

# CAPSTONE MORTGAGE POOL

Q3 Commentary

CAPSTONE  
ASSET MANAGEMENT™

SEPTEMBER 30, 2017

## 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
- \$108 MM AUM

## MARKET & POOL UPDATE

This past quarter was characterized by the Bank of Canada (BoC) raising interest rates twice, to settle at 1%. However, unlike many other mortgage or real estate investment options, the Capstone Mortgage Pool's yield has been fairly insulated against domestic interest rate changes. In fact, interest rates relating to construction lending are far more influenced by the quality of the project itself and its underlying factors as well as the completion of permit and zoning requirements. Many developers are now asking for a 20% deposit instead of 5-10% for new builds. These factors provide greater project security and influence the rate that a developer is charged on its loans.

Over time, residential rate changes can affect overall real estate sales volumes, but it is also true that in a healthy economy, interest rate affordability issues may be offset by rising wages. For these reasons, BoC decisions to raise or lower rates are not directly correlated with the Capstone Mortgage Pool yields.

## OUTLOOK & POSITIONING

As we move into the last quarter of 2017, many of the same market conditions discussed a few months ago remain relevant. The real estate market in the GTA itself has experienced a softening in prices, but the Mortgage Pool has actually experienced an increase in demand for the type of funding it provides. New home supply remains low and financing options are not as readily available to developers as they may have been in the past. To mitigate risks in the pool, we will continue to intentionally diversify by project type, developer, and location. Our long-term target return remains 8% and we expect this to be achievable in the current market environment.

This document 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 September 30, 2017. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR	INCEPTION*
0.68%	1.94%	3.88%	7.94%	8.50%	8.57%

\*Launched November 30, 2012