

AT A GLANCE

- Blend of traditional and non-traditional fixed income strategies
- Globally diversified
- Weekly liquidity
- Low correlation to bond market
- \$47 MM AUM
- Current price: \$10.4911 (Series I)

MARKET & POOL UPDATE

Interest rates appear to now be stabilizing, which has been a relief to borrowers. Canada's overnight rate sits at 5%, with the prime rate at 7.2%, and the 10-year government bond yield at just over 3%. After Canadian 10-Year Treasury yields peaked in October at just over 4.2%, public bonds rallied off the decline in yields fueled by optimism at the prospect of central banks (most notably the Federal Reserve) cutting rates in 2024. The Canadian 10-Year Treasury yield fell by 1.1% while XBB, the Canadian Universe Bond Total Return Index, rallied by 8.26% in the quarter. This brought the XBB to a total return of +6.61% for the year. The Pool benefited from its exposure to the public credit markets, with one of its investments in a strategic credit fund gaining 11.5% for the year as of November 2023.

Navigating private credit markets continues to be a challenge. Troubled assets, even within well-positioned portfolios, have had a significant drag on performance. The Capstone Fixed Income Pool is no exception with a write-down of just one major project dominating the performance of the portfolio. The Pool continues to look strategically at its positioning and has had turnover in key positions in the fourth quarter to reduce tail risks to the Pool. After a slow year with concerns over interest hikes and distressed office projects, investors in the real estate space are becoming more selective on projects, requiring stronger balance sheets and higher contingency from the borrower side. While developers were reluctant to start construction on-site and tend to hold the land to wait for land equity to build up when the market eases, value-add real estate projects are emerging from such market conditions. With the supply & demand imbalance in Canada, the residential market is performing well, and we benefitted through one of our real estate debt funds which gained close to 11% in 2023.

Now that the rate environment has calmed down, the bond market has become a much more attractive place to invest. After two calendar years in a row of negative returns, Canadian bonds were positive in 2023. The FTSE Universe Bond Total Return Index returned just over 6.5% last year after being down close to 12% in 2022. Fortunately, a few years ago, the Investment Management Team de-emphasized traditional bond strategies in favour of private credit strategies, thereby sidestepping much of the carnage that rising interest rates wrought on the traditional bond markets. Now that traditional bonds are looking more attractive, the Team recently reestablished a holding with a high confidence corporate bond manager, a position that we had previously exited in response to the rapidly changing rate environment. So far, this investment has performed well for the Pool. While the focus is less on private credit strategies, private credit is still a very important component of the Fixed Income Pool. The loans that these credit strategies have outstanding tend to be variable rate loans, so the interest received every month is largely dependent on how interest rates move. So long as rates don't decline rapidly from here, the average interest rate of these loans should be higher in 2024 than in 2023.

For more information on this Pool, please contact your Portfolio Manager.

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*
	0.90%	-2.46%	-2.43%	-0.58%	1.68%	3.47%	3.86%

*Annualized as of first trade date November 1, 2013

