

CAPSTONE MORTGAGE POOL

Q1 Commentary

CAPSTONE
ASSET MANAGEMENT™

MARCH 31, 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
- \$153 MM AUM
- Current price: \$9.9158 (Class F)

MARKET & POOL UPDATE

To say that things have changed for most Canadians in the last quarter is an understatement. The Ontario housing market appeared to be gearing up for a strong showing this spring, but listings and sales quickly dropped alongside quarantine restrictions as the COVID-19 pandemic progressed. While no one yet knows if the market will pick up where it left off or it will take more time to recover, Capstone is working hard to manage the risks in its portfolios and continues to monitor each position closely. We are pleased that the Capstone Mortgage Pool has continued to perform well in the current environment. Significant uncertainty arose when isolation provisions were put into place later in the quarter, but the inclusion of some residential real estate development as an essential service meant most projects were able to continue moving forward.

February's distribution was lower than normal, but this was intentional as we added to the Pool's internal reserves in preparation for issues that might emerge as the pandemic unfolds. We continue to work closely with our Mortgage Administrator to carefully monitor individual projects, ensuring they stay on track and any issues are addressed quickly. We have not received notice of intention to delay interest payments from any of our developers, or any notice of new issues with outstanding mortgages. By the end of the quarter, approximately 90% of the Pool's projects continue to be allowed to operate even after increased restrictions. There are also no concerns at this time with the projects that have been halted. Delays of weeks, or even a few months, are not unusual in the world of construction mortgages – we can work with this.

While we allocated additional amounts in March to the reserve fund, the Pool still experienced a monthly return of 0.67% net of fees, which is quite typical. Going forward, Capstone is focused toward funding first mortgage positions to reduce risk. While this may generate income slightly below the interest rates we are familiar with, we believe the reduction of risk is prudent at this time. Although we are optimistic that the portfolio will continue its strong performance through 2020, it would be wise for investors to plan for a return of less than the Pool's 8% target, until greater certainty returns to the market.

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 March 31, 2020. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
0.67%	1.74%	4.85%	8.97%	7.29%	7.73%	8.09%

* Annualized as of first trade date November 30, 2012