

CAPSTONE FIXED INCOME POOL

Q4 Commentary

CAPSTONE
ASSET MANAGEMENT™

AT A GLANCE

DECEMBER 31, 2022

- Blend of traditional and non-traditional fixed income strategies
- Globally diversified
- Weekly liquidity
- Low correlation to bond market
- \$67 MM AUM
- Current price: 11.0847 (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 the ongoing increased risk in the traditional bond market, the Pool continues to be underweight traditional bonds and overweight private debt, infrastructure, and other alternative fixed income strategies. As of December 31, 2022, the bond market in Canada (represented by XBB iShares Universal Bond Index ETF) returned -11.67%, compared with our Pool which returned 0.13% over the same period. The contrast is, in part, a result of our Pool's underweight exposure to traditional bonds since the Spring of 2020 when interest rates dropped. Therefore, we will likely not bring this back into balance until rates stabilize.

The big story for 2022 was of course rising inflation and the rapid raising of interest rates around the world in response. In Canada, the Bank of Canada (BOC) interest rate rose 4% between March 1 to December 31st. Moving forward, the biggest impediment to further rate hikes will likely be recessionary signals, especially any rise in unemployment numbers. However, with both employment numbers and inflation remaining strong right through December, the BOC may still attempt to raise rates at least one more time through the winter and early spring of 2023. That said, there is still consensus amongst economists that rates will not remain this high for an extended period. You can see evidence of this expectation by looking at bond market activities: short-term bonds are consistently offering higher returns compared with longer term bonds (for those unfamiliar with the bond market, you can also see this evidenced within GIC products. As at the time of writing, the 1 year GIC rate is sitting around 5%, while the long term (5 year) GIC rate is closer to 4%).

While the fixed income space may continue to be a bit bumpy through this next quarter, if rates do move up again, we anticipate a stabilization part way through 2023. During this period, the Capstone Fixed Income Pool will be rebalanced to invest a greater portion in the higher yielding traditional bond space. This adjustment will improve the fund's liquidity profile while bringing it closer to its historical asset allocation which relied more heavily on the interest earned from traditional fixed income assets.

Then, when interest rates stabilize, we anticipate that there will be a greater opportunity for investors to achieve a competitive rate of return while accessing a balanced and diversified fixed income portfolio of both traditional and non-traditional investments. The Capstone Fixed Income Pool is suitable for those who are looking for a low to medium 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 December 31, 2022. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
0.04%	0.01%	-0.62%	0.13%	3.69%	4.44%	4.36%

* Annualized as of first trade date November 1, 2013