

# CAPSTONE NON-TRADITIONAL EQUITY POOL

Q3 Commentary

CAPSTONE  
ASSET MANAGEMENT™

SEPTEMBER 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
- \$51MM AUM
- Current price: \$11.0326 (Class F)

## MARKET & POOL UPDATE

Capstone's Non-Traditional Equity Pool provides investors with a truly unique investment solution. It is uncorrelated to traditional markets and provides access to investment options that typically have high barriers to entry. The Capstone Non-Traditional Equity Pool was the recent recipient of two awards at the 2019 Canadian Hedge Fund Awards. Capstone was honoured to receive the following two titles: 1st Place – Global Macro/Managed Futures/Multi-Strategy: Best 5 Year Sharpe Ratio and 2nd Place – Global Macro/Managed Futures/Multi-Strategy: Best 3 Year Sharpe Ratio.

CNTEP returned 0.70% to investors over this past quarter and 3.46% year-to-date (Jan – Sept). Performance continues to cluster around periods of time when we see the sale or completion of real estate projects. With the inclusion of 37% real estate equity positions in this Pool, this is likely to be a long-term trend. At present, several real estate construction projects are nearing completion and we expect to see their return contributions being reflected over the next 3-6 months. Non-traditional investments are often characterized by large capital outflows, lumpy returns, and long periods of illiquidity. In addition, it can often take time before the entirety of capital required for a particular strategy is "called," or working effectively. While this is not unusual, it does present a challenge for the Portfolio Managers of the Pool, as a buildup of cash drags down returns. Over the past year, Capstone has been looking for a liquid, yet higher yielding strategy to assist with managing the cash position. This has led to the creation of a new, satellite fund called the Capstone Private High Income Pool (CPHIP).

The Capstone Non-Traditional Equity Pool is the first investor of the CPHIP which was launched September 30. The investment objective for the CPHIP is to invest in primarily non-Canadian, high yielding private investment opportunities. The target rate of return for this investment is 8%+ annualized. Although Capstone can use equity or fixed income assets to achieve the Pool's objectives, the initial key strategy will be private debt. More specifically, this lead investment has been made with an established Western U.S. based private lending organization focused on the niche market of private construction loans. This lender and mortgage administrator has significant market and industry experience as a contractor, developer and lender, and can step in and complete unfinished projects, if necessary.

Looking toward the end of 2019, the CNTEP is on track to meet or exceed its historical average return. The ratio of cash-flowing investments to real estate is attractive, and we continue to see the completion of projects that will likely begin adding to the performance. The Capstone Investment Committee is pleased to see the cash position in the Non-Traditional Equity Pool deployed into this exciting new Fund and will continue to seek and implement solutions that will provide investors with attractive risk adjusted returns.

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



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
0.09%	0.70%	2.77%	3.45%	4.44%	4.99%	4.95%

\*Launched June 6, 2014