

# CAPSTONE PRIVATE HIGH INCOME POOL

## Q4 Commentary

# CAPSTONE

ASSET MANAGEMENT™

## AT A GLANCE

DECEMBER 31, 2022

- Non-traditional debt and equity income strategies
- Globally diversified
- Monthly liquidity\*
- Low correlation to bond and stock markets
- \$76 MM AUM
- Current price: \$10.4946 (Series IH)

## MARKET & POOL UPDATE

2022 was plagued by stubbornly high inflation, an environment of rising interest rates – intended to combat said inflation - and marked stock market volatility amidst heightened geopolitical concerns and investor uncertainty. The 60/40 traditional asset portfolio which had been the mainstay of many investment firms in years past has proven, once again, to be deficient. As we have long endorsed at Capstone, effective diversification requires the incorporation of asset classes with low correlation to one another. This strategy is especially important in present circumstances. 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 into one's portfolio provides the benefits of truly meaningful diversification. The Pool provided a return of 1.96% for the fourth quarter and 7.75% for 2022, before fees.

Our U.S. private lending position currently makes up just over half of the Pool and has experienced a slowdown in lending over the last quarter. Consequently, refinancing has also slowed. While the opportunity pipeline remains robust, the increased scrutiny and due diligence that we employ decreased deal flow while benefiting the Pool's stability. It's worth noting that despite these slowdowns, stress tests did not reveal any loan at risk of being "underwater".

Our aviation leasing strategy is currently seeing opportunities to purchase high quality aircraft - that we can lease out over long terms - at a cyclical low, stemming from the pandemic and the resulting economic slowdown, along with an oversupply in production that occurred just before the pandemic. Our partner firm, with the help of their proprietary platform, has sourced over \$2.5 billion in monthly deal flow, providing origination, financing, remarketing, and disposal services in the aviation industry. As a reminder, this strategy involves acquiring aircraft for lease to airlines. Originally focused on working with stable lessees - particularly airlines in Asian countries with political and economic stability and a growing middle class - the strategy has expanded its footprint to include the Middle East and Singapore. Pandemic-induced stress within some emerging markets has produced a number of new opportunities that fit this Pool's selection criteria.

While only a small percentage of our allocated capital has been called, our barge leasing strategy performed in the double digits this year. Compelled by the overall appeal of the strategy and lack of competition in this space, we intend to deploy additional capital as we are able.

The Capstone Private High Income Pool's goal is to invest primarily in asset-backed, private debt opportunities. It has produced stable income for our investors since inception and provides excellent diversification away from traditional markets.

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 December 31, 2022. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	2 YR.	3 YR.	INCEPTION*
0.68%	1.96%	3.65%	7.75%	8.42%	8.27%	8.18%

\* Annualized as of first trade date September 30, 2019