

### 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 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
- \$69 MM AUM
- Current price: \$105.5728 (Class O)

### MARKET & FUND UPDATE

The Capstone First Mortgage Fund LP generates interest income for investors by providing construction financing to reputable, Canadian developers known for quality projects and providing achievable business plans, resulting in solid returns with excellent security. The mortgages are currently all secured on properties located in the province of Ontario and, more specifically, concentrated in the Greater Toronto Area (GTA). Over the past quarter, the Capstone First Mortgage Fund (Series O) returned 2.30% representing another quarter at above historical averages. This portfolio continues to benefit from the higher interest rate environment and stability provided by low leverage, exceptionally secure advances. The average loan to value ratio across this portfolio is currently 0.46.

This portfolio continues to produce stable returns in an asset class that is demonstrating record demand levels fuelled by unprecedented population growth. Short-term concerns such as rising construction and interest costs combined with limited bank appetite for any level of risk has pushed down national housing starts from 2021's 271,000 to 2023's 240,000 – a level that is expected to be repeated in 2024. This pullback is further widening the undersupply and affordability issue that has plagued the Canadian real estate market for the past decade. CMHC estimates that in Ontario alone, there will be a shortage of 1.48 million housing units by 2030 if construction continues at its current pace. That said, improving housing affordability has become a political mainstay in Canada and there are several new policies aimed at boosting supply. For example, Ontario's removal of HST from new rental construction projects and recent federal announcements are helping developers move more projects towards feasibility.

Published predictions for interest rates widely anticipate rate cuts to come at some point in 2024. While the quantum and timing of any interest rate change remains unknown, this is a marked improvement over this time last year when rate increases, and the relative instability this injected into development timelines, were still a material factor for lenders and borrowers. This uncertainty translated into a pull-back of bank capital in the development space, creating increased opportunity for alternative lenders such as the Capstone First Mortgage Fund LP.

In summary, the long-term demand for housing in Canada remains robust and real estate market conditions have stabilized. Political and economic factors, combined with the capital gap left by the banks, translate into continued lending opportunities for the Capstone First Mortgage Fund. With a loan to value ratio at 0.46 and a 1 Year return of 9.41%, this fund's risk-reward relationship is attractive. This portfolio continues to be a strong income producing investment and is an excellent addition to a diversified portfolio.

### PERFORMANCE (Gross of Fees)

Performance figures are those of Class O units as of March 31, 2024. Performance is annualized for periods longer than one year.

	1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
	0.59 %	2.30%	4.85%	9.41%	8.41%	7.80%	7.27%

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

