

# CAPSTONE NON-TRADITIONAL EQUITY POOL

Q2 Commentary

CAPSTONE  
ASSET MANAGEMENT™

## AT A GLANCE

JUNE 30, 2023

- Provides equity exposure to non-traditional markets
- Blend of cash flow strategies and real estate
- Low to no correlation to bond and equity markets
- \$64 MM AUM
- Current price: \$12.2200 (Series I)

## MARKET & POOL UPDATE

The Capstone Non-Traditional Equity Pool has been constructed using a diversified portfolio of Canadian and foreign assets with low correlations to traditional domestic and global equity markets. Given the broad nature of non-traditional investments, assets contained in the Pool can offer the potential for capital appreciation or high cash flows, or both. The Pool returned -0.36% for the quarter as the S&P/TSX and the TSX Capped REIT index gained 5.7% and 0.7% respectively.

It is worth noting that valuing real estate can be complex and valuations may be reflected in the fund performance. (The impact is almost always evident in standard deviations - a measure of volatility.) Consequently, while pricing changes may be infrequent, they can seem more significant when looking at performance. Therefore, although many private real estate investments are performing in-line with expectations, there have been some headwinds in the form of interest rate increases which put a damper on valuations. Correspondingly, performance in private real estate investments, in the aggregate, was down 1.3% over the quarter.

The biggest detractor to performance this quarter was the Pool's exposure to a hard-hit commercial real estate market, including investments in the Los Angeles, Chicago, and Portland areas. Yet, despite the hindrances of interest rates and demand, the properties within the portfolio continue to show healthy levels of occupancy, even for properties whose values have been written down. Therefore, we remain optimistic that there may be some recapture down the road.

Given the very sleepy IPO market and a slow Mergers & Acquisitions (M&A) environment, our Private Equity Fund positions' posted losses in the quarter can be considered modest. Despite the market challenges and potential delays in liquidity events, the fund managers reiterate their confidence in the resilience of the Pool's underlying companies. While the Private Equity market hasn't been as active volume-wise due to a lack of IPO's, at Capstone we are also focused on the secondary market through which returns are achieved by the purchase of discounted private equity interests - the secondary private equity markets provide liquidity to investors looking to exit from their private equity positions. This secondary -market-focused strategy can provide good returns that are less commonly found in the primary private equity market at this time.

The goal of the Capstone Non-Traditional Equity Pool is to provide equity-like returns without exposure to traditional markets. At the last Investment Committee meeting it was determined that our focus should be on increasing our concentration in high conviction strategies. To this end, we are divesting some of our current, mandate-peripheral positions and replacing them with additional units of existing holdings that better match our focus. Repositioning can and does create drag on the Pool's performance in the shorter-term, but the Pool will be well poised going forward.

If you are interested in investing in the Capstone Non-Traditional Equity Pool, please contact your Portfolio Manager directly.

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 (Gross of Fees)

Performance figures are those of Series I units as of June 30, 2023. Performance is annualized for periods longer than one year.



| 1 MO.  | 3 MO.  | 6 MO. | 1 YR. | 3 YR. | 5 YR. | INCEPTION* |
|--------|--------|-------|-------|-------|-------|------------|
| -1.02% | -0.36% | 0.92% | 1.95% | 5.98% | 5.21% | 5.87%      |

\* Annualized as of first trade date May 02, 2014