

# CAPSTONE NON-TRADITIONAL EQUITY POOL

## Q4 Commentary

DECEMBER 31, 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
- \$57 MM AUM
- Current price: \$11.5226 (Series I)

### MARKET & POOL UPDATE

The Non-Traditional Equity Pool had a disappointing final quarter of 2023, posting the first negative calendar year return in its history. This return of -4.12% is a material decrease from the 5%+ return in 2022 and the 10%+ return in 2021. The Capstone Non-Traditional Equity Pool contains diversified equity holdings within Canada and abroad which give rise to the potential for capital appreciation or income and in some cases, both. Capital appreciation tends to stem from an asset becoming more valuable over time; an example could be a building whose value has appreciated after an extensive refurbishment. Noteworthy is that it is still possible to have ups and downs in valuation if a building or enterprise has not yet reached its full potential or experiences challenges along the way. Although less common, the same is true for the income component in an equity holding. For example,, an intended income stream or accruing dividend may not be able to be converted into a receivable if the feasibility of a project comes into question. Unfortunately, during this quarter, we experienced both depressed valuations in certain real estate holdings and in one particular project, a previously accrued dividend income stream had to be reversed, further impacting the Pool's unit prices.

The dividends that were written down in the last quarter were in relation to a townhome development in Markham, Ontario whereby the Pool held a preferred equity position. This entitled unitholders to dividend income in tandem with the potential for capital appreciation but at the December 31<sup>st</sup> valuation, the Investment Management Team could not justify the accrued dividends. The difficult decision was made to write-down the entire accrued dividend position, despite having already been made whole on the capital portion of the project. The Pool experienced some significant challenges last year, especially in the commercial real estate space where office vacancy rates have soared post-COVID. However, we believe returns will rebound and we have been opportunistically deploying the Pool's capital as legacy investments mature. In fact, the Pool's best performing position during the quarter was its investment in a Real Estate Income and Impact Fund which returned 6.3% in the quarter. Its high return was driven by fair value gains from its purpose-built student accommodations ("PBSA") assets, supported by independent appraisals for key assets within the Fund. Specifically, one of its core assets that includes student residences at a University in Toronto, is benefiting from improved revenue and operating income.

Private equity continues to be a substantial component of the Capstone Non-Traditional Equity Pool. Exposure to this asset class is accomplished primarily through third party managers that invest either in private enterprises or private equity funds directly; or in private equity interests through the secondary market. It's worth noting that this strategy is most effective when IPOs are being issued or other valuation-triggering events such as mergers or acquisitions are taking place. Transactions of these types were especially quiet last year and therefore did not contribute significantly to the Pool's performance. There are many more privately-owned firms in Canada, the US and elsewhere than there are publicly-owned companies; and many industry leading firms of the future cannot currently be acquired on any stock exchange. Therefore, exposure to private equity assets continues to provide access to a much broader array of equity opportunities.

Digesting negative returns is never comfortable. But at the same time, we recognize that each Pool or Fund plays a very intentional role in a diversified portfolio and should add significant value over the long term. This recognition helps to frame past and future performance realities and expectations.

### 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*
	-7.61%	-6.11%	-4.99%	-4.12%	3.62%	4.05%	5.00%

\*Annualized as of first trade date May 2, 2014

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