

CAPSTONE PRIVATE HIGH INCOME POOL

Q3 Commentary

CAPSTONE
ASSET MANAGEMENT™

AT A GLANCE

SEPTEMBER 30, 2023

- Non-traditional debt and equity income strategies
- Globally diversified
- Monthly liquidity*
- Low correlation to bond and stock markets
- \$87 MM AUM
- Current price: \$10.5189 (Series IH)

MARKET & POOL UPDATE

Although both stock and bond returns have been positive year to date, it is amidst a landscape of uncertainty due to continued high interest rates, stubborn inflation, and geopolitical tensions. Navigating such choppy waters requires patience and creativity. With traditional markets having higher correlations to one another, it is paramount to include asset classes which serve to effectively diversify one's portfolio. The Capstone Private High Income Pool has a very low correlation to Canadian stock and bond markets. This means that its returns are independent of those returns and thus its inclusion in a portfolio provides the benefits of truly meaningful diversification.

Our U.S. private lending position currently makes up over half of the Pool and has experienced a slowdown in lending opportunities over the last few quarters. Although six loans have now been paid off, many projects have had to be extended as refinancing slowed and, although the default rate has been very low, the volume of lending has not been as high as in previous years. Having said that, new loans have re-started and with that comes origination fees which are a positive contributor for this investment strategy. The portfolio continues to be healthy overall and the focus remains mostly on multi- or single family project loans with lower concentration on office exposure.

Our aviation leasing strategy is now fully committed and continues to perform as expected. The primary focus remains on working with stable lessees, particularly in Asian countries enjoying current political & economic stability. Our barge leasing strategy within the Coastal Mississippi network remains a compelling investment that we remain very comfortable to hold. With two new acquisitions in the works, it is expected that all of the capital committed to this strategy will be called within the next quarter.

As mentioned last quarter, our preferred equity structured investment involving an apartment complex located in Tampa Bay, Florida is now underway, and its expected return is 14%. Although the overall investment amount is small, we expect it to be a positive contributor and a good diversifier for the Pool. The past quarter did see the approval of a new opportunity for a short-term mezzanine loan that will generate 12% interest. It is a renovation project which poses lower risk than a land/construction loan and is secured on a student housing project in Oshawa.

The Capstone Private High Income Pool provides access to non-traditional investment opportunities, allowing clients to diversify and find a balance between the traditional and non-traditional markets. Especially in these times of heightened uncertainty, there is a great benefit in combining assets from each of these markets for both fixed income and equity exposure. We believe this will both reduce volatility and improve risk-adjusted returns over the long term.

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 (Gross of Fees)

Performance figures are those of Series IH units as of September 30, 2023. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	2 YR.	3 YR.	INCEPTION*
0.65%	1.80%	3.91%	7.83%	7.95%	8.30%	8.10%

* Annualized as of first trade date September 30, 2019