

CAPSTONE NON-TRADITIONAL EQUITY POOL

Q3 Commentary

CAPSTONE
ASSET MANAGEMENT™

SEPTEMBER 30, 2018

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

The Capstone Non-Traditional Equity Pool looks for equity investment opportunities outside of the traditional market. A characteristic of this pool is its long-term approach. It is important for investors to recognize the long-term nature of investing in assets such as real estate, as returns are often not recognized until the disposition or completion of a project. This means that short-term returns do not always reflect the inherent value of the underlying investments. This past quarter has seen a lot of activity on the real estate side of the portfolio. Out of 7 properties in the US, 4 were sold or were in the process of sale by September 30, yet none of these proceeds have been reflected in the return. The fund accountants will be working through the various valuations and proceeds of sale closer to the end of the year to determine the impact on the pool.

One of the pool's newest investments provides exposure to British Columbia real estate in Whistler and Metro Vancouver. This investment was introduced to investors two quarters ago and we are very pleased with the progress the project's management team has made. The Vancouver properties continue to be fully leased with strong rental rates, and due to recent renovations and improvements, operating costs going forward are expected to be well below average. The properties in Whistler are in their final stages of renovations and all improvements are expected to be completed for the upcoming ski season. This will be the first year all units in the Whistler properties will provide rental revenue for investors. This investment is particularly attractive for the Capstone Non-Traditional Equity Pool because it provides regular cash flow (5% annually) with the opportunity for large capital gains.

With a return this quarter of -0.14%, the pool's performance was similar to last quarter, bringing the performance of the pool to a weak -0.71% for the past 6 months. These flat periods of performance are not altogether unexpected considering the sporadic valuations of a large portion of the portfolio. Notable detractors to recent performance have been the hedge fund position and the global equity position, although the latter has begun to recover in the past 3 months. While both positions have provided a strong long-term contribution to the return, overall 2018 has been particularly weak.

In closing, a big change to this pool was the implementation of fixed quarterly distributions of 0.75% (3% per year). September 30 was the first quarter this distribution occurred and we expect it will help to smooth out the cash flow from the pool over the course of the year.

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 September 30, 2018. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	INCEPTION*
-0.09%	-0.14%	-0.71%	3.77%	5.23%	5.29%

*Launched June 6, 2014