

CAPSTONE FIXED INCOME POOL

Q4 Commentary

CAPSTONE
ASSET MANAGEMENT™

DECEMBER 31, 2018

AT A GLANCE

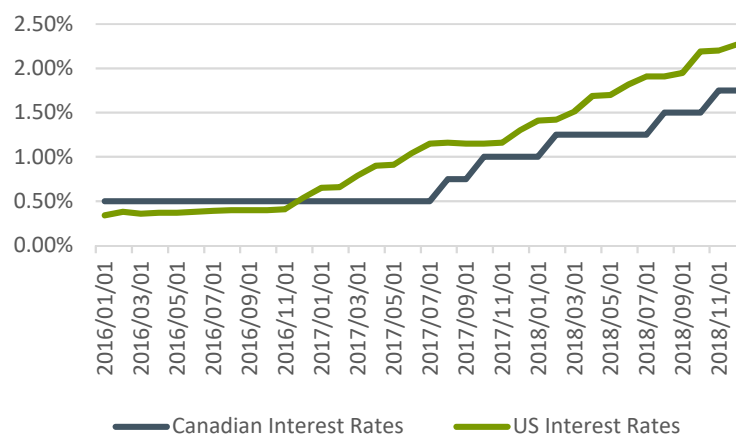
- Blend of traditional and non-traditional fixed income strategies
- Globally diversified
- Weekly liquidity
- Low correlation to bond market
- \$41MM AUM

MARKET & POOL UPDATE

In the fourth quarter of 2018, the U.S. once again raised their interest rates to 2.25-2.50%. This marked the fourth time within the year that rates increased. Canada followed suit on October 24 with an increase to 1.75%. While rates are still very low from a historical perspective, every increase slowly brings them closer to normal.

Throughout the year, both the Bank of Canada and the Federal Reserve were steadfast in their mandate to move interest rates away from emergency territory and into a more normal range. While economic data has mostly supported these moves, the market volatility in the fourth quarter has incited criticism and calls for policy makers to be more patient. While we still expect data indicators to prompt at least one additional rate increase in 2019, the basis for a decision to increase rates seems to be less about statistics than about the feelings of cautious policy makers. It is our opinion that key policy makers will pay more attention to market sentiment and how they 'sense' things are going. Additionally, with an election looming for Canadians, there is likely to be more political pressure to keep the economy humming along at stable rates.

CANADIAN & U.S. INTEREST RATES



Capstone's Fixed Income Pool returned 3.04% in 2018 and, comparatively, Canada's bond market returned 1.00% (represented by the XBB ishares Canadian Universe Bond ETF). Going into 2019, this pool will continue to overweight the non-traditional side of the portfolio and underweight traditional bond investments. There are still opportunities in the traditional market, particularly when evaluating the spreads between various issues, but we are still in a capital loss environment and the risk of rising interest rates persists. Although non-traditional investments are typically less liquid, they have proven to be an excellent diversifier and tend to provide a stable return in the portfolio.

This document is not an offer to sell securities. The Subscription Documents and Information Memorandum should be read carefully as they contain important facts about risks, liquidity, fees and expenses. Past performance may not be repeated.

PERFORMANCE (Net of Fees)

Performance figures are those of Class F units as of December 31, 2018. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
-0.15%	0.66%	1.10%	3.04%	3.63%	3.30%	3.25%

*Launched December 6, 2013