CAPSTONE FIRST MORTGAGE FUND

Q4 Commentary

CAPSTONE
ASSET MANAGEMENT™

AT A GLANCE

DECEMBER 31, 2020

- 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
- $57 MM AUM
- Current price: $102.4228 (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. In 2020 the Fund continued its focus on construction projects characterized by high demand – such as housing projects in the suburbs (vs. downtown Toronto), those targeting middle income families, and those with convenient transportation infrastructure nearby. This focus has served Capstone's investors well as people in many centres around the world, including Ontario, shift away from living in dense downtown cores to suburban neighborhoods. Overall, the housing market in the GTA was strong throughout 2020 and demand remained high for quality, affordable homes. Further supporting this trend has been the incredibly low interest rate environment in Canada, and all indicators suggest that low rates will be our reality for longer as COVID-19's economic impacts continue into 2021.

Performance for the Capstone First Mortgage Fund ended the year at 5.60% (net). This is slightly above its target of 5%. Performance was consistent, for most of 2020, although February did see a reduced distribution due to a higher-than-normal cash position. Additionally, as we went into the spring and the implications of the pandemic were becoming known, this portfolio allocated additional funds towards the bad debt reserve. Allocations to the bad debt reserve are a defensive move, derived from a formulaic methodology provided by our auditors. They are designed to protect the capital of the portfolio from increased risks at an individual asset and systemic level, and the amount of the allocation is determined each month by many factors including the maturity of mortgages (with a corresponding reduction in reserve) and the addition of new mortgages (requiring an increased reserve).

The projects this portfolio invests in are the lowest risk in the debt stack. Despite the increased risks posed by the pandemic and periodic lockdowns in Ontario, this portfolio continues to exceed its target of 5%. However, we continue to operate cautiously, and as changing situations become clear, allowances that reflect reality are set aside to ensure that the portfolio is fairly valued from month to month.

PERFORMANCE (Net of fees)

Performance figures are those of Class F units as of December 31, 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**
0.54%	1.58%	3.03%	5.60%	5.82%	5.82%	5.69%	5.57%

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