

# CAPSTONE FIRST MORTGAGE FUND

Q2 Commentary

CAPSTONE  
ASSET MANAGEMENT™

## AT A GLANCE

JUNE 30, 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
- \$50 MM AUM
- Current price: 103.9234 (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).

Between March 31<sup>st</sup> and June 30<sup>th</sup> of this year the Capstone First Mortgage Fund (Class O) returned 1.74% to investors which is slightly above its historical annual average of 6.66%. During this same period, the real estate market in Canada began to soften in response to rising interest rates. At the end of June, home prices had dropped 1.9% compared to May, but it is worth noting that prices are still 14.89% higher than June of last year. Additionally, while sales activity dropped 23.9% since the all-time high of June 2021, the sales volume during this quarter is still on trend with pre-2020 levels. Therefore, while the real estate market is certainly slowing compared to the past year, we need to keep in mind the massive increase in home sales and prices that was experienced from June 2020 to present. These unprecedented increases are unsustainable and, while the rapid interest rate increases may cause a bit of a bumpy road at first, they will also more than likely bring the market back into a much healthier balance.

During the past few years, the real estate construction industry has been afflicted with delays and significant inflationary pressures on both input costs and home prices. As a result, the team at Capstone has increased their due diligence protocols and taken a more conservative approach in evaluating mortgage opportunities in general. This fund continues to hold high quality mortgages with excellent security. Additionally, these mortgages contain variable interest rate components and, considering the rising rate environment, we are anticipating this will bear positively on investor returns in the long run. This Fund is currently projecting a 6 to 7% annual return which may trend up if interest rates stay higher.

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 (Gross of Fees)

Performance figures are those of Class O units as of June 30, 2022. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
0.56%	1.74%	3.65%	6.98%	6.94%	6.87%	6.66%

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