

CAPSTONE FIXED INCOME POOL

Q3 Commentary

CAPSTONE
ASSET MANAGEMENT™

AT A GLANCE

SEPTEMBER 30, 2023

- Blend of traditional and non-traditional fixed income strategies
- Globally diversified
- Weekly liquidity
- Low correlation to bond market
- \$57 MM AUM
- Current price: \$10.7556 (Series I)

MARKET & POOL UPDATE

The Capstone Fixed Income Pool is Capstone's only hybrid strategy as it selects investments from both traditional and non-traditional sources. Currently, this fund is intentionally overweight private debt versus traditional bonds. As interest rates and inflationary pressures stabilize, it is our intention to gradually shift the over-concentration in private debt to higher-yielding traditional bonds. This rebalancing will take some time due to the illiquidity of private debt assets, but this will be a focus for the rest of 2023 and likely into 2024.

Over the past quarter, the portfolio remained moderately stable in the face of significant price adjustments across the Canadian bond market. In fact, in response to a strong labor market and higher than expected inflation, the Bank of Canada raised interest rates by another 0.25% to an even 5% in July. This is the highest interest rate policy in Canada in over 20 years and there is a growing conviction that the North American economies will be subject to higher interest rates for longer. This change in expectation was the impetus for serious movement in the long end of the bond market and was particularly notable in September. For example, the yield on the benchmark Government of Canada 10-year bond climbed another 50 bps from 3.56% to 4.03%, marking the fifth monthly increase in a row. In many cases, bonds are now appearing more attractive than some dividend paying stocks and organizations facing maturing debt in the near-term are dealing with the prospect of significantly higher interest expenses and decreased earnings.

In both the public and the private debt space, interest rate hikes are causing additional stress to borrowers. As with our mortgage portfolios, Capstone's Investment Management team is critically evaluating all private debt positions to ensure they are still fairly valued considering a much more expensive debt market. This revaluation is usually obvious in the traditional bond space as prices will immediately fall when rates increase (and this has occurred in the traditional side of this fund), but if needed, these adjustments may take more time to flow into private debt positions.

While it is not possible to claim that interest rates have peaked, we believe that we are at least close to the top. Inflation and heated markets are notably cooling, and savings and bond rates are coming into an attractive range for investors. This means that when and as rates stabilize, we anticipate greater opportunities 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 September 30, 2023. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
0.13%	0.03%	0.78%	1.93%	3.52%	4.18%	4.22%

* Annualized as of first trade date November 1, 2013