

CAPSTONE MORTGAGE POOL

Q4 Commentary

CAPSTONE
ASSET MANAGEMENT™

DECEMBER 31, 2018

AT A GLANCE

- Construction and development mortgages in Canada
- Diversified by developer and development type (high density residential, retail space, etc.)
- Terms are 3-36 months
- Low to no correlation to bond and equity markets
- Liquidity is accommodated monthly with 30 days' notice
- \$128MM AUM

MARKET & POOL UPDATE

On the Canadian housing front, the activity seen in 2018 was not much of a surprise, as the market was already shifting to a slower pace at the end of 2017. We expected rising interest rates and were aware of the implementation of stricter borrowing regulations, all of which resulted in a slowing of home sales and price increases compared to previous years. In our opinion, the current market trends are healthier than we have seen for a while, but we are closely watching unemployment rates in various regions as these can be early indicators of housing market strength or vulnerability.

As a response to an anticipated softening in the housing market, the pool focused on bolstering the quality of the portfolio during the first part of the year and, consequently, sacrificed some yield to achieve this. As the year progressed, new projects were more in line with the higher yields typical for this investment. Throughout 2018, the Capstone Mortgage Pool experienced full maturities for mortgages relating to 13 projects and the pool extended financing to 6 brand new projects. By the end of the year, the pool was funding 43 projects for 27 developers.

The Capstone Mortgage Pool returned 5.04% for 2018, which is lower than its historical average of 7.96%. As outlined for investors earlier in the year, the primary culprit for this disparity was the -1.88% return in January 2018, which was due to a write down on 3 projects. These are still currently in work-out and Capstone's Investment Committee expects to write up portions of the losses as resolutions are implemented.

Going into 2019, the Investment Committee will continue to work hard to choose solid investments and further diversify the pool. We are pleased with the current allocation of projects in this fund and believe it has a solid foundation to achieve its long-term average return target of 8%.

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, 2018. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
0.62%	1.80%	3.81%	5.04%	6.98%	7.85%	7.96%

*Launched November 30, 2012