

Sterling Mortgage Income Fund

(Canadian Trust – Managed by Slate Securities L.P.)

MAR | 2023
INVESTOR
UPDATE

Sterling Mortgage Income Fund

Please find below a link to the March 2023 monthly report for the Sterling Mortgage Income Fund – Canadian Trust with summary of performance following.

	Month	YTD	1 Year	3 Year	5 Year	Since Inception
Sterling Mortgage Income Fund*	0.83%	2.44%	12.27%	11.23%	10.91%	10.73%

*Performance information is for Class UF Series 1 as of Mar 31, 2023. Returns assumes distributions are re-invested and compounded. 2022+2023 returns are unaudited. Past performance is not indicative of future performance.

Performance

The Fund's track record of providing stable and positive returns remains steadfast:

January	+0.80%
February	+0.79%
March	+0.83%

Q1 2023 saw SMIF continue its steady performance achieving 82 consecutive months of positive returns. Management's dedication to disciplined underwriting, and rigorous risk management, continue to provide capital preservation and premium risk-adjusted returns.

Distributions to Investors

The Fund paid out its usual Special Dividend in mid-February; of approximately +5.3%, and the Fund's Q1 2023 quarterly distribution was paid at the preferred annual distribution rate of +7% mid-April.

Macro Comment

Acting proactively, and with concerns at SVB, Credit Suisse and banking institutions in general, our credit committee penned a letter to each of our borrowers to ask if they had been affected by these events. We have received confirmation from all borrowers that none of them have been affected.

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Portfolio update

SMIF's focus remains on evaluating lending opportunities to residential and mixed-use properties (such as high-end hospitality, marinas, and neighbourhood retail centres) that offer stable and predictable cash flows. We have zero exposure to the U.S. commercial office sector.

Interestingly, we are now seeing other players in the market focus on residential, hospitality and infrastructure:

- [Blackstone raises \\$30.4bln for latest real estate fund](#) (Reuters)

The portfolio has less than 2% of its underlying value in commercial properties; all of which are in Sterling Commons at Hurricane Hole; which is 100% leased and has a strong cash flow. While we continue to receive lending opportunities in the commercial sector, we have not yet seen an opportunity that meets our risk/reward requirements as we remain focused on residential and hospitality infrastructure.

This quarter, SMIF deployed over \$10 million of capital:

- Two new residential loans totalling just over \$6 million.
- Advances on existing loans totalling nearly \$4.5 million.

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 Q2, the portfolio consists of loans that are primarily backed by residential and mixed-use properties, with 83% of loans having personal guarantees.
- To mitigate interest rate risk, 76% of our loans are structured with a floating rate and with a floor, with the remaining 24% at sufficiently elevated fixed rates.
- The average loan-to-value (LTV) ratio for our portfolio is 38%, which provides a large equity cushion against market volatility and helps to mitigate credit risk.
- Additionally, the weighted average term of our loans is 1.1 years, which allows us to regularly re-evaluate our portfolio and adjust our strategy accordingly.

Update on Special Loans

Indigo Bay: An additional unit has been sold during Q1, with 11 units of the seventeen now sold. The principal and protective advances on the original loan to SMIF is fully paid off. We still have the loan purchased from FCIB, which came with a personal guarantee from the original borrower.

During the first quarter, a lending relationship has come to us looking for assistance. The loans are secured by residential assets in the United States and represents less than 2% of the Fund's portfolio. We are collaborating with the Borrower and expect full repayment.

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Outlook

The market continues to absorb the interest rate increases over the last four quarters which has brought uncertainty and a more illiquid real estate market, with the banking industry curtailing credit until the longer-term implications become clearer. As a consequence of that tightening, we are seeing strong deal flow, and significant opportunities to possibly fund.

Thank you for your ongoing trust in Sterling and Slate. 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 our Investor Relations at 647-325-1509 or Slate Securities at 416.583.1827

This manager commentary is for information purposes only. Only the Offering Memorandum, of which the present document is not a part, should be relied upon for the purpose of considering an investment in the Fund. U.S. persons are not eligible for investment in this Fund. The information provided herein contains forward-looking statements and are provided to you by the Fund Manager. The information provided herein is not intended to be a complete summary of all available data and includes assumptions and opinions of the Manager, which are subject to change without notice.