

CAPSTONE FIXED INCOME POOL

Q3 Commentary

CAPSTONE
ASSET MANAGEMENT™

SEPTEMBER 30, 2017

AT A GLANCE

- Blend of traditional and non-traditional fixed income strategies
- Globally diversified
- Weekly liquidity
- Low correlation to bond market
- \$40MM AUM

MARKET & POOL UPDATE

The Capstone Fixed Income Pool continues to perform within an environment of increasing interest rates. During this past quarter, the Bank of Canada (BoC) raised rates twice to settle at 1%. It's important to remember that Canada has been in emergency rate territory since 2015 when it last dropped rates in response to the fall in oil prices. Although energy prices are still low and certainly impacting Canadian growth, other areas of strength have helped to improve the overall economic landscape.

At Capstone, we have long anticipated rising rates and sought to buffer our Fixed Income Pool from the risk of falling bond prices. By choosing traditional fixed income options with low duration and incorporating non-traditional investments which are uncorrelated to traditional bond markets, we have successfully kept the returns in this pool stable while the rest of the Canadian fixed income landscape has been volatile. Closing September 30th, XBB, a good proxy for Canada's bond index, had a negative 1-year return of -1.69%. By comparison, Capstone's Fixed Income Pool returned 5.58% over the same period.

OUTLOOK & POSITIONS

In his speech on September 27th, Bank of Canada Governor, Stephen Poloz, indicated that future rate changes will be highly data dependent and they will be paying close attention to factors such as economic capacity, the impact of technology on inflation, wage growth and housing debt. The information gleaned in these areas will assist in painting a picture for how future inflation will play out and the monetary policy decisions to implement accordingly. Within the next quarter, the BoC will meet again on October 25th and December 6th to review the data and determine if further changes are necessary.

The Capstone Fixed Income Pool will continue to strive for stability and safety. By incorporating a dual strategy of traditional and non-traditional fixed income investments, the pool will seek to mitigate volatility caused by interest rate uncertainty.

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 September 30, 2017. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR	INCEPTION*
0.31%	1.27%	1.80%	4.47%	3.32%	3.37%

*Launched December 6, 2013