CAPSTONE FIRST MORTGAGE FUND

Q3 Commentary

CAPSTONE
ASSET MANAGEMENT™

SEPTEMBER 30, 2020

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
- $54 MM AUM
- Current price: $102.2623 (Class F)

MARKET & FUND UPDATE

The Capstone First Mortgage Fund 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. This portfolio is entirely located in the province of Ontario, with a concentration in the GTA. It invests in the most secure portion of the debt stack. Over the past few years this Fund has extended a greater focus on financing projects that hold characteristics that are in high demand – such as housing projects in the suburbs (vs. downtown Toronto), those targeting middle income families, and those with convenient transportation infrastructure nearby. Throughout 2020, this focus has served Capstone's investors well as people throughout the world, including Ontario, are shifting away from living in dense downtown cores to suburban neighborhoods. Overall, the housing market in the GTA remains strong and demand is high for quality, affordable homes. This Fund is well positioned to take advantage of opportunities as they present themselves.

Over the past few quarters, the financial impacts of the COVID-19 pandemic have reverberated throughout the Canadian economy. The housing market has remained somewhat isolated from these effects due in part to the extremely low interest rate environment. The Bank of Canada is likely to keep rates low well into 2021 to ensure economic stimulus where needed, but they are still watching the housing industry very closely to ensure it does not get overheated and that household debt levels are manageable. Should things begin to get out of hand, they still have additional macroprudential tools available to cool things off. This includes adjustments to financial rules or regulations that would address particular vulnerabilities in the market to avoid broader financial system risks. A good example is the stress test that could be even further adjusted to ensure borrowers can manage their mortgage payments if interest rates were to go up.

Capstone continues to monitor all projects closely and is pleased to report that this portfolio remains healthy. While it is true that delays in permits, financing and occupancy due to COVID-19 are becoming more common, this portfolio is not expected to have any significant impacts by this trend. Over the past quarter, this Fund has generated a typical return and we expect the close of 2020 to be near its historical average of 5.5%. This portfolio is very well positioned to take advantage of opportunities in the marketplace, and as the Portfolio Manager, we at Capstone are applying prudence and caution to ensure excellent monitoring of current positions and thorough due diligence of new opportunities.

PERFORMANCE (Net of fees)

Performance figures are those of Class F units as of September 30, 2020. Performance is annualized for periods longer than one year.

1 MO.	*3 MO.*	*6 MO.*	*1 YR.*	*2 YR.*	*3 YR.*	*4 YR.*	*INCEPTION**
0.49%	1.43%	2.82%	5.57%	5.74%	5.74%	5.61%	5.52%

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