

CAPSTONE NON-TRADITIONAL EQUITY POOL

Q4 Commentary

CAPSTONE
ASSET MANAGEMENT™

DECEMBER 31, 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
- \$48MM AUM

MARKET & POOL UPDATE

The Capstone Non-Traditional Equity Pool looks for equity investment opportunities outside of the traditional market. This makes it an excellent portfolio diversifier, as its performance is typically uncorrelated to traditional market activity. 2018 demonstrated this point particularly well as this pool returned 1.67% while the Canadian equity market (S&P/TSX Composite Index) returned -8.89% over the year. With a spread of over 10%, we were very pleased to see the positive performance of this fund throughout the year. Another measure of this fund's success was seen in its volatility metrics, which had a standard deviation of 1.93%, compared with the S&P/TSX Composite Index of 11.56%. Many of our portfolio objectives were met in 2018, and this provided investors with a relatively stable equity investment and returns uncorrelated to the traditional equity markets.

Over the course of the year we saw several activities impact the Non-Traditional Equity Pool's performance. Within the pool, real estate projects are diversified by geography, manager and type. The majority of the real estate component, a significant portion of the portfolio, is not mark-to-market and is instead valued on an annual basis. This means that it could be many months, and in fact up to a year, before we see any performance attribution from these projects. Most notably this year, we ceased recognizing accrual of interest/growth on a large multi-family construction project in Ontario. We expect this investment to wrap up in late 2019 and at that time we will begin to evaluate its final performance within the pool. Additionally, the newest real estate investment, located in western B.C., provided regular cash flow of about 5% and has met our expectations for the year. In addition to its cash flow return, this investment has also set itself up for significant capital gain potential in the future. In the last half of 2018, we also saw significant activity within the properties held in Texas. A third of these holdings have been sold. These sales have moved this position from 15% of the portfolio to 10%, and we are actively working to reduce it further to allow room for new opportunities.

Other factors that affected performance included the fund's exposure to the U.S. dollar, as well as the higher than typical cash position of the portfolio. Currency fluctuations over the year impacted returns in the -1% range and the Investment Committee moved to hedge all the current USD position. Additionally, a higher than typical cash position averaging between 10-20%, depending on the month, caused a drag on performance. Getting the cash working quickly is a huge priority for the Investment Committee; however, the non-traditional nature of this investment means that it can take time to source the appropriate opportunity. Also, the due diligence process is time consuming and new investments often will only call a portion of the position initially, leaving some funds in limbo while we wait for the rest to be called.

We look forward to seeing some of the real estate projects wrap up in 2019, as well as having a higher percentage of the cash working effectively. We will continue to work hard to source and invest in opportunities that provide investors with a true alternative to traditional equity investing.

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 December 31, 2018. Performance is annualized for periods longer than one year.



| 1 MO. | 3 MO. | 6 MO. | 1 YR. | 3 YR. | INCEPTION* |
|--------|-------|--------|-------|-------|------------|
| -0.33% | 0.00% | -0.14% | 1.67% | 4.97% | 5.00% |

*Launched June 6, 2014