

Sterling Mortgage Income Fund

APRIL | 2020
INVESTOR

(Canadian Trust – Managed by Slate Securities)

Sterling Mortgage Income Fund: An all-season model, tested and proven

The continued impact of the worldwide retreat in risk assets has had minimal impact on Sterling Mortgage Income Fund's return over the period. Our approach is underpinned by expertise in both lending and real estate and a focus on fundamentally sound properties, along with a prudent and measured approach to risk.

Provided below is an update on the activities of Sterling Mortgage Income Fund.

1. Of 36 mortgages globally, the Fund has provided deferrals of interest to two borrowers representing less than 1% of the fund. In all cases the LTV securing the loans are less than 50%.
2. YTD the Fund has only received requests of interest deferral from 5 borrowers including the 2 above.
3. Within the next three months the Fund has four contractual maturities totaling \$13.5MM or 10.64% of the fund's total outstanding loan amount and in all cases the Manager expects full payment or renewal.
4. In the case of renewals this will generate over 1% of new fee income to the Fund
5. Requests for new financings has increased by 25% in the last three months signifying an opportunistic and lender-friendly environment.
6. We have just completed new loans at lower risk and loan to value parameters and higher rates and view this market as an opportunity to build strong positions of high quality assets and returns.

Following is a reminder of our disciplined process and how we expect to continue adding value through a trying period for capital markets:

- **Disciplined investment strategy:** SMIF's investment portfolio currently consists of 36 mortgages, with a weighted average loan-to-value ratio of 52%. This reflects a generally lower risk level for an investment fund manager. We do not have any exposure to senior housing, student housing, retail, offices or operating hotels, which have been among the real estate types that have been most seriously impacted by the pandemic. With respect to our select exposure to residential and hospitality properties, the assets securing our loans in these spaces are well capitalized, with delivery/completion approximately 24-30 months away. This means these positions are relatively well insulated from the recent travel stoppages.
- **Prudent approach to underwriting and risk:** We ensure every investment we make is backed by sponsors with strong track records and an equity stake in the securing asset. What differentiates us in our underwriting are personal guarantees from the borrowers, over-collateralization and multiple exit strategies. Since 2006, neither SMIF nor our predecessor debt funds have ever lost principal from any of our investments.

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- **No fund debt:** As investment managers, we do not use leverage to enhance fund returns. While leverage might seem attractive in good times, avoiding it means we are not now in a position of being forced to sell out of investments to meet lender margin calls.
- **Perspective as a real estate operator:** Our mantra has been that we won't lend on something unless we are prepared to own it. Our investments have multiple exit strategies – and the lens we have as real estate managers and developers provides greater flexibility in this regard. We have a broad and diversified toolkit to manage a problem loan if required.
- **Aligned interests:** Everyone on the Sterling investment management team has a tremendous passion for what we do, and at our heart is a performance-based culture that is firmly focused on delivering long-term value for our investors. In addition, all of Sterling's principals and senior managers have a significant personal investment alongside our investors, assuring solid alignment of interests.

	YTD	1 Year	3 Year	Since Inception
Sterling Mortgage Income Fund	3.38%	10.35%	10.37%	10.36%

*Performance information is for Class UF Series 1, assumes distributions are re-invested, and since inception in 2016.

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 centre at 345-525-1969 or pdaignault@sterlingglobaltd.com, or Slate Securities at 416.583.1827 or info@slatesecurities.com.

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