

CAPSTONE FIRST MORTGAGE FUND

Q1 Commentary

CAPSTONE
ASSET MANAGEMENT™

AT A GLANCE

MARCH 31, 2022

- 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 to 36 months
- Low to no correlation to bond and equity markets
- Liquidity is accommodated twice per year (January and July) with 90 days' notice
- \$43 MM AUM
- Current price: 103.7434 (Class O)

MARKET & FUND UPDATE

The Capstone First Mortgage Fund generates interest income for investors by providing construction financing to reputable Canadian developers known for quality projects and providing achievable business plans. The mortgages are currently all secured on properties located in the province of Ontario and, more specifically, concentrated in the Greater Toronto Area (GTA).

The Canadian real estate market overall continues to be characterized by strong demand, very low housing supply, and low borrowing rates. However, over this past quarter we finally saw movement in the interest rate environment as the Bank of Canada (BOC) increased its overnight rate to 0.50%. The big banks quickly followed suit by adjusting their prime lending rate from 2.45% to 2.70%. At the time of this commentary's writing, the BOC had increased rates again - in early April to 1% - and the bank prime lending rate increased to 3.20%. With Canadian inflation reaching 6.7% in March, all expectations are for aggressive interest rate hikes at the next BOC meeting scheduled for June 1st, and further hikes at the four meetings thereafter. It would be no surprise if the BOC rate ends up at 2.5%, or even higher, by the end of 2022.

While historic low borrowing rates over the past couple of years have accelerated the rapid growth of home prices right across the country, the interest rate adjustments helped to calm housing activity in March, and it may be that the home sales and sky-high prices peaked in February 2022. According to the Canadian Real Estate Association, March 2022 saw a 5.4% decrease in sales compared with February, and a 16.3% decrease compared to the previous year's record high sales in March 2021. However, more time is needed to determine if this decline is establishing a trend or just a short-term adjustment.

Higher interest rates and additional changes in fiscal policy may be what Canada needs to bring the market back into balance. However, it is our opinion that until the housing supply shortage is tackled, the affordability and accessibility challenges will not be properly addressed. That said, new construction development projects abound and the pipeline for this mortgage portfolio remains robust. Additionally, there is ever increasing pressure from municipalities and provinces alike to collaborate on improving the approval process and associated timelines to counteract the stark reality of real estate shortages in their regions.

While delays within real estate construction have certainly decreased since their mid-2020 peak, we still expect some level of disruption to into this year. That said, the quality of mortgages in this portfolio remains high as we continue to apply stringent criteria to ensure excellent security. Over the past 12 months, this portfolio achieved a return of 7.03% which is above the long-term target return of 6%.

If you would like to find out more about this Fund, please talk to your Portfolio Manager.

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

Performance figures are those of Class O units as of March 31, 2022. Performance is annualized for periods longer than one year. Class O units do not include Management Fees or Administration Fees.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
0.80%	1.88%	3.38%	7.03%	6.94%	6.83%	6.64%

* Annualized as of first trade date July 31, 2016