

CAPSTONE FIXED INCOME POOL

Q2 Commentary

CAPSTONE
ASSET MANAGEMENT™

JUNE 30, 2019

AT A GLANCE

- Blend of traditional and non-traditional fixed income strategies
- Globally diversified
- Weekly liquidity
- Low correlation to bond market
- \$44MM AUM

MARKET & POOL UPDATE

Over the past couple of years, both the Bank of Canada and the U.S. Fed have been steadily working towards moving interest rates out of emergency rate territory by increasing them gradually. However, by the end of last year both the Bank of Canada and the Fed decided to hit pause on this progression and determined to wait out the next few months. What was once a season of strong interest rate increases, quickly became one of patience, and now there is serious talk of rate cuts. As a result, we have seen a significant recovery of bond prices over the past two quarters. While many will likely experience this recovery in the increased value of their bond portfolios, as well as have some relief on the debt side of their financial picture, this also means that the interest rates received on savings will not be increasing.

Both the U.S. and Canada experienced another bond yield curve inversion within this past quarter. Inversions occur when long-term bond yields suddenly go lower than short-term yields. While many still hold to the tenet that this phenomenon precedes a recession, some believe that, in this case, it is a false alarm and may be a result of money fleeing from the EU due to political instability, or from investor caution surrounding trade tensions between the U.S. and China. Whatever the case, the bond yield curve inversion still highlights the uncertainty many feel about the future health of the economy and investors should see it as a caution sign in their financial roadmap.

The Capstone Fixed Income Pool returned 1.79% this past quarter, which was higher than anticipated. This has helped bring the fund's 1-year return to 3.98% net of fees. While this pool also participated in the recovery of bond prices due to a flat and potentially decreasing interest rate environment, the non-traditional investments have done a good job of stabilizing the performance through both the good, and the more challenging periods over the past year. These non-traditional investments have included infrastructure financing, first mortgages, private debt and factoring – all of which are uncorrelated to the traditional bond market. This lack of correlation is important because it means this fund is effectively diversified and is in a better position to mitigate some of the risks fixed income investments are susceptible to.

At Capstone, we work hard to provide our clients with comprehensive fixed income solutions that are conservative in nature, have solid value and provide excellent risk adjusted returns. If you are interested in adding the Capstone Fixed Income Pool to your portfolio, please contact your Portfolio Manager today at privatewealth@capstoneassets.ca.

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 June 30, 2019. Performance is annualized for periods longer than one year.



| 1 MO. | 3 MO. | 6 MO. | 1 YR. | 3 YR. | 5 YR. | INCEPTION* |
|-------|-------|-------|-------|-------|-------|------------|
| 1.37% | 1.79% | 2.85% | 3.98% | 3.96% | 3.45% | 3.48% |

*Launched December 6, 2013