

CAPSTONE MORTGAGE OPPORTUNITIES FUND

Q1 Commentary

CAPSTONE
ASSET MANAGEMENT™

MARCH 31, 2021

AT A GLANCE

- Construction and development mortgages in Canada
- Diversified by developer and development type
- 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
- \$102 MM AUM
- Current price: \$103.1318 (Class F)

MARKET & FUND UPDATE

The Capstone Mortgage Opportunities 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 and more specifically concentrated in the GTA.

The real estate market during the start of this year was characterized by incredibly strong demand for properties, very low housing supply, and low borrowing rates. This recipe caused home sales to surge and by March 31st, average home prices in the GTA reached \$1.09M, which is a 22% increase since last year (although we should take this percentage increase casually as March 2020 data may be skewed by the start of the COVID-19 outbreak). Suburban properties with more space – such as townhomes and detached or semi-detached homes have grown the fastest, with condos barely seeing any change in price. The volume of sales has also skyrocketed as buyers seek to lockdown homes before mortgage rates increase.

Over the first quarter of this year, performance for the Capstone Mortgage Opportunities Fund came in at 2.33% (gross), which is right on its historical average quarterly return. While lockdown measures have again tightened over the past months due to rising cases of COVID-19, the residential construction business in Ontario continues to move forward as an essential service. However, while the housing market is red hot, a socially distanced or remote environment for some parts of the construction cycle does not play well into projects meeting their timelines. It is becoming more common to see longer delays at various stages such as permits, inspections and crews learning to operate under new health regulations. As a result, the cash position in the Mortgage Opportunities Fund has been higher than typical because new projects are taking longer to execute, while maturing projects are going into extensions.

As Portfolio Managers, Capstone continues to operate cautiously and we are willing to give up a bit of yield for better security in the project to prevent stretching the risk profile of the fund. Furthermore, as changing situations become clearer, allowances are set aside to ensure that the portfolio is fairly valued from month to month. If the market continues as it has been, the portfolio remains on track for an 8-9% (gross) projected return for 2021.

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 March 31, 2021. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
0.77%	2.08%	3.67%	7.33%	8.21%	7.88%	8.23%

* Annualized as of first trade date July 15, 2014