

# CAPSTONE MORTGAGE OPPORTUNITIES FUND

Q4 Commentary

CAPSTONE  
ASSET MANAGEMENT™

## AT A GLANCE

DECEMBER 31, 2020

- 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
- \$110 MM AUM
- Current price: \$102.9193 (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. 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 major 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 Mortgage Opportunities Fund ended the year at 7.77% (net). This is slightly below its average since inception of 8.21%, but not all that surprising given the economic uncertainties surrounding the pandemic. Performances for April and December were impacted by increases to the bad debt reserve, based on the assessment of the current projects in the portfolio. 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). While it is true that COVID-19 is being blamed for many things these days, the lockdown measures in Ontario are directly relevant to the real estate development markets there and the corresponding increase in risk needed to be reflected in this allowance.

While most projects remained operational despite the COVID-19 lockdowns, the portfolio was not exempt from the general turmoil that impacted the market. Delays at various stages such as permits, inspections and learning to operate under new health regulations were unavoidable, and some of these necessitated loan extensions. Going into 2021, 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. If the market continues as it has been, the portfolio is projected to remain on track for a 7-8% (net) 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 December 31, 2020. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
0.24%	1.56%	3.42%	7.77%	7.30%	7.91%	8.21%

\* Annualized as of first trade date July 15, 2014