

## AT A GLANCE

- Blend of traditional and non-traditional fixed income strategies
- Globally diversified
- Weekly liquidity
- Low correlation to bond market
- \$66 MM AUM
- Current price: \$10.6226 (Class F)

## MARKET & POOL UPDATE

In our last commentary, we talked about how we were poised for a “lower for longer” interest rate environment. No one could have predicted the situation we find ourselves in at the end of the first quarter 2020. COVID-19 and record low oil prices have caused massive volatility across equity and fixed income markets, and central banks around the world have responded by aggressively reducing interest rates. By the end of the quarter, the Bank of Canada had lowered target rates from 1.75% to 0.25% and the U.S. FED was near 0%. Additionally, governments pumped liquidity into fixed income markets through government and corporate bond buying initiatives in efforts to ensure these markets continue to work efficiently. With today’s market uncertainty, the “lower for longer” interest rate environment certainly appears to be probable.

Historically, during times of crisis, traditional equity and fixed income markets become more positively correlated. While stock and bond markets do not typically move in tandem, during the uncertainty surrounding this COVID-19 crisis, we have again seen these markets moving in the same direction. While equity markets are falling, corporate bond spreads are widening, causing losses on both sides of traditionally balanced portfolios. However, as you have heard from Capstone in the past, we look to the non-traditional markets to provide more effective diversification; this is also true within Capstone’s Fixed Income Pool.

As our only hybrid strategy, the Capstone Fixed Income Pool selects investments from both traditional and non-traditional sources. During the month of March, the Pool was down -2.06%, while the Canadian bond market was down -3.34% (represented by the XBB - iShares Core Canadian Universe Bond Index ETF). The negative performance in our Pool was attributable entirely to the traditional strategies, while the non-traditional assets remained stable.

Capstone continues to actively review all holdings within the Pool. We are looking at opportunities within the strategic mandate of this investment to ensure that we are well prepared to weather the coming changes. Due to widening corporate spreads, there may be attractive opportunities to take advantage of over-sold positions. We are looking into sectors that may benefit most during a period of recovery – such as infrastructure and domestic food, health and security. The bottom line is that we continue to seek out good quality non-traditional investments that will add diversification and strength to the portfolio. During this period of volatility, we are being particularly selective about exposures on the traditional side of 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 March 31, 2020. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
-2.06%	-1.58%	2.45%	3.10%	3.19%	3.15%	3.27%

\* Annualized as of first trade date December 6, 2013