CAPSTONE MORTGAGE POOL

Q2 Commentary

CAPSTONE ASSET MANAGEMENT™

JUNE 30, 2020

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 monthly with 30 days' notice
- $140 MM AUM
- Current price: $9.9250 (Class F)

MARKET & POOL UPDATE

It goes without saying that the first half of 2020 has been unprecedented for most Canadians. In our last commentary, we discussed the uncertainty surrounding the impact of COVID-19 on the housing market in Ontario. Now that we're further along, we are starting to see how the market is responding. While listings and sales dropped at the beginning of the quarter, Stage 2 of Ontario's re-opening plan has seen a surprising rebound in volume and a reassuring stabilization in prices, with some regions even seeing increases. These observations in Ontario are specific to the GTA and are in pretty stark contrast to the CMHC reports that warn of a significant housing correction in Canada. However, it is important to remember that these types of reports from CMHC are national so include Alberta and the Prairie provinces which are still reeling from the oil crisis.

While we have seen prices in the GTA stabilize and volume of projects pick up, we are also anticipating unique opportunities for funds such as the Capstone Mortgage Pool. As we saw after 2008, banks have, and will likely continue, to tighten their credit facilities. When this happens, the quality and quantity of borrowers seeking funds from private lenders, such as Capstone, improves. Over the past few months, many private lending funds have resorted to restricting redemptions to manage cashflow (since mortgages are not easily liquidated) and consequently are not able to extend additional credit until their redemption situation is resolved. The Capstone Mortgage Pool is strongly positioned to take advantage of the current situation and we continue to work hard for our investors to ensure the risk profile remains suitable and the return stable.

As we move through the summer months, speculation about a second wave of COVID-19 remains, as well as concerns over the current unemployment rate. Government subsidies appear to have filled some gaps in the short-term, but the long-term implications remain unknown. Despite these considerations, we have no concerns about our ongoing projects, as interest payments have continued uninterrupted and we have not seen any new problems within the portfolio. That said, if the economic outlook takes a turn for the worse, investors should expect a smaller distribution than typical, as Capstone would be required to allocate additional amounts to the reserve fund. While this may generate income slightly below the rates we are familiar with, we are optimistic that the portfolio will continue its strong performance through 2020 and will be in a position to take advantage of good opportunities in the months ahead.

PERFORMANCE (Net of fees)

Performance figures are those of Class F units as of June 30, 2020. Performance is annualized for periods longer than one year.

1 MO.	*3 MO.*	*6 MO.*	*1 YR.*	*3 YR.*	*5 YR.*	*INCEPTION**
0.60%	1.86%	3.64%	8.83%	7.27%	7.69%	8.08%

** Annualized as of first trade date November 30, 2012*