

# CAPSTONE FIXED INCOME POOL

Q2 Commentary

CAPSTONE  
ASSET MANAGEMENT™

## AT A GLANCE

JUNE 30, 2023

- Blend of traditional and non-traditional fixed income strategies
- Globally diversified
- Weekly liquidity
- Low correlation to bond market
- \$65 MM AUM
- Current price: \$11.0220 (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. As of June 30, 2023, the bond market in Canada (represented by XBB iShares Universal Bond Index ETF) returned 3.26%, compared with our Pool which returned 1.26% over the same 1-year period. The performance of the broad Canadian bond market is reflecting its sensitivity to interest rate adjustments; it was only a year ago that bond valuations dropped rapidly as interest rates began to go up. In fact, the Canadian bond market (represented by XBB iShares Universal Bond Index ETF) is roughly 3 times more volatile than our Fixed Income Pool. If you were to compare performance over a longer period, this interest rate sensitivity and resulting volatility would be more apparent as XBB's 2-year return was -4.49%, compared to the Fixed Income Pool's return of 2.33%. As interest rates and inflationary pressures stabilize, it is our intention to gradually shift the large concentration in private debt to higher-yielding traditional bonds. This rebalancing takes time due to the illiquidity of private debt but will be our focus for the remainder of 2023 and likely into 2024.

After a 4-month pause in interest rate adjustments, the Bank of Canada (BOC) increased its rate by 0.25% to 4.75% in early June. This brought borrowing costs to their highest point in over 20 years. The BOC's press release from June 7<sup>th</sup> explained the current economic conditions and why they believe this increase was necessary, stating, "Demand for services continued to rebound. In addition, spending on interest-sensitive goods increased and, more recently, housing market activity has picked up. The labour market remains tight: higher immigration and participation rates are expanding the supply of workers but new workers have been quickly hired, reflecting continued strong demand for labour. Overall, excess demand in the economy looks to be more persistent than anticipated." Additionally, the CPI (inflation) has trended higher than desired at 3 to 4% while the BOC is targeting 2%. At the time of this writing, the BOC has raised interest rates by an additional 0.25%, July 12<sup>th</sup>, to settle at 5%. Most observers expect the BOC to defer more adjustments for a while to allow the new rate environment to play out in the economy.

In the U.S., inflation has remained at a stubborn 4 to 5% through this past quarter, prompting the U.S. Federal Reserve to impose an additional rate hike of 0.25% in May. This brings the fed fund rate into the 5% and 5.25% range. This brings them to a total increase of 5% since early 2023 and, similar to Canada, U.S. borrowing costs are the highest they've been in more than 20 years.

Interest rate hikes, while causing extra stress to borrowers, are finally bringing savings and bond rates into an attractive range for investors. This means that when and as rates stabilize, we anticipate that there will be a greater opportunity for investors to achieve a competitive rate of return with greater yields in both traditional and non-traditional investments. The Capstone Fixed Income Pool is suitable for those who are looking for a low to medium risk, hybrid, fixed income solution that can access a large variety of opportunities with a lower standard deviation than traditional bond markets alone. 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, 2023. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
0.29%	0.76%	1.90%	1.26%	4.43%	4.32%	4.33%

\* Annualized as of first trade date November 1, 2013