

CAPSTONE FIXED INCOME POOL

Q3 Commentary

CAPSTONE
ASSET MANAGEMENT™

AT A GLANCE

SEPTEMBER 30, 2021

- Blend of traditional and non-traditional fixed income strategies
- Globally diversified
- Weekly liquidity
- Low correlation to bond markets
- \$72 MM AUM
- Current price: 11.1928 (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. In the Spring of 2020, the Investment Committee de-risked the portfolio by decreasing its exposure to traditional bond markets while increasing exposure to non-traditional assets including private debt, infrastructure, and other alternative fixed income strategies. This has served the Pool very well as it has exceeded its year-to-date target at 4.02%. Also, the Pool's 1-year return was 7.08% versus the Canadian traditional bond market (represented by the iShares Core Canadian Universe Bond Index ETF) which actually lost 3.52%.

Our traditional bond exposure continues to be focused on the corporate sector – both investment grade and high yield – and, while it has been subject to some volatility, it remains in line with the ups and downs of the 10-year bond. We anticipate it is only a matter of time before the Federal Reserve begins to taper asset purchases in the market as they did in 2013. At that time, the announcement sent a shock wave through the market triggering a bond sell-off and sudden increase in yields, known as the Taper Tantrum. With this in mind, we remain defensive, keeping our durations short so this component of our portfolio will not dramatically sell-off as we witnessed in May 2013. We expect volatility in the traditional bond market to continue for the foreseeable future.

The non-traditional side of the portfolio has been key in bolstering returns over the past 18 months. We recently made an additional commitment to our partners acquiring farmland. The nature of this investment shifted quite dramatically from 2020 to 2021. Its asset allocation broadened significantly with moves to citrus, including lemons, as well as avocados and more varieties of nuts. While most are in California, some recent additions have included Chile and the Iberian Peninsula. So far, they have not been impacted by severe weather, fires, or flooding. Under consideration for future investments in the non-traditional arena: a real estate debt solution, an income-producing fund and a CMHC insured lending fund.

The Capstone Fixed Income Pool remains well positioned to take advantage of current and future opportunities in both the alternative and traditional fixed income markets. This investment is suitable for investors who are looking for a low risk, fixed income solution that can leverage its access to a large variety of opportunities to find the best value. This approach has provided Capstone's investors with excellent fixed income diversification as well as an attractive risk-adjusted return. Year to date, this portfolio has exceeded its target return and is on track for a solid performance in 2021.

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 September 30, 2021. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
0.32%	1.10%	2.52%	7.08%	5.81%	5.41%	4.85%

* Annualized as of first trade date November 1, 2013