

CAPSTONE FIXED INCOME POOL

Q1 Commentary

CAPSTONE
ASSET MANAGEMENT™

AT A GLANCE

MARCH 31, 2022

- Blend of traditional and non-traditional fixed income strategies
- Globally diversified
- Weekly liquidity
- Low correlation to bond markets
- \$79 MM AUM
- Current price: 11.3112 (Series I)

MARKET & POOL UPDATE

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 Pool continues to underweight traditional bonds and overweight private debt, infrastructure, and other alternative fixed income strategies.

Volatility in the traditional bond market has been severe over this past quarter with inflation surging and interest rates starting to rise. In March, the Bank of Canada raised rates - for the first time since October 2018 - from 0.25% to 0.50%, and the expectation is that they have nowhere to go but up from here. Pre-pandemic, the Bank of Canada rate was 1.75%, which means it still has a long way to go until interest rates are at pre-March 2020 levels. However, many are theorizing that the BOC will shoot straight through this benchmark and raise rates at each of the next policy meetings, reaching well over 2.50% by this time next year. This is intended to cool general household inflationary pressures and in particular the housing market.

Our neighbors south of the border are experiencing similar issues and the Federal Open Market Committee (FOMC) has recently voted to rapidly increase interest rates through this next year. In particular, late March saw the rare occurrence of an inversion of the bond yield curve. This means that the short-term (2 year) bond yields have risen quickly and are now higher than long-term (10 year) yields. It also means that short term economic optimism is higher than long term. An inversion is important to note as historically, these have occurred right before something significant broke in the system causing a major recession. That said, it is only potentially a signal, and this too might correct itself since long term rates are still rising. Only time will tell if this inversion is a harbinger of recession.

Over the past quarter, as interest rates have risen and central banks have made their plans more broadly known, bond prices throughout Canada have dropped rapidly. Over the past three months, the return on Canadian bonds has been a startling -7.07% (represented by the XBB iShares Core Canadian Universe Bond Index ETF). In contrast, Capstone's Fixed Income Pool has stayed above water with a return of 0.25% year to date. This fund's over-concentration in the alternative fixed income space and its historical reduction in traditional bond holdings has mitigated much of the price volatility reverberating through the market. While interest rates rise, we will likely stay on the sidelines of the traditional bond space and only venture forward when rates stabilize. This allocation flexibility is truly the power of a hybrid fixed income strategy, and we expect this fund will continue to provide investors with conservative fixed income exposure with a suitable return for the risk taken.

If you would like to find out more about this Pool, please talk to your Portfolio Manager.

PERFORMANCE (Gross of Fees)

Performance figures are those of Series I units as of March 31, 2022. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
0.18%	0.25%	1.77%	4.33%	5.64%	5.12%	4.77%