CAPSTONE FIXED INCOME POOL

Q1 Commentary

CAPSTONE
ASSET MANAGEMENT™

MARCH 31, 2019

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

We have been saying for a while now that it takes time for monetary and fiscal policy changes to be absorbed into the economy. Over the past few years there have been so many new changes thrown at Canadians. Many of these have focused on the housing market, but alongside these policy changes, we have also been in an environment of rapid interest rate increases. It is our belief that we are finally beginning to see the impacts of these changes. Growth appears to be slowing in many areas of the Canadian economy, and for this reason, we believe the Bank of Canada is likely to hold steady on interest rates in 2019. Additionally, we may even see an interest rate cut if the Canadian economy continues to decline.

One of the most notable economic events this past quarter was the inversion of the bond yield curve in both Canada and the U.S. In a typical bond environment, longer term bonds will have a higher yield than shorter term bonds. This makes sense, as investors expect to be paid more to lock up money for a longer period of time. However, when the bond yield curve inverts, it indicates that investors are pessimistic about the future state of the economy. This causes the yields for long term bonds to come down while simultaneously pushing short term yields up. Economists and investors pay close attention to bond yield curve inversions because they have historically been indicators of an impending recession. It is important to note that there have been false positives in the past, and in many cases markets have continued strong for another year or more after the yield curve inverts. This means that investors will usually have time to observe other signs to confirm recessionary trends, such as: increasing household debt ratios, credit delinquencies, weakness in employment, wages, and a slow down in the housing market.

As of March 31, Capstone's Fixed Income Pool returned 2.94% over one year with a standard deviation of 1%. Standard deviation is a measure of volatility. By comparison, the XBB (Canadian Universe Bond ETF) returned 5.33% and had a volatility measure of 3.25%. While the XBB has rallied from a 1% return for all of 2018, it is still over 3 times more volatile than the Capstone Fixed Income Pool.

Capstone's goal for this portfolio is to maintain a consistent return that will not aggressively react to interest rate changes. This pool remains overweight in the non-traditional side of the portfolio and underweight in traditional bond investments. 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, particularly during periods of interest rate changes.

PERFORMANCE (Net of Fees)

Performance figures are those of Class F units as of March 31, 2019. Performance is annualized for periods longer than one year.

1 MO.	*3 MO.*	*6 MO.*	*1 YR.*	*3 YR.*	*5 YR.*	*INCEPTION**
0.02%	1.03%	1.71%	2.94%	3.78%	3.30%	3.30%

**Launched December 6, 2013*