

AT A GLANCE

- Construction and development mortgages in Canada
- Investing in the most secure portion of the debt stack; considered bank grade and traditionally provided by lending agencies such as Canadian banks, Trust companies and Credit Unions
- Terms are 3-36 months
- Low to no correlation to bond and equity markets
- Liquidity is accommodated twice per year (January and July) with 90 days' notice
- \$56 MM AUM
- Current price: \$101.9777 (Class F)

MARKET & FUND UPDATE

To say that things have changed for most Canadians in the last quarter is an understatement. The Ontario housing market appeared to be gearing up for a strong showing this spring, but listings and sales quickly dropped alongside quarantine restrictions as the COVID-19 pandemic progressed. While no one yet knows if the market will pick up where it left off or if recovery will take more time, Capstone is working hard to manage the risks in its portfolios and continues to monitor each position closely. We are pleased that the Capstone First Mortgage Fund continues to perform well in the current environment. Significant uncertainty arose when isolation provisions were put into place later in the quarter, but the inclusion of residential real estate development as an essential service meant that nearly all the projects were able to continue moving forward.

February's performance was lower than typical at 0.16%, as a significant cash position dragged on the return. The cash was allocated quickly and March saw a more typical month at 0.47% return. Additionally, both February and March included a higher than usual allocation to the long-term reserve that is maintained in preparation for any issues that may emerge as the pandemic unfolds. We continue to work closely with our Mortgage Administrator to carefully monitor individual projects to ensure they stay on track and any issues are addressed quickly. We have not received notice of intention to delay interest payments from any of our developers, or any notice of new issues with outstanding mortgages. By the end of the quarter, approximately 95% of the Fund's projects continue to operate even after increased restrictions. There are also no concerns at this time with the projects that have been halted. Delays of weeks, or even a few months, are not unusual in the world of construction mortgages – we can work with this.

Going forward, this Fund will continue to focus on securing quality first mortgage positions. As the Portfolio Manager, Capstone will look to reduce risk by increasing the collateral required for new loans. Although we are optimistic that the portfolio will continue its strong performance through 2020, it would be prudent for investors to plan for a return of less than the Fund's 5% target, since market uncertainty remains unusually high.

This 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 (Net of fees)

Performance figures are those of Class F units as of March 31, 2020. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	2 YR.	3 YR.	INCEPTION*
0.47%	1.11%	2.68%	5.75%	5.77%	5.70%	5.50%

* Annualized as of first trade date July 31, 2016