



Sterling Mortgage Income Fund

Q3 2019 Manager Commentary

Sterling Mortgage Income Fund ("SMIF") had a great third quarter. Year to date SMIF has returned 7.9% and 12.8% since inception, on an annualized basis.*

During the third quarter one of the most significant updates to SMIF was the appointment of Slate Securities L.P. ("SLS") as the Manager of Sterling Mortgage Income Fund Ltd. (the "Canadian Trust"). SLS is an investment management platform specializing in real estate investing, across the private and public markets. As an affiliate of Slate Asset Management, an owner/operator of over \$6.2 billion of real estate with a proven track record, SLS has access to deal flow and unique insights in real estate investing. Our partnership with SLS results in synergies which we believe will have a positive impact for our investors.

The investment management team continues to monitor the U.S. economy to ensure that existing loans perform as expected as well as to seek out opportunities in key markets. In Q3 2019 GDP growth slowed somewhat; its annual rate of 1.9% was down marginally from the previous quarter's 2.0%. Recent production and survey data indicate a slowing economy which has resulted in the Fed seeking to potentially lower interest rates once more before the end of 2019. Although growth is forecasted to be slow, we do feel that it will continue to be positive through to the end of 2020. Real estate is not homogeneous and certain geographical areas are expected to have higher growth rates versus the national average. In addition, asset classes also vary in their sensitivity to macro-economic trends. Key areas that we feel have potential for a greater allocation in the portfolio include: Florida, Massachusetts (in particular, Boston) and other right to work states. We continue to monitor our mortgages in the United Kingdom closely and currently do not have any concerns as the U.K. loans continue to perform in line with expectations. At the present time we continue to be cautious on any new mortgages given the upcoming election on December 12th and its impact on Brexit and future relations between the European Union and the U.K. In the Caribbean the portfolio currently has exposure to the Bahamas, Turks & Caicos, Cayman Island, and St. Thomas. The aforementioned islands are jurisdictions where we have deep expertise and relationships that we may lean on to ensure that the underwriting accurately captures the metrics of the project. To mitigate risks during default in the Caribbean we seek opportunities only where the country is governed under common law.

As of September 30, 2019 ("Q3"), the portfolio consisted of 31 mortgages with a weighted average term of 1 year which is unchanged from June 30, 2019 ("Q2"). The weighted average loan amount increased to \$3.7 million at the end of Q3 versus \$3.1 million at the end of Q2. In terms of geographical exposure, North America saw an increase of 0.5% to 21.7%, the Caribbean increased by 0.73% to 68.4% and as a result the global (European) exposure decreased marginally by 1.2% to 9.9%. First ranking mortgages remained relatively unchanged representing 70% of the portfolio. There were no major changes to asset exposure with residential decreasing by 0.5% to 32.1%, commercial increasing by 1.2% to 13.7%, and mixed use increasing by 0.3% to 46.2%. The loan to value of the ratio stood at a very conservative 48% at the end of Q3.

Deal flow across our various origination channels continue to remain robust and we are optimistic that the Fund will continue to perform well. We expect that a special distribution will be announced in the first quarter of 2020.

*Returns are for CIA Shares in USD and are as of Sept. 30, 2019

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