CAPSTONE NON-TRADITIONAL EQUITY POOL

Q2 Commentary

CAPSTONE ASSET MANAGEMENT™

JUNE 30, 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
- $50MM AUM

MARKET & POOL UPDATE

This July, we witnessed the S&P500, NASDAQ and DJIA reach all-time highs in response to the Fed's latest FOMC meeting. Meeting minutes showed that Jerome Powell's posturing was largely accommodative and in fact hinted at the strong possibility of a cut to interest rates. In Canada, we also experienced a market surge. Meanwhile, Bank of Canada Governor, Stephen Poloz, has concerns over the ambivalence of many investors towards growing risks, namely the escalation in trade tensions. Although the inversion of both the Canadian and U.S. yield curves may be benign for the time being, policy makers feel they 'nonetheless reflect a concern about the prospects for growth.' It is precisely during such impetuous times that caution should prevail and diversification be the order of the day. Traditionally, the risk-off trade has been to go to cash. At Capstone, we would like to propose a different solution; diversifying outside of the traditional and into the non-traditional should replace the old adage of 'cash is king.'

The Capstone Non-Traditional Equity Pool will include an exciting new investment beginning in July, with the addition of a manufactured home community designated for seniors within the Okanagan Valley. The annual cash flow is expected to begin immediately and will be in the realm of 4-5%, which will nicely offset the more sporadic nature of the returns from our other real estate holdings. One feature of this investment is the fairly predictable cash flows, given the extremely low vacancy rates. As well, lot rents are subject to annual increases and thereby provide a level of inflation protection in addition to supporting the ongoing valuation increases in the land. Although this may look like merely another real estate opportunity, this investment has a unique element of protection from the real estate cycle. Since the changes in the valuation of the manufactured homes have no impact on the underlying rental agreement, the volatility risk is much lower. The long-term annualized target rate of return on this particular investment is 12%.

We have also entered the commodities market effective July. The target rate of return is between 5-7% and has low long-term correlations to stocks, bonds, and other alternatives. It also has a low correlation to the existing assets within our Non-Traditional Equity Pool which effectively reduces the risk within the pool. This alpha driven strategy designed to beat the market seeks to exploit the inefficiencies in the commodities market through futures contracts. There are six sub-strategies with risk allocated equally across each. With the new strategies that we are implementing, our cash position will be brought down to 6% of the pool.

The year-to-date rate of return of our Non-Traditional Equity Pool is 2.74% net of fees and in line with our historical average; this is primarily a function of the long-term real estate holdings. As a reminder, this pool has a long time horizon due to the long-term nature of many of the underlying holdings. With a successfully growing pool and many new investments, we look forward to the back end of 2019.

PERFORMANCE (Net of Fees)

Performance figures are those of Class F units as of June 30, 2019. Performance is annualized for periods longer than one year.

1 MO.	*3 MO.*	*6 MO.*	*1 YR.*	*3 YR.*	*5 YR.*	*INCEPTION**
-0.20%	2.06%	2.74%	2.59%	4.62%	5.18%	5.05%

**Launched June 6, 2014*