

## ECONOMIC UPDATE

Is this the calm before the storm? While this past quarter has felt quiet with the passing of summer to fall, we are well aware that there are many economic and political issues at play that can easily impact investors as the year closes.



Canada's imminent federal election will be a notable indicator of what is to come as there have been many political promises and priorities that could affect the state of the economy. At this point, the race is close and according to the polls, we have yet to see a party break away. Canada may be looking at a minority government if this trend continues until election day, and with no clear leader, this could create a difficult environment for the years ahead.

By the end of September, the problem of affordability for the average Canadian emerged as a key election issue. Consequently, each party has adopted affordability as a cornerstone of their platform and the campaign promises have focused on the economy, while also addressing environmental concerns.

Throughout this past quarter, the Canadian housing market has seen a stabilization in value and sales, most notably in some of the larger regions such as Vancouver and Toronto. However, the numbers are still not where they were at the peak of 2017 prior to the Stress Test and other government policies implemented to cool an overheated housing market. While these policy measures have been mostly successful in dampening demand and moderating household debt levels, many believe there is still work to be done to address the strain on the supply side, as well as to assist those who are not yet in the market.

To this end, each of the parties has brought their proposals forward: the Conservatives are focusing on revisions to the Stress Test and increasing amortizations on insured mortgages to 30 years, while the Liberals are looking to expand First Time Home Buyers' incentives while implementing a national vacancy and speculation tax. The Greens and NDP have announced a variety of policies, primarily focused on increasing low income housing availability, with the more interesting proposal by the Greens of appointing a National Housing Minister.

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

## ECONOMIC UPDATE

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Despite the many ambitious proposals aimed at addressing housing affordability, the real estate market remains one of the most important components to the Canadian economy. As such, it is unlikely any party will attempt to modify it too much. The stakes are simply too high. While addressing affordability is key, the truth is that supply still remains low and the red tape for developers is becoming an increasingly significant barrier to entry. These issues will not be solved overnight, and orchestrating a healthy market requires a multi-pronged approach.



What does all of this mean for Capstone investors? With housing as a leading indicator of overall Canadian economic health, it is reassuring to see the real estate market remain stable. This also means that mortgage investments managed by Capstone have a healthy outlook. We continue to see quality investment opportunities on the development front, allowing us to be selective when choosing new projects. Overall, the mortgage portfolios are maintaining their long-term average returns and the Capstone team is able to quickly deploy maturing funds into new, high quality investment opportunities.

On the global front, we continue to monitor the trade tensions between the U.S. and China and the growing

impact this situation is having on the world's economy. Recently released data on the manufacturing sector showed that a slower pace, not seen since 2008, caused markets to respond negatively. While there is little room for central banks to stimulate markets by lowering rates any further than they already are, we did see our neighbours south of the border experience two rate cuts, with the Fed rate falling 50bps since June.

For the past several years, the Bank of Canada has had a clear agenda to increase interest rates in order to move away from "emergency rate" territory. After several seasons of interest rate hikes, this past year has seen renewed pressure towards a decrease in rates to stimulate an economy that appears to be slowing. When interest rates go down, bond prices go up. In this case, while rates did not actually move in Canada, the market appears to have factored in a rate cut, demonstrated by benchmarks such as the iShares Canadian Universe Bond Index returning 7% over the past 6 months.

Within the Capstone Fixed Income Pool, the duration of bonds continues to be very short and this means that changes in interest rates are less likely to have a dramatic impact on the Pool's return. That said, this past quarter has been particularly difficult on the global, traditional side of the portfolio as we have seen much higher than typical volatility negatively impact the overall return. As a result, Capstone's Investment Committee has determined to replace this position with another opportunity more in line with the Pool's mandate of stability.

As we enter the final quarter of 2019, it is important to remember that no one can predict the future. Investment decisions are made based on past performance and information that may point to trends ahead. Surprises can, and often do, crop up and investors need to be ready. Is your portfolio prepared for market surprises? Are you appropriately diversified and is your investment plan meeting your objectives? If you would like to discuss this further with one of Capstone's Portfolio Managers, please contact us at [privatewealth@capstoneassets.ca](mailto:privatewealth@capstoneassets.ca).



Command those who are rich in this present world not to be arrogant nor to put their hope in wealth, which is so uncertain, but to put their hope in God, who richly provides us with everything for our enjoyment. ~ 1Timothy 6:17 (NIV)

## CAPSTONE PRIVATE HIGH INCOME POOL

Capstone is excited to announce a new fund, the Capstone Private High Income Pool, which is scheduled to launch prior to the end of the year. This new investment opportunity is for those who are well-suited to its risk profile and timeline.



### WHY DID YOU DECIDE TO LAUNCH A NEW POOL?

Lending to the success of our Mortgage Funds, we realized there is an increasing desire for high income. This appetite for high income producing assets led us to the Capstone Private High Income Pool, focusing on global high income opportunities, which may be derived from either equity or fixed income asset classes.

### WHAT IS THE GOAL OF THE POOL?

This strategy seeks to generate an above average yield through private solutions not easily accessible to the average retail client. Over the long-term, the Pool will have a target rate of return of 8%+ annualized.

### WHO IS THIS POOL SUITABLE FOR?

This investment is suitable for those with a medium to long time horizon and a lower-medium to high risk tolerance. It is eligible to be held in registered plans (such as RRSPs and TFSAs).

### WHAT TYPES OF UNDERLYING INVESTMENTS WILL BE HELD WITHIN THE POOL?

The key investment mandate is income generation. Although we can use equity or fixed income solutions, fixed income will be the primary vehicle and within that, private debt will likely form the principal component of the strategy.

### IS THIS ANOTHER MORTGAGE FUND?

Although the initial flagship investment will be in partnership with a private mortgage lender focused in the Western U.S., the focus for the fund is on any global, high income private opportunity.

If you are interested in learning more about this new investment, please speak to your Portfolio Manager directly or contact our team at [privatewealth@capstoneassets.ca](mailto:privatewealth@capstoneassets.ca)



Command them to do good, to be rich in good deeds, and to be generous and willing to share. In this way they will lay up treasure for themselves as a firm foundation for the coming age, so that they may take hold of the life that is truly life. ~ 1 Timothy 6:18-19 (NIV)

## CAPSTONE'S POOLED FUNDS SUMMARY

Performance figures are those of Class F units as of September 30, 2019

### **Capstone Mortgage Pool**

Diversified pool of construction and development mortgages  
(Launched November 30, 2012)

3 Month:	1.90%
1 Year:	7.80%
Inception:	7.96%*

### **Capstone Fixed Income Pool**

Conservative, traditional and non-traditional income  
(Launched December 6, 2013)

3 Month:	-1.14%
1 Year:	2.36%
Inception:	3.12%*

### **MarshallZehr Mortgage Opportunities Fund**

Diversified pool of construction and development mortgages  
(Launched July 15, 2014)

3 Month:	2.01%
1 Year:	8.08%
Inception:	8.19%*

### **Capstone Non-Traditional Equity Pool**

Diversified portfolio of non-traditional equity investment opportunities  
(Launched June 6, 2014)

3 Month:	0.70%
1 Year:	3.45%
Inception:	4.95%*

### **Capstone Traditional Equity Pool**

Value-based approach to investing in traditional markets  
(Launched December 12, 2014)

3 Month:	0.76%
1 Year:	-4.13%
Inception:	2.70%*

### **MarshallZehr First Mortgage Fund**

Diversified pool of construction and development mortgages  
(Launched July 31, 2016)

3 Month:	1.48%
1 Year:	5.90%
Inception:	5.51%*

\*Performance is annualized for periods longer than one year.

## CELEBRATING CAPSTONE'S 15 YEAR ANNIVERSARY

This July we celebrated Capstone's 15 year anniversary with a dinner out in the city of Vancouver at The Victor. We have a small, but mighty team and so this opportunity to have a time of fellowship outside of the office was warmly welcomed. It was a gathering full of delicious food, laughter and a few heartfelt speeches.

The Capstone Team in Vancouver outside of The Victor Restaurant. Left to Right: Brooke Pike, Maria Dawes, Janet Kim Sing, Denise Detweiler, Leanne Tharratt, Beth Murray, Glenn Murray, Stephen Smith, Heather Chua, John Pritchard, Mikal Anderson, Dora Fejes, Cory Gaston, and Colleen Guirr.



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