

CAPSTONE FIXED INCOME POOL

Q1 Commentary

CAPSTONE
ASSET MANAGEMENT™

MARCH 31, 2021

AT A GLANCE

- Blend of traditional and non-traditional fixed income strategies
- Globally diversified
- Weekly liquidity
- Low correlation to bond markets
- \$63 MM AUM
- Current price: \$11.0768 (Series I)

MARKET & POOL UPDATE

Over this past quarter, the traditional bond market was anything but quiet. In fact, since January, we saw the 10 year Canadian bond interest rate increase from 0.68% to 1.55% by the end of the quarter. Inflationary fears, supply chain disruptions, and significant fiscal and monetary stimulus from central banks all contributed to this rise in bond yields. Because bond prices move inversely to their yield, this rise in bond yields has resulted in negative bond market performance for the quarter.

The Capstone Fixed Income Pool is Capstone's only hybrid strategy, selecting investments from both traditional and non-traditional sources. Due to increasing risk in the traditional bond market, the fund is currently underweight traditional bonds and overweight private debt, infrastructure, and other alternative fixed income strategies. For the first quarter of 2021, this investment returned 1.47% comparing very favourably with the overall Canadian bond market (represented by the iShares Core Canadian Universe Bond Index ETF) which returned -5.24% over the same period. It is our opinion that the volatility we have seen over the past year in the bond market is not going to be a short-lived experience, but rather the norm for at least the next year or two. Inflationary concerns and changing interest rates appear to be the driving motivators for investor uncertainty which leads to this volatility in bond prices.

While it is hard to see inflationary pressures really gain a foothold considering low wage growth and the current unemployment numbers in Canada, it is hard to argue that inflation is not being felt in certain parts of the economy. This is likely the result of government stimulus and COVID relief support payments. Through 2021, we expect inflationary pressures to be on the high side of the Bank Of Canada expectations in the near term (around 3%), but to eventually level off to a more normal 2% once the stimulus is removed. All that to say, as general inflationary concerns persist and there remains uncertainty about interest rates – we should not be surprised to see persistent bond market volatility.

The Capstone Fixed Income Pool is very well positioned to take advantage of opportunities in both the alternative and traditional fixed income markets and provides investors with excellent diversification and an attractive risk adjusted return. Over the past quarter this portfolio has exceeded its target return and is very much on track for a solid 2021.

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 (Gross of fees)

Performance figures are those of Series I units as of March 31, 2021. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
0.70%	1.47%	4.45%	8.40%	5.55%	5.45%	4.83%

* Annualized as of first trade date November 1, 2013