

CAPSTONE PRIVATE HIGH INCOME POOL

Q2 Commentary

CAPSTONE
ASSET MANAGEMENT™

JUNE 30, 2020

AT A GLANCE

- Non-traditional debt and equity income strategies
- Globally diversified
- Monthly liquidity*
- Low correlation to bond and stock markets
- \$31 MM AUM
- Current price: 10.0502 (Class FA)

MARKET & POOL UPDATE

The Capstone Private High Income Pool seeks to invest in private debt that provides a consistent cashflow and is primarily asset backed, meaning it is secured against a real asset. This fund has a North American focus, but the flexibility exists to look globally to build a portfolio of both direct deals and alliances with strategic partners.

The Canadian private debt position, which currently represents 9% of the fund, continues to maintain a strong collateral position despite COVID-19 concerns. Additionally, the portfolio has received some cash back and the loan outstanding has been reduced slightly. The Western U.S private lending position is still nearly 90% of the portfolio and continues to perform as expected. This is comprised of construction-based loans in the real estate sector in the US and the valuation of these mortgages has remained relatively unaffected by the COVID-19 crisis. In fact, they performed even better than we were anticipating a few months ago. Any work stoppages on these projects has had very little impact and all are proceeding to plan at the moment. Currently, four loans out of the forty are not paying interest on time. Two will be settled in July, and the other two will take a little longer to resolve. However, all four are more than adequately covered by collateral.

In the midst of a crisis, banks have a history of tightening their credit facilities. We expect this to continue to be the case with COVID-19. When this happens, the quality and quantity of borrowers seeking funds from private lenders, such as Capstone, improves. Over the past few months, many private lending funds have resorted to restricting redemptions to manage cashflow (since mortgages are not easily liquidated) and consequently are not able to extend additional credit until their redemption situation is resolved. The Capstone Private High Income Pool is strongly positioned to take advantage of this situation and currently our pipeline of qualified U.S. mortgage opportunities is over \$400 million. As demand increases, so do origination fees and interest rates – both of which are trending up to 150bps higher due to the crisis. That said, we have intentionally not closed any new loans since March. This extra caution is to ensure the portfolio is well positioned to finance current commitments. We expect to begin financing new opportunities in the 3rd quarter, assuming the situation remains the same or better.

This Pool is targeting a rate of return of 8%+ annualized and is available to all existing Capstone clients. If you are interested in investing, please contact your Portfolio Manager directly.

*Please read the Information Memorandum for information pertaining to the liquidity restrictions within the first three years of 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 FA units as of June 30, 2020.



1 MO.	3 MO.	6 MO.	INCEPTION*
0.48%	1.48%	3.29%	4.78%

* First trade date October 31, 2019