

AT A GLANCE

SEPTEMBER 30, 2021

- Construction and development mortgages in Canada
- Diversified by developer and development type
- 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
- \$97 MM AUM
- Current price: 103.5084 (Class F)

MARKET & FUND UPDATE

The Capstone Mortgage Opportunities Fund LP generates interest income for investors by providing construction financing to reputable Canadian developers known for quality projects and providing achievable business plans. Therefore, it can deliver solid returns with excellent security. This portfolio is entirely located in the province of Ontario and, specifically, concentrated in the Greater Toronto Area. The real estate market so far in 2021 has been characterized by strong demand for properties, an undersupply issue and low interest rates which will likely remain low relative to historical levels. Given the backdrop of increased immigration as a government mandate, and an economy still heavily supported by our government, this strong housing demand seems unlikely to change in the near term. Between June 30 and September 30 of this year the Capstone Mortgage Opportunities Fund Class F returned 1.84% to investors.

As Ontario's lockdown measures have eased, mortgages that had gone into extension due to COVID-19 related delays are now able to mature. The Fund simultaneously contained several mortgages due to mature as well as net inflows. These coinciding events resulted in a higher than usual cash position as of September 30. However, as more projects pass through our Investment Management Team's due diligence, this cash will be lent out to developers. Over the past two years, we have de-risked the portfolio by taking on a greater number of first position mortgages. While these yield a return slightly lower than our traditional mezzanine financing, they also provide enhanced security.

Clients often ask about the implications of an eventual rise in interest rates. In such a context, our terms of lending would incorporate similar increased rates just as those of our competitors would. Our credit risk models would also be conservatively adjusted to ensure adequate provisions for bad debt, whether due to the perceived higher risk or the uncertainty caused by higher interest rates. That said, we expect that any interest rate rise is likely to be gradual enough for all participants of the market to adjust, without causing marked volatility in the capital or real estate markets. After all, stability of the markets is a mandate for central banks, and a precedent has been set during the COVID-19 pandemic with respect to how they would facilitate liquidity and generally provide support to decrease the impact of such a rise.

Based on this, real estate remains an essential asset class that protects against inflation as well as a rise in interest rates triggered by inflation. By investing in Capstone's mortgage funds, our clients gain exposure on the debt financing side of the real estate sector which offers attractive returns while enjoying the protection of the equity cushion in the project.

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

This document 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 September 30, 2021. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
0.67%	1.84%	3.70%	7.51%	8.13%	7.71%	8.18%

* Annualized as of first trade date July 15, 2014