

# CAPSTONE FIRST MORTGAGE FUND

## Q2 Commentary

CAPSTONE  
ASSET MANAGEMENT™

JUNE 30, 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 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
- \$53 MM AUM
- Current price: 102.7339 (Class F)

### 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. Therefore, it can provide solid returns with excellent security.

Ontario's Greater Toronto Area (GTA) real estate market has, through the first half of 2021, been characterized by strong demand for properties, very low housing supply, and low borrowing rates. Prices rose quickly through the first quarter and then price volatility flattened through the second. The volume of sales took a similar path and home sales skyrocketed earlier in the year as buyers sought to lock down homes before mortgage rates increased. This pace has calmed somewhat in recent months. Another noteworthy occurrence was the CMHC reversing stringent standards it had implemented last year, even as the mortgage stress test rate for both uninsured and insured borrowers was raised from 4.79% to 5.25%. The latter was intended to ensure that mortgages remain suitable for those who are financially vulnerable to interest rate increases, however, it will also impact affordability for marginal buyers. Nevertheless, 2021 has seen a robust real estate market in the GTA and it seems unlikely to weaken any time soon.

While the demand for quality, affordable homes has remained high, compared to historical norms, mortgage market opportunities this year have not yet matched the pace to which we are accustomed. Although the availability of new opportunities remains strong, at Capstone we are proceeding with caution, and we are willing to walk away from projects that fall short of our established criteria. We believe this conservative approach will safeguard the risk profile of this portfolio and benefit investors in the long run.

Over the second quarter of this year, performance for the Capstone First Mortgage Fund Class F was 1.55%, which is slightly above its historical average. In fact, performance for the past 12 months has been above the Fund's 5% target at 6.19%. This increased yield was the result of some shorter-term opportunities in which the Fund participated in over this period. This portfolio remains on track to return within a projected range of 5% to 6% in 2021.

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 (Net of Fees)

Performance figures are those of Class F units as of June 30, 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*
0.48%	1.55%	3.07%	6.19%	5.91%	5.90%	5.84%	5.65%

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