

## Sterling Mortgage Income Fund

Please find below the Q4 2023 commentary from Sterling Global Financial's Investment Management Committee for Sterling Mortgage Income Fund Ltd with summary of performance.

	Month	1 Year	3 Year	5 Year	10 Year	Since Inception
<b>Sterling Mortgage Income Fund*</b>	2.40%	12.45%	11.98%	11.55%	12.02%	12.80%

\*Performance information is for Class A units as of December 31, 2023. Returns assumes distributions are re-invested and compounded. 2023 returns are unaudited. Past performance is not indicative of future performance.

## Performance

Q4/23 saw SMIF continue its steady performance achieving 143 consecutive months of positive returns since the Fund's inception in February 2012. Management's dedication to disciplined underwriting and rigorous risk management continue to provide capital preservation and premium risk-adjusted returns. All ancillary fees such as origination, extension, and early redemption always go directly into the Fund for the benefit of our investors, as do all profit participation and equity positions earned through the Fund.

## Distributions to investors

The Fund paid out its quarterly distribution at the preferred annual distribution rate of +7% mid-January. Management is expecting to announce a special distribution shortly with pay-out targeted for mid-February.

## Sector selection

Management continues to be bullish on mixed-use residential and retail assets given its flexibility to adapt to ever-changing economic conditions. Residential and neighbourhood retail properties compliment each other and experience higher values due to their close proximity. Consumers are increasingly looking to have easy access to groceries, entertainment, drugstore, and self-care services such as skincare and fitness facilities. Resort and vacation properties that contain residential are also becoming increasingly popular. The discerning buyer now shows a heightened interest in living at such properties where access to food, concierge, and recreational facilities are streamlined.

## Portfolio update

During the fourth quarter, SMIF deployed approximately \$12.05 million of capital as advances on existing loans. Pay-offs for the quarter totaled \$250k.

SMIF's portfolio of loans are carefully underwritten and regularly monitored to ensure strong risk management practices. Some highlights of the portfolio:

- As we start Q1, the portfolio consists of loans that are primarily backed by residential and mixed-use properties, with 63% of loans having personal guarantees.
- To mitigate interest rate risk, 96% of our loans are structured with a floating rate with a floor, with the remaining 4% at sufficiently elevated fixed rates.
- The average loan-to-value (LTV) ratio for our portfolio is 41%, which provides a large cushion against market volatility and helps to mitigate credit risk.
- Additionally, the weighted average term of our loans is 17 months, which allows us to regularly re-evaluate our portfolio and adjust our strategy accordingly.

SMIF's portfolio includes 3 equity positions, 2 real estate owned, and 2 loans with additional profit participation (above interest earned). On an annual basis, appraisals are performed on these properties and the change in the valuation of such is reflected in the calculation of the net asset value of the portfolio. During 2023 the projects contributed to a net increase of 1.6% to the overall increase of 2.4% for the month of December, bringing the total 2023 return to 12.45% for the year.

## Update on Loans in Special Servicing

The Fund currently has three relationships in special servicing, and we are pleased to report these facilities continue to improve. In the Cayman Islands, we have now received all the required licenses to commence Phase 2, which will consist of 23 condominium units. In Boston, we have a sale underway that will fully repay this exposure. Lastly, we have the two multi-family projects in Orlando. Sterling foreclosed on the collateral securing the loan facility and became equity partners on December 27<sup>th</sup>, 2023. The goal is to stabilize both properties, and then refinance with an Agency loan at a significantly lower interest rate. After the refinancing, SMIF would sell its ownership to repay the loan and outstanding interest.

## Macro Comment

During the most recent Federal Reserve meeting held on Dec. 13, 2023, the Federal Funds rate was held at its 22-year high of 5.25%-5.5%. Along with the decision to hold, committee members suggested that there would be at least three rate cuts in 2024, assuming quarter percentage point increments. These cuts would

be less than what the market had been pricing, but more aggressive than what officials had previously indicated. In the fourth quarter growth in economic activity slowed substantially from the third quarter. That said, GDP is expected to expand 2.5% for the 2023 fiscal year. December 2023 saw a slight uptick in inflation to 3.4%. However, the general consensus is that inflation will ease slightly in 2024.

On December 6, 2023, The Bahamas Ministry of Tourism, Investments & Aviation announced the islands have reached a historic annual visitor total of eight million travelers in 2023. The Bahamas has grown its visitor numbers through digital marketing, social media and strategic partnerships, along with new infrastructure developments including a three-phase port development which will allow for more cruise passengers. In addition, on November 4, 2023, the Bahamas and Jet Blue celebrated the carrier's first non-stop flight connecting Los Angeles to Nassau. This new direct route will serve to streamline travel, making it simpler and more convenient for California travelers to reach the Caribbean. Travelers from the United States account for the majority of visitors to the Bahamas.

During 2023 the Cayman Islands welcomed almost 380,000 visitors to the island, marking a substantial increase from 2022. The vast majority of visitors are from the United States (over 80%) and most of the visits were for leisure (over 85%). For the first 9 months of 2023 average room rates at hotels increased by over 30%. Demand for travel to the Cayman Islands remains strong notwithstanding the higher prices for accommodation. On September 13th, 2023 the Cayman Compass (the island's main news publication) published an article on Sterling Global Financial's partnership with Pageant Beach, Ltd. and the development of the Grand Hyatt Hotel. View the article by [clicking here](#). Construction of the Grand Hyatt Hotel is now under way and completion is estimated to be late 2025.

## Outlook

Private credit has evolved over the past decade from being a niche asset class to a key component of a well diversified portfolio. According to Preqin, a data provider, total private credit assets have nearly doubled since 2020 to \$1.6 trillion and are expected to swell to \$2.3 trillion by 2027. As banks continue to be reluctant to extend financing, we expect that 2024 will present increased opportunities for investors. We continue to focus on multi-residential and mixed-use properties in strong markets. Our extensive experience in these markets enable us to thoroughly assess applications and structure terms to yield the most favourable outcome for our investors.

We remain vigilant in our lending practices and expect that 2024 will be another strong year for our investors. Capital preservation and an ability to provide an attractive and consistent yield have been what our investors have come to expect from us, and we continue to deliver.

Thank you for your ongoing trust in Sterling. We will work hard to continue earning your trust in the years ahead. If you have any questions about SMIF or Sterling Global Financial, please contact Investor Relations at 242-677-1900.

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UPDATE

David Kosoy, Chairman

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