

CAPSTONE NON-TRADITIONAL EQUITY POOL

Q3 Commentary

CAPSTONE
ASSET MANAGEMENT™

SEPTEMBER 30, 2023

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
- \$63 MM AUM
- Current price: \$12.2720 (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.

Close to 50% of the Capstone Non-Traditional Equity Pool is currently invested in real estate holdings throughout Canada and the U.S. Those that are income producing tend to be more stable during recessionary periods and provide a natural hedge against inflation. Property write-downs previously experienced in the commercial real estate space have slowed thanks to stabilizing occupancies. Buildings in the suburbs, of late, are trending toward higher occupancy rates than those in urban areas: a benefit to our current positioning. Though sales and financing activities remain sluggish, most of our commercial real estate investments posted minimal to flat returns in their most recent quarterly reporting periods. Our private real estate investment performance, by comparison, is mixed as some properties are seeing a slowdown in rent increases and interest-rate headwinds have put a damper on both valuations and sources of financing.

A large component of the Pool's private equity exposure (currently over 20% of the portfolio) lies in the secondary markets. Over short periods of time, the returns experienced in these secondaries can be very uncorrelated to what is going on generally among private equity assets. For example, one of our investments purchased a portfolio of interests in various private equity funds at a significant discount. Its subsequent mark-up to fair value led to an unusually high return during August. Conversely, one of our smaller secondary's co-investment which had previously experienced unsustainably strong returns in 2021 - also due to a portfolio of funds that were bought at a discount - has now given back some of these gains. This reflects that exit multiples for underlying company investments are not as positive as they were a couple of years ago. While the performance of the public equity market was strong in the early part of 2023, the IPO market remains relatively quiet and continues to add pressure to our private equity funds. Merger and Acquisition activities have seen an uptick in recent months with a shift to higher quality private companies which is ultimately a positive outcome.

Finally, to highlight one of our private equity strategies, we have partnered with a firm seeking to take advantage of the electrification of transportation by acquiring revenue royalties on battery material projects from around the world. This is a unique opportunity and expectations are for double digit returns. It is these types of private market strategies that continue to be popular alternatives as they have low correlation to traditional equity markets and experience lower volatility.

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 September 30, 2023. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
0.45%	1.18%	0.82%	2.25%	6.01%	5.43%	5.84%

* Annualized as of first trade date May 02, 2014