CAPSTONE FIXED INCOME POOL

Q4 Commentary

CAPSTONE ASSET MANAGEMENT™

AT A GLANCE

DECEMBER 31, 2020

- Blend of traditional and non-traditional fixed income strategies
- Globally diversified
- Weekly liquidity
- Low correlation to bond markets
- $61 MM AUM
- Current price: $10.9820 (Series I)

MARKET & POOL UPDATE

In December, the Bank of Canada (BOC) not surprisingly kept its policy rate at 0.25%. The policy rate is how the BOC influences short-term interest rates as this overnight rate trickles down to consumers through loans and mortgages. Although the central bank has indicated that there is a certain amount of positive news about vaccine delivery, the virus will "contribute to a choppy trajectory until a vaccine is widely available." The central bank has also committed to "extraordinary monetary policy support" through its rock-bottom policy rates in tandem with the purchase of ~$4 billion of bonds each week. This intervention, also known as quantitative easing (QE), reduces the availability of product from the market which limits liquidity. As QE spreads more broadly into other parts of the market, like corporate bonds, it will influence the risk profile of the market as creating a "built-in buyer" can compress the credit spread between corporate bonds and government bonds. The level of debt which continues to accumulate is concerning as much of the debt has served to transfer wealth rather than act as the intended stimulus so brings little investment benefit for the economy. At this point, we do not see an immediate risk of inflation due to the rise in the Canadian dollar, likely delay in economic recovery during the vaccine rollout, high unemployment levels, and other factors. With the central bank remaining on the sidelines and continuing its bond buying, we expect a "lower for longer" interest rate environment.

The Capstone Fixed Income Pool is Capstone's only hybrid strategy, selecting investments from both traditional and non-traditional sources. The Pool was up 2.94% for the 4th quarter, its strongest quarter in 2020. As mentioned in our last quarterly commentary, the traditional side of the portfolio which suffered in March and April recovered strongly and even outperformed, especially our corporate bond and high yield strategies. Towards the end of the year we witnessed a significant compression of spreads which had ballooned earlier in the year and once the government stepped in, this tightened up again leading to outperformance by our high yield bonds.

On the Non-Traditional side of the portfolio, we similarly saw the strong recovery of our private debt position, which had experienced significant downside volatility earlier in the year. This particular strategy has trimmed its portfolio in terms of distressed assets with most holdings now asset backed either by accounts receivables, lender receivables, and/or equipment. The addition of private debt has been a positive one not only for its yield enhancement, but also its lower correlation to traditional bonds. This effectively reduces some of the portfolio risk while improving the consistency of the portfolio's performance.

We are pleased that the Capstone Fixed Income Pool has fallen in line with its target rate of return of 4%+, ending 2020 with a gross return of 5.44%.

PERFORMANCE (Gross of fees)

Performance figures are those of Series I units as of December 31, 2020. Performance is annualized for periods longer than one year.

1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
1.53%	2.94%	5.72%	5.44%	5.52%	5.32%	4.79%

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