

Sterling Mortgage Income Fund

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

SEPT | 2023
INVESTOR
UPDATE

Sterling Mortgage Income Fund

Please find below a link to the September 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* | 0.81% | 7.82% | 12.37% | 11.11% | 10.94% | 10.73% |

*Performance information is for Class UF Series 1 as of September 30, 2023. Returns assumes distributions are re-invested and compounded. 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:

| | |
|-----------|--------|
| July | +0.78% |
| August | +0.98% |
| September | +0.81% |

Q3/23 saw SMIF continue its steady performance achieving 140 consecutive months of positive returns since the Fund's inception. Management's dedication to disciplined underwriting and rigorous risk management continue to provide capital preservation and premium risk-adjusted returns. SMIF does not have any catch-up or look back fees which aligns our interests with those of our investors. All ancillary fees such as origination, extension, and early redemption fees always goes into the Fund for the benefit of our investors.

Distributions to investors

The Fund paid out its quarterly distribution at the preferred annual distribution rate of +7% mid-October.

Macro Comment

The Federal Reserve kept the target range for the federal funds rate at a 22-year high of 5.25%-5.5% in its September 2023 meeting, following a 25bps hike in July, and in line with market expectations, but signaled there could be another

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hike this year. The annual inflation rate for the United States was 3.7% for the 12 months ended August, according to U.S. Labor Department data published on Sept. 13, 2023. This follows a rise of 3.2% in the previous period. Higher prices have a direct impact on consumer demand as well as the cost of inputs for real estate construction and development. This results in real estate investors and developers having to be more vigilant about decisions to mitigate the risks of inflation.

On September 6, 2023 the Ministry of Tourism, Bahamas released an update that shows that the country's tourism performance has outpaced projections for the first seven months of 2023, with The Bahamas recording more than 5.89 million arrivals from January through the end of July. Current tourism performance puts the country well on the way to closing out the year at 8 million plus visitors. Overall tourist spending is also up significantly. Major large New Providence hotels experienced increased occupancy and length of stay rates for 2023, eclipsing corresponding periods for 2019 and 2022.

For the 6-month period ending June 30, 2023 the Cayman Islands experienced a 107% increase in stop-overs to the island compared with the same period in 2022. SMIF currently has several mortgages secured by properties in the Cayman Island and the strong performance in the tourism sector further confirms our bullish outlook for this location. On September 13, 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](#).

Sector selection

The growth of the digital economy along with hybrid working models continues to dampen demand and adversely impact the office sector. SMIF does not have any exposure to office assets. The hotel sector's recovery from the pandemic remains strong and SMIF continues to explore lending opportunities in geographies where high-end hospitality is particularly attractive. The unemployment rate in the US is currently 3.8%, not markedly different from where it was a year ago at 3.5%. States where the unemployment rate and cost of living are low continue to attract migration. The top-ranked markets for real estate in the US are the southern and western regions, where SMIF currently already has exposure and proactively evaluating new opportunities.

Portfolio update

During the third quarter, SMIF deployed approximately \$14.3 million of capital as advances on existing loans. Pay-offs for the quarter totaled \$9.2 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 Q4, the portfolio consists of loans that are primarily backed by residential and mixed-use properties, with 67% of loans having personal guarantees.
- To mitigate interest rate risk, 89% of our loans are structured with a floating rate with a floor, with the remaining 11% at sufficiently elevated fixed rates.
- The average loan-to-value (LTV) ratio for our portfolio is 43%, which provides a cushion against market volatility and helps to mitigate credit risk.

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- Additionally, the weighted average term of our loans is 18 months, which allows us to regularly re-evaluate our portfolio and adjust our strategy accordingly.

Update on Loans in Special Servicing

Two apartment buildings in Florida with over 700 units, are now fully complete. Now that the buildings are completed and nearly fully leased, the owners are refinancing at lower rates which will create increased cash flow. In the meantime, Sterling is pursuing repayment through our collateral, which will provide more control over the assets, with the intention of having the properties sold. We expect full repayment of principle & interest on this loan.

Three loans secured by two properties. Both properties are currently listed for sale with one property under a purchase & sale agreement (with a large non-refundable deposit). We have the full financial guarantee of the sponsor who owns multiple properties globally. Given the security available and guarantee we expect full repayment of principle & interest on this loan. The last property is in Cayman and has been well documented. Phase 2 of the project will be commencing soon, upon completion, we expect full repayment of all principal and interest.

Since inception the Fund has never experienced any loss on principal amounts on any loans funded. Managing loans through workouts is a strength of the firm given the executive team's deep expertise in real estate operations.

Outlook

Opportunities to provide financing for strong projects and assets are becoming increasingly available to private lenders as traditional lenders continue their path of tightening. This attractive environment for private lenders has resulted in increased opportunities and interest rates. As an established real estate specialist with significant presence in certain key markets Sterling Global Financial is in a strong position to thoroughly evaluate and only pursue the best opportunities. The short, 18 month, average term of the SMIF portfolio provides the opportunity to renew loans or redeploy capital at higher rates.

We remain vigilant in our lending practices and expect that as we come to the end of another year the Fund will post a strong 2023 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 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 416-303-3948.

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.