CAPSTONE FIXED INCOME POOL

Q2 Commentary

CAPSTONE
ASSET MANAGEMENT™

JUNE 30, 2020

AT A GLANCE

- Blend of traditional and non-traditional fixed income strategies
- Globally diversified
- Weekly liquidity
- Low correlation to bond market
- $59 MM AUM
- Current price: $10.6164 (Class F)

MARKET & POOL UPDATE

At Capstone, we believe that we are currently in a low interest rate environment that will continue for a long period of time. In March, the Bank of Canada (BOC) dropped its key interest rate from 1.50% to 0.25% and bond buying efforts have continued to ensure liquidity in the fixed income market. The recently released Fiscal Snapshot from the Federal Government has revealed a $343B deficit which includes $71B in lost revenue. It seems that by keeping rates low and running deficits during stronger economic periods, Canada is now at a disadvantage. As a result, we have now entered a crisis with little ammunition left. With rapidly growing levels of debt in combination with rock bottom interest rates, we are in a weakened position for fiscal stimulus. To move towards the road to recovery, we believe the BOC will have to maintain low interest rates, ensure proper forward guidance, and continue a quantitative program of bond buying. Additionally, the government is going to have to be creative in introducing measures to stimulate the economy. These measures could include infrastructure spending, incentives for consumers to spend, and incentives for businesses to invest.

As our only hybrid strategy, the Capstone Fixed Income Pool selects investments from both traditional and non-traditional sources. Although this Pooled Fund was up 0.79% over the past quarter, it is still recovering from traditional bond market volatility experienced in March, leaving the Fund down -0.80% year to date. Since duration is fairly short on this portfolio, the degree of swings up and down, compared with the Canadian bond market as a whole, will be less significant. For that reason, the traditional side of the portfolio may take a bit more time to recover as the overall market strengthens. On the Non-Traditional side of the portfolio, we did see some negative impact in a few positions as they responded to widening credit spreads. As the market moves to a more normal equilibrium, we expect returns to be positively impacted as credit spreads narrow again.

It is important to remember that stressed markets can pave the way for opportunistic buys. When this portfolio has cash available, we actively look to take advantage of market disruptions. Additionally, some asset categories, such as farmland, which we had previously decided to enter, are now showing even better risk metrics. We don't want to just ride out the market turmoil. We want to position ourselves to profit from these changes whenever possible. With interest rates lower for longer, we expect this portfolio to settle by the end of 2020 around its historical average performance of 3%.

PERFORMANCE (Net of fees)

Performance figures are those of Class F units as of June 30, 2020. Performance is annualized for periods longer than one year.

1 MO.	*3 MO.*	*6 MO.*	*1 YR.*	*3 YR.*	*5 YR.*	*INCEPTION**
1.12%	0.79%	-0.80%	2.08%	3.28%	3.14%	3.26%

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