

CAPSTONE NON-TRADITIONAL EQUITY POOL

Q1 Commentary

CAPSTONE
ASSET MANAGEMENT™

MARCH 31, 2019

AT A GLANCE

- Provides equity exposure to non-traditional markets
- Blend of cash flow strategies and real estate
- Low to no correlation to bond and equity markets
- \$49MM AUM

MARKET & POOL UPDATE

Over the past 3-6 months we have seen trends pointing to a slowing Canadian economy. Some of these signs have included price declines in the housing market, an inverted bond yield curve, where short-term (3 month) bonds are yielding higher than the long-term bonds (10 year) bonds. These signs are highlighting investors' cautious approach to long-term investing, making for a particularly volatile stock market. Many investors remain concerned about their portfolios and are re-evaluating the risks they are exposed to. Since Capstone's Non-Traditional Equity Pool is a compilation of investments typically not correlated to stock market activity, it is becoming an important diversifier that can help investors mitigate some of the risk factors that cause their portfolios to be volatile.

Within Capstone's Non-Traditional Equity Pool, we have responded to the signs of economic weakness by moving the investment focus towards assets with a longer lifecycle that are not as affected by short-term market noise. While these investments have a stronger disconnect from short-term economic events, they do contain other risks, such as limited liquidity due to longer lock-up periods. Farming is a great example of an investment with a long lifecycle that we are planning to add into our non-traditional portfolio. Within the farming arena, investors are usually required to lock-up their funds for long periods of time (8-10 years), for which they look to earn a liquidity premium. Over time, returns can come from improved farming efficiencies, raw land conversions, and land appreciation. Done right, this type of investment can provide a solid return and be a fantastic diversifier for a long-term portfolio.

Another alternative investment that has recently been added to the pool is one that capitalizes on the private electricity generation market in Ontario. Through partnerships with private operators, this product offering provides electricity at not only a lower cost, but also at a predictable cost to businesses. The target return for this investment is 8% but the capital lock-up is over two years. This is another great example of an alternative investment that has historically plugged along, regardless of the short-term noise experienced in the traditional markets.

The Capstone Non-Traditional Equity Pool's performance this past quarter continues to be below its historical average. However, we are looking forward to seeing the results of some of the new investments in this portfolio, as well as the completion of some long-term projects. It is important for investors to remember that this pool is meant for those with long investment time horizons, as many investments in this portfolio will take time to complete, gain traction, or be sold.

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 March 31, 2019. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	INCEPTION*
0.29%	0.66%	0.66%	-0.05%	4.32%	4.88%

*Launched June 6, 2014