

CAPSTONE FIXED INCOME POOL

Q1 Commentary

CAPSTONE
ASSET MANAGEMENT™

MARCH 31, 2018

AT A GLANCE

- Blend of traditional and non-traditional fixed income strategies
- Globally diversified
- Weekly liquidity
- Low correlation to bond market
- \$42MM AUM

MARKET & POOL UPDATE

2017 was an exceptionally strong year for the Canadian economy and its growth clocked in at 3%. As a result, interest rates steadily increased throughout the end of 2017 and into early 2018 and settled at 1.25% in January. The BOC has been carefully watching economic data to determine if rate increases are necessary. Factors such as economic capacity, the impact of interest rates and technology changes to inflation, the health of the labour market and household debt levels are all considered before adjustments are made. Solid economic numbers throughout the end of 2017 made the last hike in January an easy decision and depending on the data, we may be seeing further rate increases later in the year.

As rates have moved up, bond prices have steadily come down. This past quarter the iShares DEX Universe Bond Index Fund (XBB), a good representation for the traditional Canadian bond market, closed down -0.25%. While traditional bond volatility has been negative, the fall has perhaps not been as significant as it could have been. However, it continues to be our opinion that a bond portfolio should include non-traditional fixed income options as their price volatility is less correlated to rate changes and this can provide investors with additional stability in a rising rate environment.

OUTLOOK & POSITIONS

This past quarter, the Capstone Fixed Income Pool closed positive at 1.18% compared to the XBB's -0.25%. Although interest rate changes have caused some downside volatility in the fixed income market in general, the impact has not yet been seen in the Pool's infrastructure exposure or non-traditional holdings. These positions, which together comprise 60% of the pool, have been effective in stabilizing the portfolio's overall performance. While some volatility on the traditional side of the portfolio may still play out in the months ahead, at this point we have been pleased with the results of our hybrid strategy. We have confidence that the diversification implemented in this portfolio will continue to be successful in mitigating some of the market risks present.

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 March 31, 2018. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR	INCEPTION*
0.58%	1.13%	1.70%	3.53%	3.23%	3.38%

*Launched December 6, 2013