CAPSTONE MORTGAGE POOL

Q4 Commentary

December 31, 2023

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
- $393 MM AUM
- Current price: $9.7415 (Series I)

PERFORMANCE (Gross of Fees)

Performance figures are those of Series I units as of December 31, 2023. Performance is annualized for periods longer than one year.

1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	10 YR.	INCEPTION*
0.42%	1.45%	3.85%	8.64%	8.33%	8.77%	8.90%	8.91%

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

MARKET & POOL UPDATE

The Canadian real estate market and its associated construction lending environment might be characterized in 2023 by the words "slower" and "stabilizing". After 2022's rapid 4% acceleration of interest rates to start the 2023 year off at 4.25%, January brought a quick 25 basis point rate hike before the Bank of Canada paused to allow Canadians to catch their breath. For the next few months, the Canadian real estate market remained surprisingly robust which we would attribute to high demand aided by Canada's expansive immigration policy. Supply remained low (by historical standards) while demand surged. This combination produced stable, if not increasing, housing prices across Canada right through the spring market. However, another 0.25% interest rate increase in both June and July caused the tide to turn and retail housing sales slowed considerably. Housing projects that once experienced a sell-out in a weekend are now taking a few months to sell and developers are experiencing longer delays getting financing, permits and site approvals.

For the year 2023, the Capstone Mortgage Pool returned 8.64% (Series I) to investors and its loan to value ratio remained in the low 60% range. A significant occurrence over the summer was the acquisition of the majority of the value of Capstone Mortgage Opportunity Fund LP (MOF) by Capstone Mortgage Pool. This added approximately $101MM of Net Asset Value to Capstone Mortgage Pool. Because these two strategies had evolved to a point where they contained nearly identical mortgage holdings, it no longer made sense to maintain them as separate fund offerings. Clients previously invested in the MOF LP can now experience simplified tax reporting and more flexible redemption parameters with the Capstone Mortgage Pool, a mutual fund trust.

Over the past 3 to 4 years, we at Capstone have taken a more conservative approach to construction financing and this has resulted in a broadening of our due diligence and monitoring processes. An example of this can been seen in our requirement for developers to provide qualified information on their pre-sales to ensure that buyers can afford their mortgage when the property closes. Another way we have responded to the current environment is by requiring less land value and more cash equity. We have seen that developers are much more committed to completing projects on time and on budget when they feel the pain of losing their own cash. This said, in some cases, our more conservative approach has resulted in the selection of lower interest earning loans to better balance the risk profile of the portfolio overall.

At the fund level, our audit team has responded to the current environment by becoming much more aggressive through 2023 in the allocation of the fund's bad debt allowance (or loan loss reserve). While this mechanism should help to mitigate against potential risks in the future, investors have experienced the adjustment to the bad debt allowance particularly through the last quarter of 2023 when distributions were lower than normal. It is Capstone's intention to continue to lend a conservative eye to both the valuation of the existing book of mortgages as

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well as toward the economic and real estate landscape of 2024. However, we are also expecting the performance for this fund to remain in its normal range of 8%, with a possibility of better performance should we experience a real estate risk-off event, such as the lowering of retail mortgage interest rates.

For more information on this Pool, please contact your Portfolio Manager.