

# CAPSTONE FIXED INCOME POOL

Q3 Commentary

CAPSTONE  
ASSET MANAGEMENT™

## AT A GLANCE

SEPTEMBER 30, 2022

- Blend of traditional and non-traditional fixed income strategies
- Globally diversified
- Weekly liquidity
- Low correlation to bond market
- \$78 MM AUM
- Current price: \$11.0838 (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. This active, intentional approach has helped to preserve capital. Year to date, the bond market in Canada (represented by XBB iShares Universal Bond Index ETF) is -12.09%, compared with the Pool's performance which returned 0.13% 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. To continue to mitigate interest rate risk on the traditional side of the portfolio, we will likely not bring this back into balance until rates stabilize.

So far this year, the Bank of Canada (BOC) has aggressively raised rates from 0.25% to 3.25% by September 30<sup>th</sup>. With employment and inflation continuing to run strong, the BOC is expected to continue raising rates through the end of this year. Most analysts expect interest rates to settle out between 3.75% & 4.25% by year-end. However, the factors most likely to influence the further activation of rate hikes include the strength of inflation, employment, and the access businesses have to capital financing. Once any of these three factors show weakness or instability, interest rate adjustments are likely to stabilize and possibly even come back down if the hikes have proven to have gone too far.

In efforts to reduce anticipated volatility due to interest rate hikes, back in 2020, we reduced the traditional bond exposure in this pool and opted to hold a more focused weighting of cash and private debt holdings. This allocation provided much greater stability compared with the overall bond market and we do not expect to increase the traditional bond allocation until interest rates stabilize. Any outstanding capital calls were met this past quarter and the portfolio is fully funded.

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



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
-0.38%	-0.63%	-0.12%	1.64%	5.18%	4.61%	4.48%

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