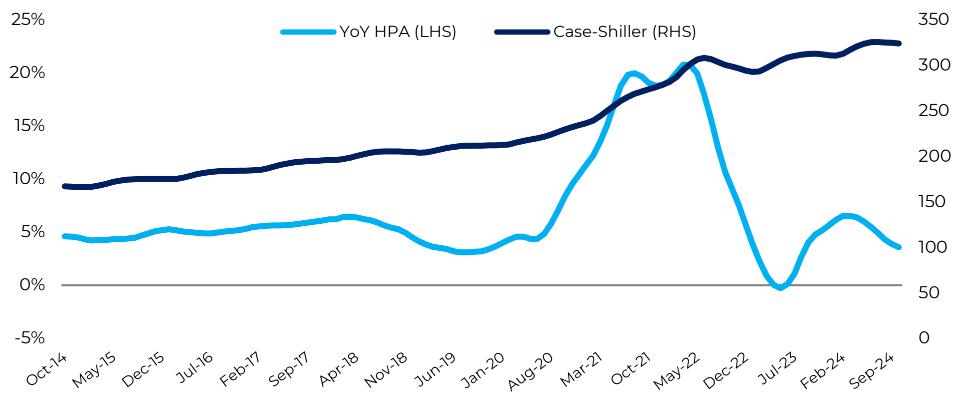
Residential Real Estate Credit Sector Review

Housing

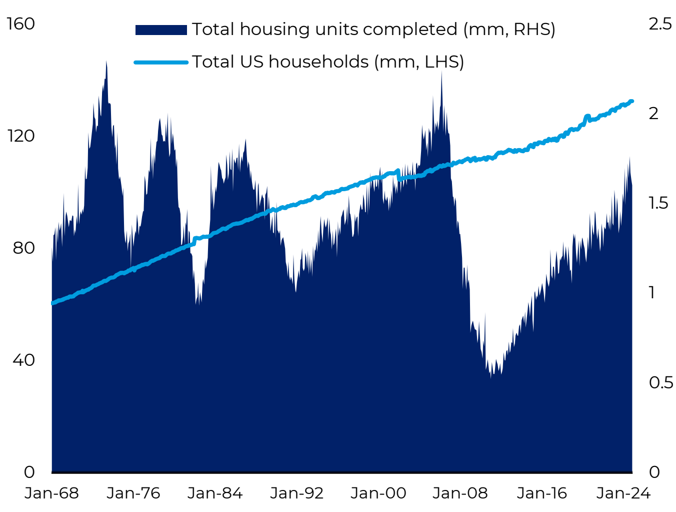
Residential mortgage credit performed well in 2024. While still fundamentally supported by a significant and structural supply-demand imbalance, the pace of home price appreciation began to slow in 2024. Median home prices rose 3-4% in 2024, down from 6-7% in 2023 - marking the slowest growth-rate post-COVID.

YoY HPA - Case-Shiller National Index

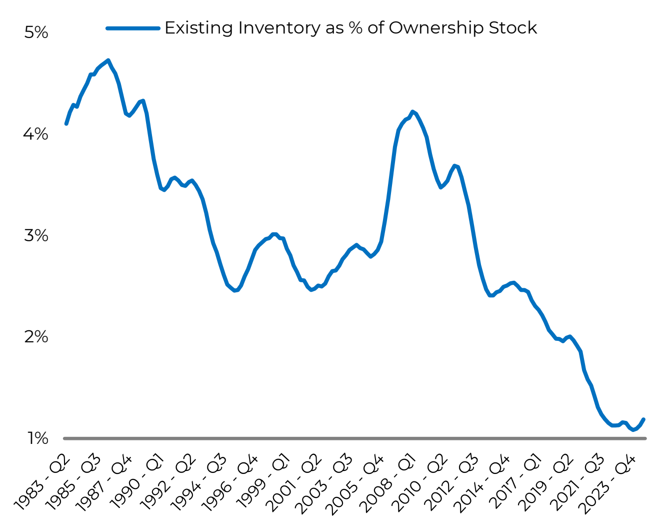


Source: Morgan Stanley

The under-supply of housing nationwide continues to provide significant fundamental support for home prices. A sustained period of under-building post the Great Financial Crisis (GFC) has left the U.S. under-housed by several million units. With household formations continuing to grow and new construction lagging, this imbalance is likely to remain for many years to come.



Source:Fed, Bloomberg, BofA Research



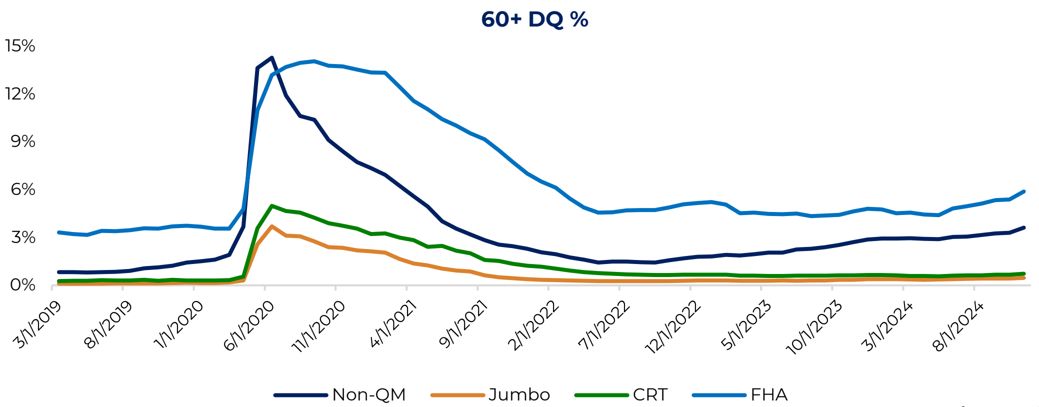
Source: Morgan Stanley

Regional market dynamics are shifting. Inventory levels have risen in parts of Texas and Florida, while tightening in the Northeast – Changes we view as a normalization of post-COVID trends rather than a cause for concern. Looking ahead, we expect national HPA for 2025 to slow to +2-3%, as higher mortgage rates and home affordability challenges weigh on growth. Nevertheless, limited housing supply should provide a fundamental price floor. Industry forecasts across broker-dealers largely align to our views with projections ranging from -2% to +4% for the year.

Residential Credit Performance

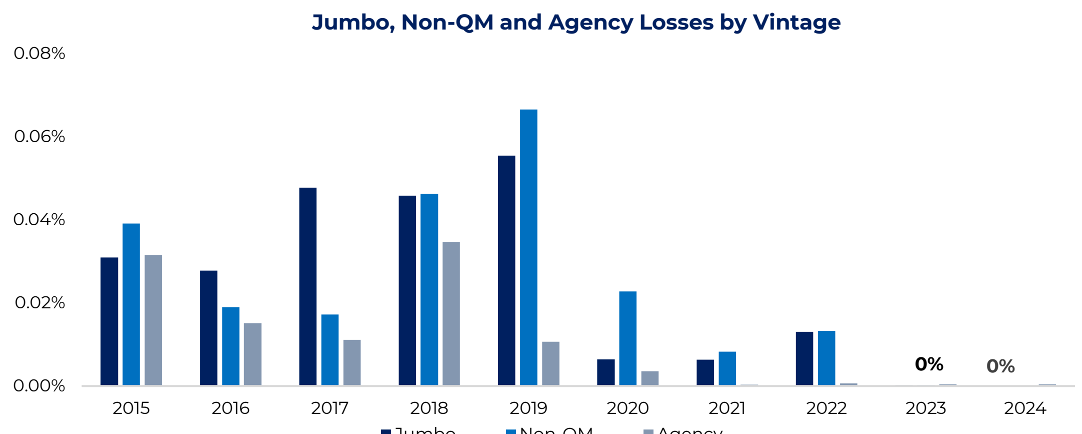
Residential mortgage credit quality remains strong, supported by disciplined underwriting and tight lending standards post-GFC. Even as originations have slowed amid higher rates, serious delinquencies remain low, and aggregate losses have been minimal.

Source: MBA



Source: BofA Research

With HPA expected to moderate, a modest uptick in delinquencies and losses is expected. However, given that investors typically model conservatively—often more so than actual delinquency and loss levels—these changes are unlikely to impact overall risk appetite.



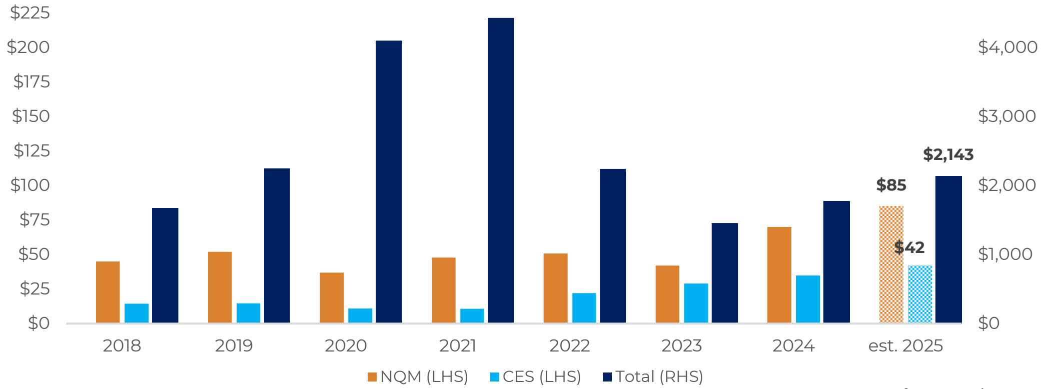
Source: BofA Research

2025 Residential Credit Opportunities

Origination & Investment

The positive fundamental and technical backdrop for residential credit create an attractive investing environment across both loans and securities. Total origination in 2024 was roughly $1.8 trillion, with that number expected to rise above $2 trillion in 2025.

Annual Origination Volume ($bn)



Sources: BofA Research, MBA

More than 80% of production remains in conventional loans underwritten to Fannie Mae, Freddie Mac, or FHA guidelines. That said, the investment opportunities for private capital across both loans and securities are highly scalable reaching more than $200 billion annually.

RMBS securitization markets remain open and efficient with a broad investor base and annual gross issuance of over $100 billion. In 2024, RMBS tightened significantly across the credit curve, driven by investors' favorable view of residential credit fundamentals. While we expect RMBS spreads to remain well-supported in 2025, the room for further tightening appears more limited compared to 2024.

Gross RMBS Issuance ($bn)

Sector	2023	2024	2025 – Proj
Non-QM	31	44	48
Prime Jumbo	10	25	22
2nd Liens	5	13	20
NPL/RPL	10	19	12
CRT	8	8	7
SFR	4	8	12
RTL	3	7	11
Other	5	13	16
Total	**76**	**137**	**148**

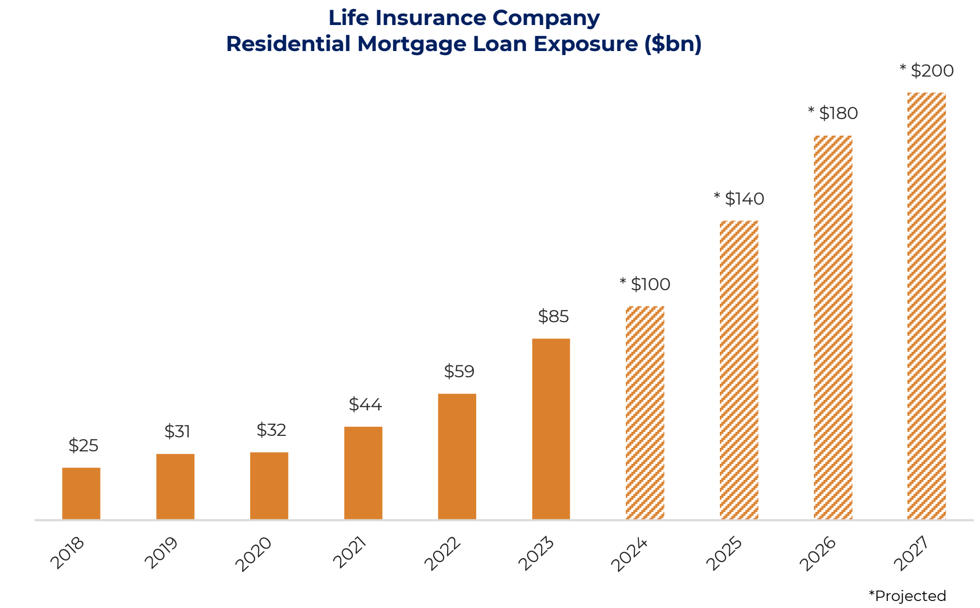
2024 RMBS Spread Performance

Sector	2024 YE	Change YoY
Non-QM AAA	+125	-40
Non-QM BBB	+210	-105
2nd Lien AAA	+135	-40
Agency MBS	+125	-5
CDX IG	+50	-8
CDX HY	+315	-47

Source: Nomura

Residential mortgage loans (RMLs) represent a growing investment area for a variety of investor types. Debt funds, REITs and broker-dealers have been and continue to be active in aggregating loans for securitization. Depending on the investor base and the asset class, securitization is used for investment leverage or trading arbitrage.

One of the major themes in 2024 was the continued growth of insurance portfolios as loan investors. This activity is largely driven by life insurers taking advantage of attractive risk adjusted spreads, highly favorable risk-based capital treatment and the ability to finance RMLs with the Federal Home Loan Banks. **We expect insurance activity in RMLs to grow in 2025, with existing players growing their allocations and new insurers launching buy programs.**



Source: NAIC, SS&C, SGCP estimates

With $13 trillion in outstanding mortgage debt and $2 trillion of annual origination, having RML investment capabilities allows insurance portfolios to capitalize on a large and dynamic opportunity set. In 2024, insurance portfolios were primarily focused on Non-QM and Agency-eligible investor loans and to a smaller degree, Prime Jumbo and Prime 2nd liens. We expect a similar focus for 2025 and would also note that insurers with RML capabilities are well situated to capitalize on any market disruptions.

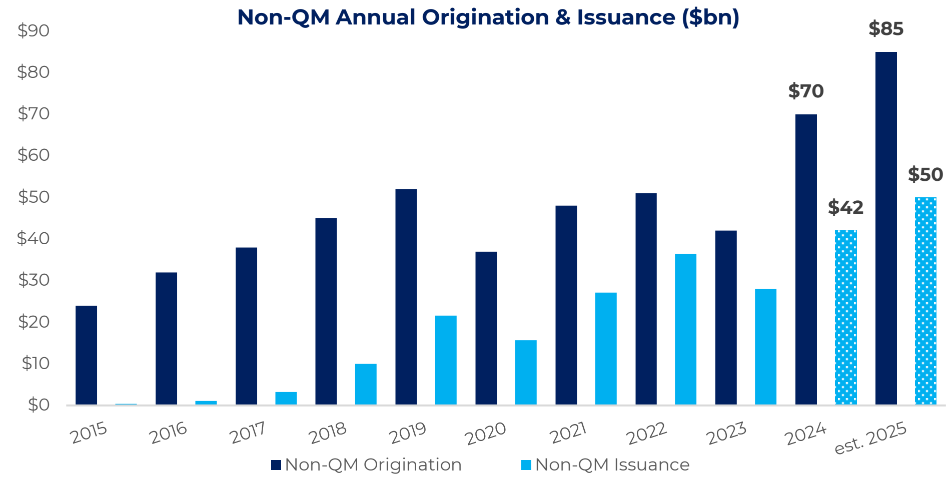
Market Overview

Loan Product	Annual Origination	Avg LTV / FICO	FHLB Eligible	SGCP Active	Market Commentary	Insurance Activity
Non-QM / DSCR	$70-100BN	740 / 72%	Yes	Yes	Largest sector of Non-Agency RMBS issuance and loan trading	Largest sector of insurance activity. Insurance purchasing 50+% of origination
Agency Investor	$100-150BN (8% of Agency production)	750 / 75%	Yes	Yes	GSE pricing adjustments have shifted segments of production to private capital	Select insurers active as either supplement to Non-QM purchases or standalone buy programs
Prime Jumbo	$200-300BN	760 / 70%	Yes	Yes	Bank portfolios remain largest investor; dealers also buying for securitization	Some activity, but generally limited given current spreads and convexity
Prime 2nds / HELOC	$75-200BN	740 / 70%	Yes	Yes	Bank portfolios retaining most HELOCs; 2nd Liens flowing to private markets	Select insurers active

Non-QM

Non-QM remains the focus of private capital in Non-Agency mortgages, as it is both the largest sector of RMBS issuance and insurance RML purchases. Non-QM's appeal is driven by strong credit quality, high-risk adjusted spreads, and private capital setting the clearing price for the market.

$70 billion of Non-QM was originated in 2024, and depending on the ultimate path of rates, we project $75-100 billion to be originated in 2025. While higher rates will constrain volume, originators continue to build Non-QM capacity supporting the sector's continued growth.



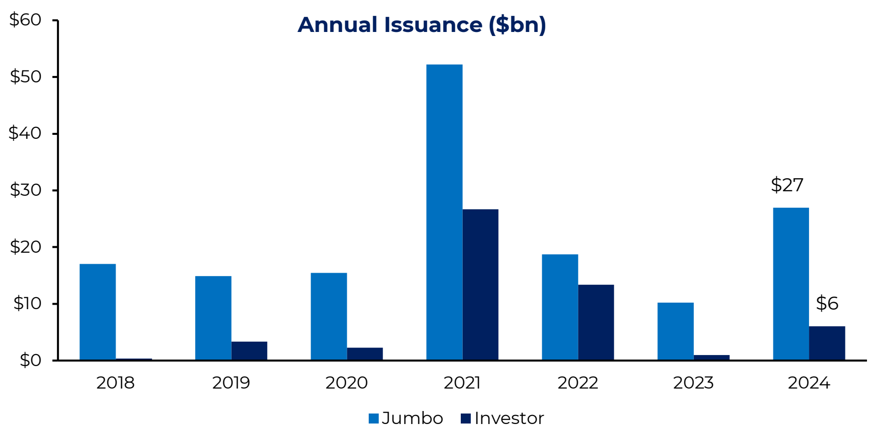
Source: BofA Research, CoreLogic, Nomura estimates

Non-QM origination remains high-quality with prime FICO scores and LTVs in the low 70s. Risk-adjusted spreads for Non-QM loans are highly attractive for the credit quality. Loss and prepay adjusted spreads ranged from low 200 to low 300s throughout 2024, and we expect a similar trading range for 2025.

Agency Eligible Loans & Prime Jumbo

Current SGCP Residential Portfolio Metrics

		Doc Type				Purpose		Occupancy		
FICO	CLTV	Bank Statement	Full Doc	DSCR	Other	Purch.	Cash Out	Primary	Second Home	Investor
749	71%	41%	18%	26%	15%	67%	26%	57%	5%	38%



Source: J.P. Morgan, Bloomberg Finance

Segments of GSE-eligible production are increasingly finding their way to private capital solutions. The GSEs have adjusted pricing on segments of second homes and investor properties, making private capital a competitive source of efficient capital for such assets. The investor base here is both broker-dealers and REITs (for securitization) and insurance portfolios. Private capital tends to be more competitive for the 70-80% LTV and 700+ FICO segments of production. These Agency Investor loans have been the second largest area of insurance portfolio investing behind Non-QM. Spreads have tended to trade close to Prime Jumbo, but the Agency Investor loans offer a better convexity profile. We expect insurers to continue to be active in this space, but given the need to price through GSE execution, volume will be more limited than Non-QM.

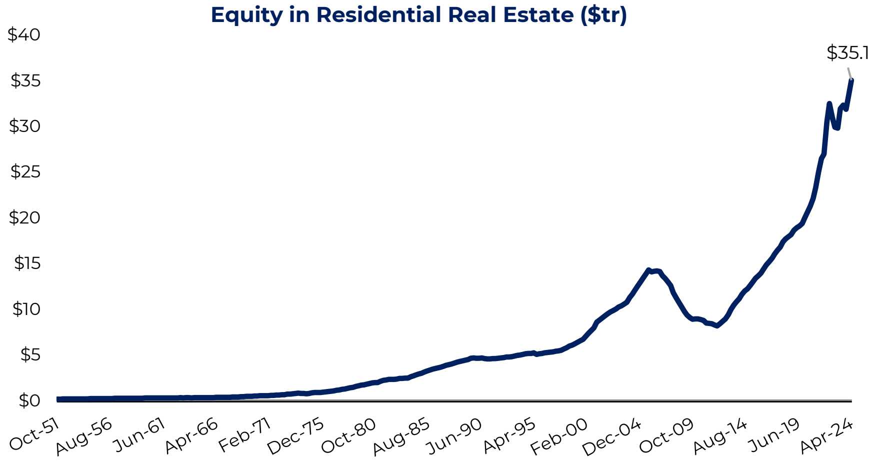
The new administration has brought the privatization of the GSEs back into the conversation. While a full release will be complicated, there are other levers, namely pricing, that the GSEs can use to shift production to private capital. We believe the trend of more production flowing to the private markets is likely to continue and investors with loan investing capabilities will be the early beneficiaries.

Prime Jumbo loans are another area of current and historical insurance investment. The majority of Prime Jumbo loans are retained on bank balance sheets, as banks have an aggressive bid for the product and customer relationship. That said, 2024 saw $25 billion securitized, with several insurance portfolios participating in loan purchases. We expect 2025 to look similar, although periods of market volatility may provide interesting buying opportunities for insurance portfolios with RML capabilities.

Prime 2nd Liens

With record levels of home equity, and a significant percentage of borrowers having first lien mortgage rates less than or equal to 4%, home equity extraction in the form of 2nd liens or HELOCs is an attractive and scalable sector for investors.

Equity in Residential Real Estate ($tr)



Source: BofA Research

HELOCs have long been a significant product for bank portfolios and continue to be a primary focus. Outside of banks, closed-end 2nd liens and more capital markets-friendly HELOCs with limited draw features have grown significantly in recent years. In these areas, we have seen both securitization accounts and insurance portfolios become active investors. The opportunity is compelling with high single-digit coupons for 740+ FICO scores and updated CLTVs in the low 70s. We expect non-bank private capital activity to expand further in 2025, as debt funds and broker-dealers increase acquisitions for securitization and insurance companies look to add higher-yielding assets to their RML portfolios.

Conclusion

We expect 2025 to remain an attractive environment for RML investing. The underlying fundamentals remain favorable and opportunities for portfolio loan investors are likely to continue growing. With this attractive backdrop, we expect insurance companies to expand their access to RML investing. Those who develop RML capabilities, either through partnerships or internally, will have access to both programmatic flow and tactical opportunities that deliver performance, provide diversification, and generate liquidity.

Disclosures

This presentation shall not constitute an offer to sell or the solicitation of any offer to buy which may only be made at the time a qualified offeree receives the offering materials of the Fund. This presentation in and of itself should not form the basis for any investment decision. Financial instruments and investment opportunities discussed or referenced herein may not be suitable for all investors, and potential investors must make an independent assessment of the appropriateness of any transaction in light of their own objectives and circumstances, including the possible risk and benefits of entering into such a transaction. An investor in the Fund could lose all or a substantial amount of his or her investment and there is no guarantee that any investment objective will be achieved. Returns generated from an investment in the Fund may not adequately compensate investors for the business and financial risks assumed. While all information prepared in this presentation is believed to be accurate, Shelter Growth has no obligation to update, modify or amend this presentation or notify readers of any changes or inaccuracies. Past performance is no guarantee of future results. Any projections, market outlooks or estimates in the presentation are forward-looking statements and are based upon certain assumptions. Other events which were not taken into account may occur and may significantly affect the returns or performance of an investment. Targeted returns are no guarantee of future performance and are based on our current perspective of future economic and market conditions. Future operating results may change based on changes in credit spreads, regulations impacting our operations, and economic forecasts. We have modeled these targeted returns based on our analysis of market growth, current/anticipated business capabilities and market counterparty appetite for our products. We cannot control every variable and returns may not meet our anticipated targets. The performance figures presented above are unaudited and may be subject to further adjustment. The information herein has not been provided in a fiduciary capacity, and it is not intended to be, and should not be considered as, impartial investment advice. If you are not the intended recipient, you are hereby notified that you have received this message in error and that any review, dissemination, distribution or copying of this message is STRICTLY PROHIBITED. If you have received this communication in error, please notify the sender immediately by email, and delete the original message. We do not waive confidentiality if you have received this communication in error.

CONTACT

Justin Mahoney
Residential Loans
(203) 355-6108
jmahoney@sgcp.com

Scott Barringer
Investor Relations
(203) 355-6109
sbarringer@sgcp.com

SHELTER GROWTH CAPITAL PARTNERS