lower in the first half of the year (6.41% annualized) compared to 2025. A primary contributor was the markdown of two loans in May, which resulted in a lower than normal monthly return (0.41%, or 4.94% annualized). The markdown related to two cross-collateralized commercial loans with the same borrower that are in arrears. They are secured by three mixed-use properties (ground floor retail with apartments above) and a parking lot in behind, and represent 2.42% of mortgage investments. We have taken possession of the properties and are in the process of marketing them for sale. In May, we brought the value of the mortgages down to the expected net realizable value of the properties as determined by our affiliate nesto cloud in their monthly revaluation of our commercial mortgage portfolio. As a result of our granular exposures (337 loans), we are not overly exposed to individual positions, minimizing the impact from this mark down.

Portfolio performance has otherwise remained resilient. Overall mortgage arrears remain low and decreased quarter-over-quarter from 3.43% to 3.28%. Beyond the two commercial loans discussed above (2.42%), we have no arrears in the multi-family / commercial segment of the portfolio. The remainder of arrears (0.87%) stem from single-family residential loans. Single-family residential arrears have decreased over the past couple years, peaking at 2.98% in October 2024, remaining near the 2% level through most of 2025, and now sitting below 1%. Our focus on high quality borrowers (w.avg credit score of 752) continues to pay dividends in supporting the performance of the portfolio.

Heading into Q3, we are encouraged by the increased activity in the single-family housing market, and the strong pipeline of lending opportunities that we are seeing across all asset types. Supported by strong credit quality and low portfolio arrears, we are well positioned for the months ahead. As always, our goal remains capital preservation, while providing strong risk adjusted returns to unitholders. We appreciate the continued trust that you place in CMLS Asset Management and look forward to the second half of the year.