



Dear Fellow Investor,

	2022	1 Year	3 Year	5 Year	10 Year	Since Inception
<b>Sterling Mortgage Income Fund</b>	12.6%	12.6%	11.52%	11.33%	12.10%	12.83%

As of Dec 31, 2022. The Rate of Return represents the overall change in the Fund's Net Asset Value. The Rate of Return above is inclusive of Distributions paid and net of all investment management fees, but not inclusive of Sales and Agency Commissions where applicable. YTD returns are compounding quarterly assuming that investors have elected reinvestment of all distributions. 2022 return results are unaudited and subject to revision.

## Market Overview and 2022 Results

2022 has seen global financial markets wrestle with several obstacles following a period of relatively calm market conditions:

- Geopolitical risks arising from the conflict in Europe which has impacted energy prices and supply chains
- Inflation increasing considerably in most developed countries
- Sharp increases in interest rates as central banks attempt to calm inflation

As a result, many asset classes have underperformed, however we are pleased to report that the strategy underpinning the **Sterling Mortgage Income Fund** ("SMIF" or the "Fund") has **performed very well**. SMIF's key attributes have proven to be both resilient and appealing through 2022:

1. More than 75% of mortgages in the portfolio charge floating rate interest with a floor – as base interest rates have risen, the yield of the portfolio has risen, resulting in protection against inflation
2. 70% of the portfolio is senior secured, with the remaining junior positions including personal guarantees in their security, thus a strong shield against a global economic downturn
3. Low correlation – private mortgages and profit participations with borrowers, offer the ability to invest in sectors that are not easily accessed through liquid markets. SMIF has delivered capital stability while continuing to deliver a steady income flow.

## Portfolio update

During the quarter, \$39m,(20% of the portfolio) was advanced to borrowers. Just over half of that was allocated to a new borrower to fund a residential & hotel development. LTV% on this loan is 31%.

The weighted portfolio LTV% has improved from 45% to 43% during the quarter, as a result of updated independent year-end appraisals on several of our developments. In addition, we obtained a very positive year-end appraisal on the collateral supporting SMIF's loan and equity position in an operating hotel in the Turks & Caicos. This was the result of the hotel business significantly exceeding budgeted net operating income in 2022, with strong forecasts for occupancy and average daily rates for 2023 and beyond.



The entire loan portfolio was fair valued by an independent valuer in December 2022, as is required by the accounting rules of the Fund. Due to increases in the US prime rate, which affects the discount rate used in the discounted cashflow model to calculate fair value, the fair value has decreased, and this has been taken into the Fund's year end results. Management had anticipated this downward adjustment.

\$6.5m (5% of the portfolio) was re-paid on the special situation loan in the Cayman Islands, as a result of the sale of three more condo units. This is the development that SMIF took control over (through a receivership). Architectural plans and budget for Phase 2 are in progress and look very positive.

The weighted average time to maturity has remained constant at approximately 1.1 years during the quarter. Also during the quarter, interest payments from a borrower who has had a long history of doing business with SMIF became overdue by more than 90 days. The position is small (2% of the overall portfolio). Sterling immediately started the process to obtain additional collateral from the borrower, and is also working with the borrower to sell off existing collateral to pay down the overdue interest, and the work-out is proceeding well.

## Distributions to investors

In mid-January 2023, the Fund's regular distribution was paid out at the preferred annual distribution rate of 7%. We will also be announcing a special distribution based on the Fund's full year return of **12.6%**, SMIF's best performance since 2015.

## Outlook

Sterling believes it has the ability to navigate through what appears to be a very challenging period globally over the next 12-18 months. Given the illiquid nature of the mortgage loans, the challenge is no different – we have always focused on loan serviceability and repayment. Sterling has the benefit of personal relationships and proprietary information on all its positions, enabling it to understand each loan's performance and make timely portfolio management decisions. As ever, our pipeline contains several opportunities, but we remain measured in our investment decision-making, using the depth and breadth of our experienced senior management team to assess risk and ultimately reward our investors.

We welcome your inquiries in the spirit of open and honest communication with our clients and prospective investors. Please feel free to direct any questions or comments about your investments, SMIF or Sterling Global Financial to our Investor Relations centre at **242.677.1900** or **info@sterlingglobaltd.com**.

Best wishes,  
**Sterling Global Financial Ltd.**

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.