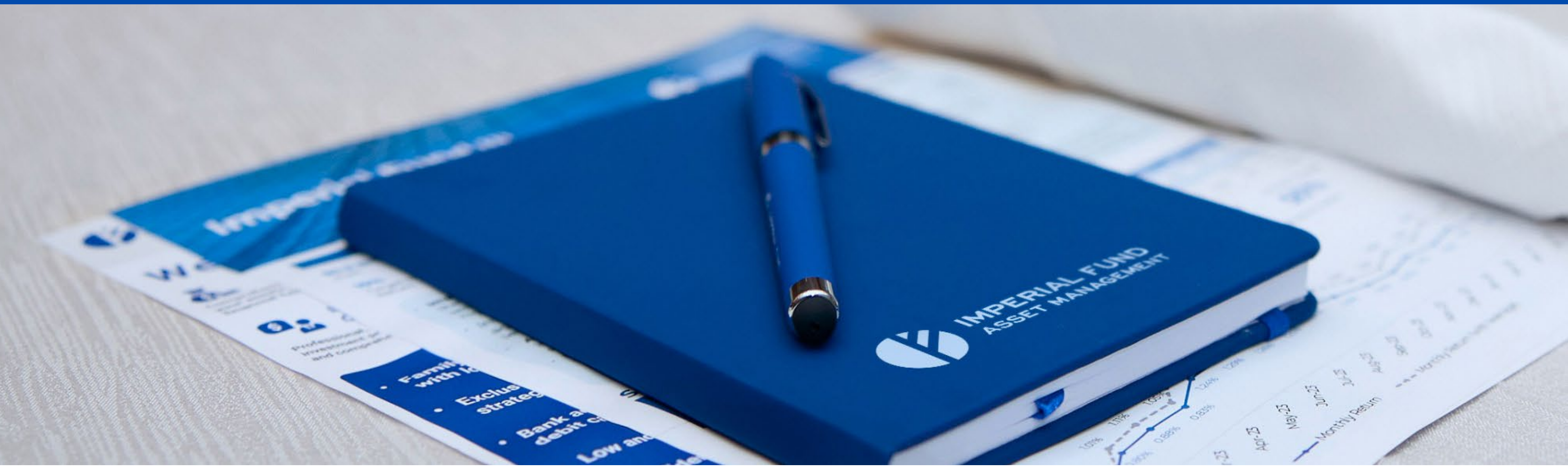

Imperial Fund Semi-Annual Investor Letter (H1 2025)

Company Updates

In February, Atlas A&D Opportunity Fund III sponsored a $458.93 million securitization. **ADMT 2025-NQM1** is backed by 1,290 loans, with an average FICO score of 745 and a combined loan-to-value (CLTV) of 68.91%. In May, Fund III sponsored **ADMT 2025-NQM2**, a $426.67 million securitization. The latter marked our 25th securitization since 2020.

Earlier this year, Imperial Fund hosted two events for our investor community. In March, we held the **inaugural event** at our new corporate headquarters, where we heard special guest **Vice Admiral Timothy 'TJ' White** discuss his thoughts on how companies can use cybersecurity to support their growth. In May, we hosted our spring **Investor Webinar**. We were fortunate to have **Bob Diamond** as a speaker. Mr. Diamond shared his outlook on the U.S. economy in light of recent economic developments. Imperial Fund's management team outlined its view on recent developments in Non-QM and the wider mortgage market, and provided an update on our securitization platform.

The Imperial Fund team has participated in several conferences this year. In January, we attended Global Alts 2025 in Miami Beach, the world's leading event for alternative investments. February saw our team travel to the UAE to meet with prospective investors at the 'AIMA Middle East Forum 2025'. Later that month, we attended 'SFVegas 2025' where we met with structured credit investors, rating agencies, banks, and other participants in the structured finance space. In early June, we attended Global Alts New York 2025 conference which hosts participants across the alternative investment space. Later that month, we also participated in the FPPTA conference in Orlando, which held educational panels for Florida public pension trustees.

Economic Overview

Throughout the first half of 2025, the global economy has experienced some economic uncertainty, prompting officials to revise their outlook on GDP growth along with an increased forecast on inflation.

The Organization for Economic Co-operation and Development (OECD) lowered its GDP growth rate outlook from 2.2% to 1.6% for this year and to 1.5% for 2026, reflecting the pressure of uncertainty on consumption and investment. In regards to inflation, core PCE has been hovering around 3%, above the Fed's target of 2%. The Federal Funds Rate has remained constant throughout the year from 4.25%-4.50%. Officials continue to monitor and analyze economic data and have signaled rate cuts if the economy worsens, and inflation eases. At the Economic Club of Chicago, Federal Reserve Chair Jerome Powell reiterated a patient yet cautious outlook, stating, "we are well positioned to wait for greater clarity before considering any adjustments to our policy stance".

RMBS Issuance

Despite a global economic slowdown with modest GDP contraction and persistently high inflation, year-to-date Non-QM RMBS issuance is 47% higher than at the same point in 2024.

The cadence of Non-QM issuance has remained consistent through the macro volatility observed in Q2. Out of the $28Bn in issuance year-to-date, 49% has been investor loans, also known as 'DSCR loans', a segment which has grown from 23% of Non-QM loans in 2018 (source: BofA Global Research). This growth closely follows the growth in rental prices, with average rental inflation in US cities outpacing wider inflation since 2020.

Investor demand for Non-QM loans is fueled by opportunities to rent out properties at a premium, and we expect this trend to persist for the foreseeable future.

Spreads

Despite an increasing supply, NQM AAAs spreads were as tight as 110bp from the benchmark 5-year treasury in January, before widening to 170 in April amidst global trade disputes. Since then, spreads have tightened to 140 – still 30 points wide of the 2025 tights. The recent volatility has shown that Non-QM AAA spreads are closely correlated with investment-grade corporate debt.

Delinquencies

Delinquencies in Non-QM have been steadily increasing since 2022 as rising inflation, mortgage rates and insurance costs have made homeownership less affordable for households.

Currently, over 6% of outstanding Non-QM loans are at least 30 days delinquent. However, delinquency rates vary strongly by vintage. For loans originated between 2018-2020, the average delinquency rate is 9.73%. For 2021-2025 vintages, the equivalent rate is 5.14% (source: BofA Global Research).

While delinquency rates can create short-term book losses, sustained house price appreciation reduces long-term losses. Delinquencies vary significantly by FICO score. This year, weighed-average FICO scores range from 746-758 across the bank statement, full and investor doc types.

Home Insurance Market

A key factor in home affordability is insurance costs. Rising premiums makes homeownership less affordable for borrowers, potentially increasing delinquency rates.

Indeed, US insurers' homeowner premiums rose in 2023 and 2024 by 12.7% and 10.4% respectively. There has been particular concern regarding two states where Non-QM origination is high: California and Florida. Both states have experienced significant weather events in recent years. In the aftermath of the California wildfires, the state has approved a request from State Farm to raise its insurance premiums for homeowners by 17%.

A Zillow analysis found that Sacramento, San Diego and Los Angeles have seen insurance premiums grow 54%, 48% and 44% respectively. Conversely, in Florida there has been a cooling in insurance premium growth. Citizens, Florida's public 'insurer of last resort', announced it covered 819,000 policies at the end of May.

The decrease from the 1.4M policies in force in September 2023 is indicative of increasing affordable coverage available for Floridians in the private insurance market. There has been significant legislation passed to lower insurance costs in Florida. The focus was restricting the 'assignment of benefits' practices that were inflating insurers' legal costs and contributing to premium increases. The average premium increase, over 21% in 2023, was 0.2% in 2025.

Institutional participation

Participation in Non-QM purchases has diversified significantly. In 2024, insurance companies accounted for 4% of investment into Non-QM RMBS. This year, they have accounted for 14% of the investment (source: J.P. Morgan Non-Agency RMBS Snapshot). This investment has been spurred by the revenue generated from annuity sales. From 2022-2024, there were three consecutive record years for annuity sales. In 2025 this trend has continued, with $105Bn in sales in Q1. Banks have also become more involved in the space. Previously representing 2% of the investment into Non-QM RMBS, banks now account for 9% of the investment (source: J.P. Morgan Non-Agency RMBS Snapshot).

Conclusion

Projected interest rate cuts could fuel increased mortgage origination as loans become more affordable. However, inflationary concerns delayed the cuts that were widely expected this year. Non-QM's diverse borrower pool has ensured continued issuance despite this, and an elevated rate environment is likely to fuel many factors which contribute to Non-QM's growth.

If you have any questions, please email info@imperialfund.com.