

# CAPSTONE FIRST MORTGAGE FUND

Q1 Commentary

CAPSTONE  
ASSET MANAGEMENT™

MARCH 31, 2021

## 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
- \$52 MM AUM
- Current price: \$102.5756 (Class F)

## MARKET & FUND UPDATE

The Capstone First Mortgage Fund LP generates interest income for investors by providing construction financing to reputable, Canadian developers who have quality projects, achievable business plans, and can provide solid returns with excellent security.

The real estate market during the start of this year was characterized by incredibly strong demand for properties, very low housing supply, and low borrowing rates. This recipe caused home sales to surge and by March 31st, average home prices in the GTA reached \$1.09M, which is a 22% increase since last year (although we should take this percentage increase casually as March 2020 data may be skewed by the start of the COVID-19 outbreak). Suburban properties with more space – such as townhomes and detached or semi-detached homes - have grown the fastest, with condos barely seeing any change in price. The volume of sales has also skyrocketed as buyers seek to lockdown homes before mortgage rates increase.

Over the first quarter of this year, performance for the Capstone First Mortgage Fund came in at 1.74% (gross), which is just above its historical quarterly return of 1.64%. While lockdown measures have again tightened over the past months due to rising cases of COVID-19, the residential construction business in Ontario continues to move forward as an essential service. However, while the housing market is red hot, a socially distanced or remote environment for some parts of the construction cycle does not play well into projects meeting their timelines. It is becoming more common to see longer delays at various stages such as permits, inspections and crews learning to operate under new health regulations. That said, the projects in this portfolio are the lowest risk in the debt stack and Capstone sees much opportunity for private lending of this nature which has been providing investors with excellent risk adjusted returns.

Despite the increased risks posed by the pandemic and periodic lockdowns in Ontario, this portfolio continues to exceed its target of 5%. However, we continue to operate cautiously, and as changing situations become clear, allowances that reflect reality are set aside to ensure that the portfolio is fairly valued from month to month.

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, 2021. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	2 YR.	3 YR.	4 YR.	INCEPTION*
0.55%	1.50%	3.10%	6.01%	5.88%	5.85%	5.77%	5.61%

\* Annualized as of first trade date July 31, 2016