

CAPSTONE NON-TRADITIONAL EQUITY POOL

Q1 Commentary

MARCH 31, 2024

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
- \$57 MM AUM
- Current price: \$11.6368 (Series I)

MARKET & POOL UPDATE

The Non-Traditional Equity Pool returned 1.75% for the first quarter of 2024 with an annualized rate of return of 5.05% since inception (May 2014) before fees. The Capstone Non-Traditional Equity Pool contains a broad set of equity investments within Canada and the US and returns may be in the form of capital appreciation or income.

At the end of last quarter, the Non-Traditional Equity Pool was impacted by a project whose dividends needed to be written down and negatively impacted the Pool's return for the previous quarter and calendar year. This was an example of a Real Estate Private Investment and these tend to have a higher return to risk trade-off. Since then, the Investment Management Team (IMT) has been working towards a reduction in the allocation to Real Estate Private Investments which tend to see more downside variance, as we recently experienced. While we still see real estate as a core component of the Pool given its ability to produce both capital appreciation and the potential for income, the tilt will be more towards diversified Real Estate Funds rather than individual Private Investments; this will make the Pool less vulnerable to any tail events. This will doubly serve to increase the Pool's liquidity as Real Estate Fund Investments tend to be more liquid (REIT's would be an example) and the focus will be on investing through high-confidence fund managers.

Private equity investments make up almost the other half of the Pool and their performance continues to be mixed as both Mergers & Acquisitions (M&A) activity and Initial Public Offering (IPO) transactions remained subdued in 2023 and heading into the new year. The increased allocation into higher confidence managers were accretive to the Pool's performance and the IMT is looking to more liquid strategies that will meet the needs of the Pool in terms of both strategic goals and liquidity needs, so as to limit the proportion that needs to be allocated to cash.

The majority of this quarter's return is attributable to our investment in one particular Private Equity Fund which returned 7.3% which reflects only their first two months of performance of the year as of the time of writing. The Fund benefitted from unhedged USD exposure and a good month for its mid-cap value focus. Strong performance was also owed to the fact that units of this Fund were purchased below the net asset value; this discount effectively provides a bump on performance when subsequently marked up to the current value. Since investing in this Fund last June, the Fund has returned over 18%. The largest detractor was one of our Real Estate Investment Funds as their valuations continue to be impacted by headwinds experienced by the US office space market. Having said that, half of this investment's exposure is represented by an equity stake in a multi-family property in Dallas and a potential divestment could help to recoup some mark to market losses.

The Non-Traditional Equity Pool is accessible to existing clients of Capstone or as a stand-alone product for qualifying investors. For more information, please be in touch with a Portfolio Manager.

PERFORMANCE (Gross of Fees)

Performance figures are those of Series I units as of March 31, 2024. Performance is annualized for periods longer than one year.

	1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
	0.67%	1.75%	-4.46%	-3.68%	3.49%	4.22%	5.05%

*Annualized as of first trade date May 2, 2014

