



CAPSTONE
ASSET MANAGEMENT™

CAPSTONE
FIRST MORTGAGE FUND LP



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The Canadian mortgage market offers various investment options, each defined by a unique set of risk and return characteristics. The Capstone First Mortgage Fund focuses on the residential construction and development sector of the mortgage financing industry. In this sector, firms engage in developing, redeveloping or otherwise improving many types of real property. The most common types are multi-family residential and single-family residential. The development firms typically require or choose to obtain private mortgage financing for certain phases, or for the entire duration of the project. These mortgages are secured on the property being developed.

In Canada, major banks and trust companies provide most mortgage financing, derived from the large pools of capital provided by their depositors. While the cost of this financing is typically quite attractive, the lending criteria are often rigidly defined and inflexible. This presents significant challenges to borrowers since the market value of a project (and therefore degree of security) may change significantly at various phases of development.



Opportunities exist for private lending groups to provide capital to developers in the sector. Capstone is smaller and nimbler than the bank grade lenders, is not constrained by rigid criteria dictated by corporate policy and takes a more dynamic view of evaluating risks, security and project viability. With a disciplined but collaborative approach, Capstone is ideally placed to provide financing at rates still practical for the developer but yield an excellent return for the investors providing the capital.

In a diversified portfolio, including assets that have low correlation with each other is a critical part to managing risk. However, as clearly proven during various market crises, the world is more connected than ever — finding unique securities with low to negative correlation has become difficult, causing overall portfolio risk to increase. With central banks increasing rates from historical lows, fixed income performance has become increasingly volatile. It requires creativity and thorough analysis to build a diversified investment portfolio with risk appropriate returns.

At Capstone, we have long recognized the opportunities within the Canadian mortgage sector to further diversify investment options, decrease correlations to equity and bond markets, and add cash flow to portfolios. But high costs, liquidity restrictions and structural hurdles have made this sector difficult to access for most investors. A robust solution, launched in August 2016, is the Capstone First Mortgage Fund.

The Fund generates interest income by providing construction financing to reputable Canadian developers who have quality projects, achievable business plans and can provide solid returns with excellent security.

THE FUND MANAGER

Established in 2004 and headquartered in Langley, British Columbia, Capstone Asset Management serves a broad client base including private clients, foundations, and institutions. Through Pooled Funds and Limited Partnerships, Capstone provides investors with effective portfolio diversification by offering a broad array of investments within and outside traditional markets.

Capstone is the Fund Manager and Portfolio Manager of the Capstone First Mortgage Fund. Upon the identification of an investment opportunity by MarshallZehr Group Inc., Capstone exercises a rigorous due diligence process to ensure the investment meets the fund's criteria. Suitability is determined through the evaluation of management, loan to value ratios, project execution potential, cashflow timelines, and the general financial health and capitalization of the borrower and any related projects.

THE MORTGAGE ADMINISTRATOR

MarshallZehr Group Inc. has been retained as mortgage administrator for the Fund. Located in Ontario, David Marshall and Gregory Zehr each bring more than 25 years of experience in the financial services and real estate industries. MarshallZehr works diligently to source excellent mortgage lending opportunities that meet Capstone's conservative criteria, and once approved by our portfolio managers, they service, administer and monitor the mortgages until they mature. The fees earned by MarshallZehr are paid by the borrower, not the Fund.

ACCESSING THE FUND

The Capstone First Mortgage Fund forms a key component of many of our discretionary portfolios, but it can also be accessed as a standalone investment, subject to certain conditions. It is also available to institutional investors.

HOW RISKY IS IT?

Capstone has rated this Fund as low-medium risk. We consider the mortgage approval process to be disciplined and thorough, security of real property is required, terms of maturity are 3 years or less, and full disclosure of the terms and return is provided at the start of the project. Please see the Information Memorandum for further information on the specific risks of this Fund.

DISTRIBUTIONS

- › Occur monthly
- › Are reinvested as additional units unless requested as cash
- › Are comprised of interest income

BENEFITS

- › Fund structure enables funding of multiple diverse projects thereby reducing overall risk
- › High level of regular cash flow
- › Monthly valuation
- › Semi-annual liquidity (January and July with 90 days notice)



Capstone Asset Management Inc. is a Portfolio Manager, Investment Fund Manager and Exempt Market Dealer active in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia and Newfoundland & Labrador.

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