CAPSTONE FIRST MORTGAGE FUND

Q4 Commentary

CAPSTONE
ASSET MANAGEMENT™

AT A GLANCE

DECEMBER 31, 2021

- 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
- $42 MM AUM
- Current price: 103.5501 (Class O)

MARKET & FUND UPDATE

The Capstone First Mortgage Fund generates interest income for investors by providing construction financing to reputable Canadian developers known for quality projects and providing achievable business plans. The mortgages are currently all secured on properties located in the province of Ontario and, more specifically, concentrated in the Greater Toronto Area (GTA). For the year ending 2021, this portfolio achieved a return (Class O) of 6.89% with excellent security.

The Canadian real estate market throughout 2021 was characterized by strong demand for real estate, very low housing supply, and low borrowing rates. Sales increased rapidly over the year and broke records by over 20%. By December 2021, the Canadian Real Estate Association reported inventory at a record low of 1.6 months versus the long-term average of slightly more than 5 months. Nationally, housing prices also increased at a rapid rate of 26.6% since December 2020 (per the non-adjusted seasonally Aggregate Composite MLS® Home Price Index). Specifically in Ontario, home price increases - led by the GTA - increased at the above average rate of 30%.

Looking ahead into 2022, we expect to see many of the same trends play out - particularly high demand and low supply. One of the greatest accelerants to home sales and price increases in 2021 was the low borrowing rates. We expect to see these factors continue to encourage sales through the busy spring season of 2022 as buyers move quickly to snap up available properties before interest rates increase. While we do expect the interest rates to increase early in 2022 as a response to inflationary pressures, we do not anticipate any significant cooling of housing demand until the supply side of the equation has been addressed more thoroughly. In addition, while housing starts were strong at the end of 2021, they have a lot of ground to make up to address the unmet demand that is fueling market activity.

While delays within real estate construction have certainly decreased since their mid-2020 peak, we still expect some level of disruption to continue into 2022. That said, the quality of mortgages in this portfolio remains high as we continue to apply stringent criteria to ensure excellent security. This past year's performance exceeded the long-term average of 6.58%, which is also above the long-term target return of 6%.

If you would like to find out more about this Fund, please talk to your Portfolio Manager.

PERFORMANCE

Performance figures are those of Class O units as of December 31, 2021. Performance is annualized for periods longer than one year. Class O units do not include Management Fees or Administration Fees.

1 MO.	*3 MO.*	*6 MO.*	*1 YR.*	*3 YR.*	*5 YR.*	*INCEPTION**
0.39%	1.48%	3.21%	6.89%	6.85%	6.72%	6.58%

** First trade date: July 31, 2016*