

### AT A GLANCE

- Construction and development mortgages in Canada
- Diversified by developer and development type
- Mortgage terms are 3 to 36 months
- Low to no correlation to bond and equity markets
- Liquidity is accommodated monthly with one month's notice
- \$398 MM AUM
- Current price: \$9.3551 (Series I)

### MARKET & POOL UPDATE

The Capstone Mortgage Pool (CMP, Series I) continues to push forward in a challenging market. Real estate development activity has been muted, as stalled projects and court-ordered insolvency proceedings have been making headlines at a rate not seen since 2009. While these development challenges are not new, the increase is a function of sustained higher interest rates that have pushed borrowers into illiquidity. At Capstone, we have a long track record of working through these scenarios, often partnering with new borrowers to move projects forward and through to completion. We undertake a thorough internal analysis to review mortgage positions, and mark reserves (write-downs) on an ongoing basis to reflect the reality of the book and expected outcomes. These reserves/write-downs are already calculated into the Pool's published returns and Net Asset Values, which ensures transparency and accountability.

During September, one mortgage position within the CMP had to be written off. This was a particularly challenging scenario where we were advanced as a subordinated mortgage behind sizeable first mortgage charges. The lender in an established first mortgage position opted to push the project into the courts. The receivership process did not attract bids at a level that could cover the debts in place. It was a difficult outcome for CMP, as well as for the individuals who had pre-purchased homes with cash deposits several years ago that were never built. Aside from the court process, we went to work directly with an established developer to put together a bid that would have preserved all of CMP's capital and seen the project move forward. Unfortunately, at the bid deadline, the developer opted not to move forward given the scale of the project and the years needed to build it out effectively. What makes this single file different from the rest of the CMP holdings is the size of the debt and priority payables that had accumulated in front of us. There are no other files in the CMP portfolio with this combination of prior-ranking debt size and lack of performance. While this is clearly a large setback, YTD returns remain positive, which is a testament to the efforts expended to protect capital through investment diversification despite a very challenging cycle over the past 4 years.

September also brought a few good news announcements. The Bank of Canada announced another 25 bps interest rate cut, bringing it down to 4.25%, while the US Fed cut their rate by 50 bps. The government relaxed rules for insured mortgage qualification, including 30-year amortizations for buyers of new builds. Lastly, inflation numbers came in below the 2% target, which is a good indication that the Bank of Canada will continue on a path of reductions. Following this news, the Toronto Regional Real Estate Board posted sales figures for September that show an 8.5% increase in the number of sales year-over-year.

In this shifting environment, we are well positioned to find new opportunities. Bank capital remains scarce, and we expect that the Pool will benefit from an increase in development activity due to lower interest rates and beneficial changes to CMHC rules.

### PERFORMANCE (Gross of Fees)

Performance figures are those of Series I units as of September 30, 2024. Performance is annualized for periods longer than one year.

	1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	10 YR.	INCEPTION*
	-3.61%	-2.21%	-0.22%	3.40%	6.76%	7.76%	8.32%	8.52%

\*Annualized as of first trade date April 30, 2012

