CAPSTONE MORTGAGE POOL

Q1 Commentary

CAPSTONE ASSET MANAGEMENT™

MARCH 31, 2018

AT A GLANCE

- Construction & 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
- $118 MM AUM

MARKET & POOL UPDATE

Media headlines over this past quarter have focused on the slowdown in the Ontario housing market. However, it is important to note that record property valuations from last Spring are being used in the comparison. After an incredible spring run-up in 2017, we saw a weaker 2nd half of the year and in a lot of ways, a further stabilization of prices in the beginning of 2018. Construction remains strong in Ontario and it is our opinion that the market was over heated earlier last year. The recent slowdown is likely a necessary and healthy pullback and is not surprising considering the many policy changes introduced by various levels of government.

On the Provincial side, Ontario saw the introduction of 16 new housing policies last April, and later in the year, the federal government introduced stiffer financing measures requiring borrowers with down payments of 20% or more to meet new stress testing measures. These, combined with interest rate increases, have caused buyers to show more caution as they observe how the market will embrace and absorb the changes.

OUTLOOK & POSITIONING

The market is ultimately driven by fundamentals and at this point, we have not seen anything to indicate weakness in Ontario's housing sector. Our mortgage portfolio remains strong, and we have not seen any pressure around projects originated within the last 18-24 months. Furthermore, the GTA remains the hub of migration into the region, and the supply of new real estate still appears to be short. However, this does not mean we are not watching things closely. With both the legislated increase in minimum wage and the possible renegotiation of NAFTA, we could see some impact to Ontario's labor market which would likely bleed into the housing sector. For this reason, we continue to diversify the mortgage portfolio by location, developer and project type to help mitigate risks.

PERFORMANCE (Net of fees)

Performance figures are those of Class F units as of March 31, 2018. Performance is annualized for periods longer than one year.

1 MO.	*3 MO.*	*6 MO.*	*1 YR.*	*3 YR.*	*5 YR.*	*INCEPTION**
0.60%	1.84%	3.82%	7.84%	8.22%	8.59%	8.50%

**Launched November 30, 2012*