

CAPSTONE NON-TRADITIONAL EQUITY POOL

Q3 Commentary

CAPSTONE
ASSET MANAGEMENT™

SEPTEMBER 30, 2020

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
- \$50 MM AUM
- Current price: \$11.0683 (Series F)

MARKET & POOL UPDATE

The Capstone Non-Traditional Equity Pool is up 0.81% in the last quarter. On the cash flow side, one of the private lending opportunities did take some allowances earlier in the year which affected performance through the first half of the year. Additionally, the investment in Whistler rental condos was impacted by the slowdown in the hospitality sector due to the pandemic. We believe this to be a short-term slowdown, circumstantial in nature, but has nonetheless been a detractor.

At the end of September, an investment was made into a private equity fund which contains both direct and fund investments in North American private equities. This diversified approach to private equity investing reduces risk. As an asset class, private equity generally has a very low correlation to traditional markets, as well as lower volatility, which makes it an excellent fit for the Capstone Non-Traditional Equity Pool. The private equity market is also approximately four to five times larger than the size of the public equity markets. This large and sometimes inefficient market leads to opportunities more representative of the real economy. The target rate of return for this investment is 15% and our initial investment size was \$1M.

In Texas, we are looking to close on a large parcel of land in Harris County around the Houston area to be developed for single family homes. This is a piece of land we held for a number of years and the return on capital is expected to be in the double digits. Another real estate venture that we recently entered into involved partnering with a firm specializing in community betterment. We were invested in one property outside of Atlanta which had been fairly run down and is now in the process of being renovated and cleaned up with the inclusion of a playground, fencing, the creation of a computer area, and other general improvements to the living conditions. Although initially delayed, everything is now on schedule and moving along as planned. We are currently evaluating another project with the same group.

As mentioned in the last quarterly commentary, we were assessing a real estate deal in Kitchener, Ontario which has since been given the green light by our Investment Committee. Capstone will be in partnership with the owner of this land assembly deal to take the land through site plan approval with the city and then sell the property for development. At the present time, the land has one unit that is partially rented and the entire property will be lightly renovated and leased. This is expected to be a three-year process with the city and there is the potential to purchase the adjacent corner lot. Although this addition would extend the project life by approximately two years, it would also increase the internal rate of return.

The Capstone Non-Traditional Equity Pool provides equity exposure outside of the traditional markets and continues to serve as a complement to the other equity holdings, thus reducing overall risk within a balanced portfolio.

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 Series F units as of September 30, 2020. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
0.28%	0.81%	0.90%	3.39%	3.54%	4.50%	4.70%

* Annualized as of first trade date June 6, 2014