

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
- \$123 MM AUM

MARKET & POOL UPDATE

Towards the end of this past quarter we have slowly seen a stabilization in the Ontario housing market after a slowdown during the first part of 2018. As discussed previously, new mortgage financing rules combined with the implementation of various provincial housing regulations have sought to cool overheated markets. Combined with interest rate increases, buyers have shown more caution as they observe how the market will absorb the changes.

While the housing market slowdown has stabilized, the Capstone Mortgage Pool's portfolio remains strong and no new pressures on projects have originated. The 2017 financial audit by the fund's new auditor, PWC, was completed this past quarter. PWC took a more interpretive approach to the risk profile and valuations of the mortgages, compared with the previous auditor. Combining this view with updated international financial reporting standards, they recommended a write down on the value of three mortgages. To maintain a conservative approach, Capstone agreed with this recommendation and the resultant price adjustment was implemented on April 30, 2018. The pool retroactively experienced a -1.88% performance for January 2018, while interest distributions have remained average. The result of this decrease in performance earlier in the year has caused the 1-year performance to drop the annual average of 8% to 5.15% (to June 30).

In spite of the write-downs to three project valuations, and the subsequent drop in price to the overall fund, there is still the possibility of recovering this amount because these are not yet completed. If these projects experience a better resolution than the auditors expect, then the price of the fund will increase to recover the corresponding amount that was written down.

Obviously, the price decline implemented this past quarter took many investors by surprise, but we seek to remind them that like most investments, this fund too holds no guarantees and is subject to various risks. Capstone works hard to choose solid investments and to diversify the fund in many different ways to mitigate many of these risks; however, not everything can be foreseen and losses are still possible. Investors should ensure their portfolios are appropriately diversified and hold this investment with an objective perspective, while evaluating its risk profile appropriately. It is worth noting that this has been the first decline in price since the pool's inception six years ago. Also, Capstone expects the performance for the remainder of 2018 to fall in line with its long term average.

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 June 30, 2018. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
0.59%	1.87%	1.18%	5.15%	7.25%	7.96%	7.98%

*Launched November 30, 2012