

CAPSTONE FIXED INCOME POOL

Q2 Commentary

CAPSTONE
ASSET MANAGEMENT™

AT A GLANCE

JUNE 30, 2022

- Blend of traditional and non-traditional fixed income strategies
- Globally diversified
- Weekly liquidity
- Low correlation to bond market
- \$89 MM AUM
- Current price: 11.2665 (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. Year to date, the bond market in Canada (represented by XBB iShares Universal Bond Index ETF) is -12.40% as of June 30th, 2022, compared with our Fund's performance which returned 0.76% over the same period. The contrast is, in part, due to our Pool's underweight exposure to traditional bonds since the Spring of 2020 when interest rates dropped and, for this reason, we will likely not bring this back into balance until rates stabilize. This will help to mitigate interest rate risk on this side of the portfolio.

With interest rates rising as a response to inflationary pressures, the Bank of Canada (BOC) has raised rates by 100 basis points, taking the policy rate up to 2.5%. Moving forward, the biggest impediment to rate hikes will likely be recessionary signals, especially a rise in unemployment numbers. However, with current employment numbers so strong, there is not much to stop the BOC from further rate hikes. That said, we expect these hikes to bring the market (especially the Canadian real estate market) back into balance – although it could be a bit bumpy in the short term. At this point, we do not foresee a strong correlation between interest rate hikes and private debt/mortgage rates of return. However, higher interest rates will significantly impact bond prices. We intend, therefore, to invest more heavily in this space only when we see rates stabilize. The small traditional fixed income exposure we *do* have has historically proven to be robust under stressed bond market conditions.

To reduce volatility and risk in the Capstone Fixed Income Pool, we have opted to hold a bit more cash than usual. Moreover, doing so positions us to capitalize quickly on opportunities in both private and public markets. In addition, we have committed capital and are expecting capital calls in the near future for a couple of our current investments. Opportunities in private credit continue to look attractive, and we believe a number of our existing positions will continue to fare well. We may, therefore, make additional investments into these positions. The Capstone Fixed Income Pool is suitable for investors who are looking for a low risk fixed income solution that can access a large variety of opportunities to find the best value.

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

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 June 30, 2022. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
0.31%	0.51%	0.76%	3.41%	5.10%	5.06%	4.69%

* Annualized as of first trade date November 1, 2013