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CAPSTONE ASSET MANAGEMENT™

ECONOMIC UPDATE

2017 was an exceptionally strong year for the Canadian economy and its growth clocked in at 3%. As a result, interest rates steadily increased throughout the end of 2017 and into early 2018 and settled at 1.25% in January. The Bank of Canada has been carefully watching economic data to determine if rate increases are necessary, and factors such as economic capacity, the impact of interest rates and technology changes to inflation, the health of the labor market and household debt levels are all considered before adjustments are made. Solid economic numbers throughout the end of 2017 made the last hike in January an easy decision and depending on the data, we may be seeing further rate increases later in the year.

Interest rates in the U.S. are trending along the same lines as those in Canada. In March, the Fed moved their target interest rate range to 1.50%-1.75%. This was primarily in response to inflation creeping closer to the Fed's target of 2% as well as strength in the U.S. labour market. Going forward, the Fed will consider raising rates more aggressively if indicators suggest the economy is becoming over-heated. While higher rates may squash over-inflation concerns, raising them too quickly can also increase the risk of a recession. Finding an appropriate balance will require a delicate hand in the months and years ahead.

Also affected by interest rate changes has been the traditional bond market. In Canada, as rates have moved up, bond prices have steadily come down. This past quarter the iShares DEX Universe Bond Index Fund (XBB), a good representation for the traditional bond market, closed down -0.25%. While traditional bond volatility has been negative, the fall has not been significant. However, it continues to be our opinion that a bond portfolio should include a component of non-traditional fixed income assets as their price volatility is typically less correlated to rate changes and this can provide investors with additional stability within a rising rate environment.

Although positive economic data in both the U.S. and Canada has contributed to interest rates going up, everything is not completely rosy. In the U.S., investors are dealing with the real threat of a trade war with China, potential new regulations for large technology companies and the prospect of changing monetary policy. These threats, plus others, could cause the economic train to slow considerably; affecting investors in both the stock and bond markets.

IN THIS ISSUE

Talk to your portfolio manager today about contributing to your registered retirement plan.

ECONOMIC UPDATE CONT…

We see perhaps even greater risks to the growth potential within Canada. If a trade war is engaged by our neighbors to the south, it is unlikely Canada will be unaffected. Furthermore, it can be argued that while the U.S. has worked hard to implement a pro-business environment domestically, Canada more recently implemented stiffer taxation rules for small business owners. Only time will tell how this type of prohibitive policy affects the labour market and corporate expansion plans in the future.

Additional risks are present in Canada's resource sector. Controversy between BC, Alberta and the federal government over oil transportation and pipelines is significantly affecting the valuation and profitability of the companies involved. While the price of oil has rallied globally, Canada's oil companies are trading at a discount and will likely continue in this fashion until some of these issues are resolved.

Over the past 12 months, Canada's housing market has been affected by both interest rate changes and various policy initiatives intended to cool heated markets and to control household debt levels. Most notably, stiffer lending rules which now requires stress testing for borrowers with more than 20% down payment were implemented by the banking sector in January. Ideally these changes will ensure borrowers can afford their level of debt if interest rates continue to rise.

Given that most of the mortgage lending Capstone extends is in The Greater Toronto Area (GTA), we are paying close attention to this specific region. While media headlines over this past quarter have focused on the slowdown in the Ontario housing market and possibly caused some investors concern, it is important to note that record property valuations from last Spring are being used in the comparison. After an incredible spring run-up in 2017, we saw a weaker second half of the year and in a lot of ways, a further stabilization of prices in the beginning of 2018. Construction remains strong in Ontario and it is our opinion that the market probably got ahead of itself for a bit last year. This recent slowdown is likely a necessary and healthy pullback and is not surprising considering the many changes introduced by various levels of government. These, combined with interest rate increases, have caused buyers to show more caution as they observe how the market will embrace and absorb the changes.

Although we have yet to see weakness in the Ontario housing market specifically, there are still very real risks present. The impact of rising minimum wage rates and the potential renegotiation of NAFTA could significantly threaten Ontario's manufacturing industry, and Canada's ability to remain globally competitive. The consequences of this could be higher unemployment, a slowing of consumer spending and weakness in the housing market.

Diversifying our portfolios in a variety of ways, such as by investment type, location, risk profile, and timeline will all assist in better protecting against future risks. At the same time, we continue to seek investments that provide excellent risk adjusted returns while taking advantage of the opportunities and strengths we see in the market.

If it has been more than a year since your last meeting with our office, or if your circumstances have materially changed, please be in touch with your Portfolio Manager directly.

NEW FACES IN CAPSTONE'S IMT

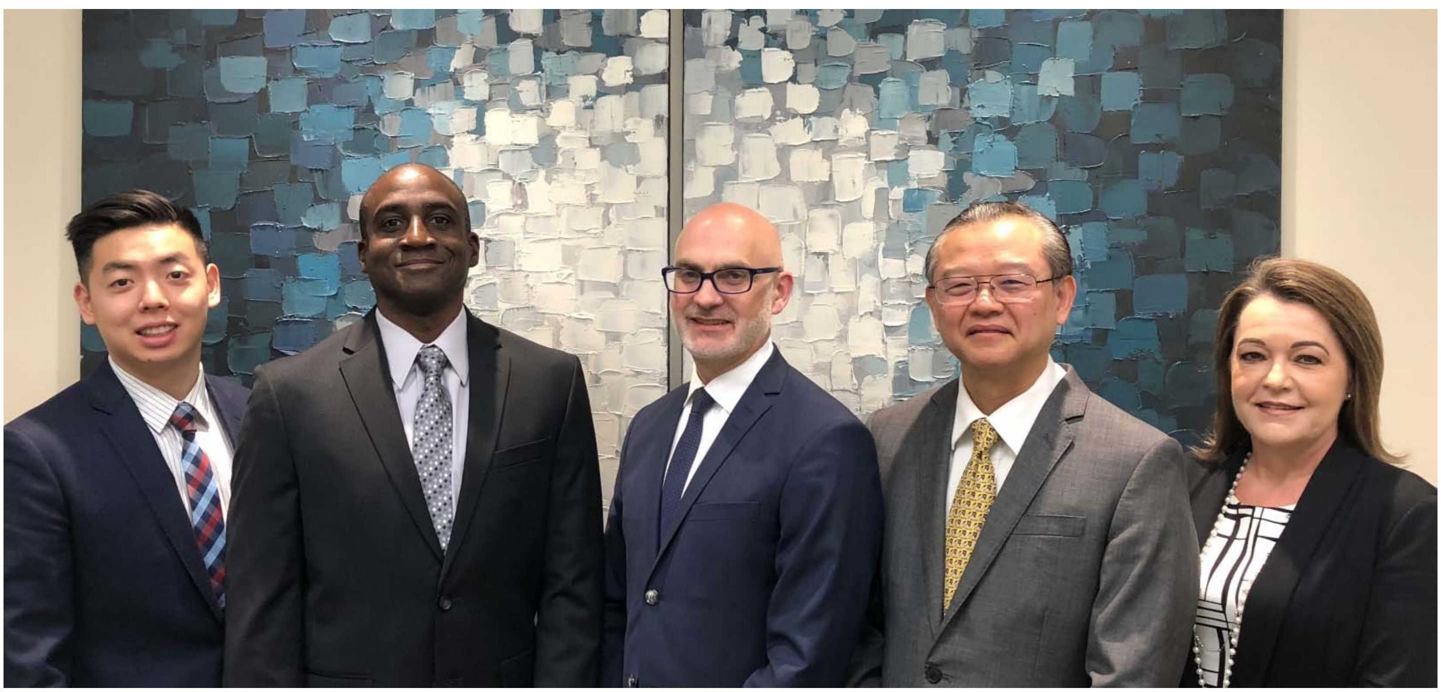
2018 has seen many changes within Capstone's Investment Management Team (IMT). This group provides research, analysis and portfolio management to all the Capstone funds. Through comprehensive qualitative and quantitative research and analysis, the team looks to find investment opportunities across the full spectrum of traditional and non-traditional asset classes. Their goal is to find asset mixes that align with the funds' mandates and provide a well balanced portfolio. On three of the funds, the Investment Committee (IC) provides a further layer of oversight prior to the purchase or sale of any investments.

All members of the IMT provide their personal insight and perspective so that multiple perspectives will benefit the portfolio, rather than relying on a sole manager.

DJ Bowen joined the team early this year. After graduating from UBC in Cellular & Developmental Biology, he had developed a keen interest in finance and technology. This passion led to 20 years of financial industry experience, where he occupied roles as a derivatives broker, discretionary Portfolio Manager, statistical / merger arbitrage trader, and quantitative analyst. As a Research Analyst, he is now tasked with using traditional and quantitative methods to evaluate new investment opportunities.

As Junior Analyst, Roger Qi is the newest member of the IMT and comes to us from Ontario. He holds an Honors Bachelor of Business Administration degree from Wilfrid Laurier University and an Honors Mathematics degree from the University of Waterloo. He will be writing the second level CFA exam in June.

Jennifer Natareno previously provided administrative support to Capstone's Chief Compliance Officer, Stephen Smith, and will be returning from maternity leave in April. Her role going forward will be to provide administrative support to the entire IMT group.



Capstone's IMT from left to right: Roger Qi, DJ Bowen, Glenn Murray, Victor Whang, Leanne Tharratt. Jennifer Natareno will join the team at the end of April.

Proverbs 24:3-4 "By wisdom a house is built, and by understanding it is established; and by knowledge the rooms are filled with all precious and pleasant riches."

CAPSTONE'S POOLED FUNDS SUMMARY

Performance figures are those of Class I units as of March 31, 2018

Capstone Mortgage Pool
Diversified pool of construction and development mortgages (Launched April 30, 2012)

3 Month:	2.12%
1 Year:	9.02%
Inception:	9.49%

Capstone Fixed Income Pool
Conservative, traditional and non-traditional income (Launched November 1, 2013)

3 Month:	1.40%
1 Year:	4.64%
Inception:	4.35%

MarshallZehr Mortgage Opportunities Fund
Diversified pool of construction and development mortgages (Launched July 31, 2014)

3 Month:	2.03%
1 Year:	8.50%
Inception:	9.24%

Capstone Non-Traditional Equity Pool
Diversified portfolio of non-traditional equity investment opportunities (Launched May 2, 2014)

3 Month:	2.67%
1 Year:	8.85%
Inception:	7.20%

Capstone Traditional Equity Pool
Value-based approach to investing in traditional markets (Launched November 14, 2014)

3 Month:	0.65%
1 Year:	3.89%
Inception:	4.69%

MarshallZehr First Mortgage Fund
Diversified pool of construction and development mortgages (Launched August 31, 2016)

3 Month:	1.48%
1 Year:	5.82%
Inception:	5.57%

Class I Funds are only available to Capstone's managed account clients and certain institutional investors.
Performance is annualized for periods longer than one year.

STEWARDING EFFECTIVELY

Many have good intentions to steward their financial resources in a wise manner. However, often we can be more generous with our time, talent and treasure, and sometimes all that is required is the creation and implementation of a good financial plan. Practically speaking, this includes the application of sound financial principles, such as:

- Spend less than you earn, save the difference, and do it for a long time. This requires you to know where your money is going, to communicate effectively with family members, and to be a disciplined spender.
- Live in a home you can afford.
- Do not presume upon the future. This means we need to manage and evaluate risks wisely.
- Be very careful with your use of debt and avoid it if possible.
- Strive purposefully to provide for your family's needs.
- Build into your life financial accountability, especially within areas that you struggle.
- Create a written financial plan or work with someone who can create one for you.

If we all strive to implement these principles on a regular basis, perhaps we can be more effective in managing what we have been given, and subsequently, be more generous as well.