

MARSHALLZEHR FIRST MORTGAGE FUND LP

Q1 Commentary

CAPSTONE
ASSET MANAGEMENT™

AT A GLANCE

MARCH 31, 2018

- Construction & development mortgages in Canada
- Investing in the most secure portion of the debt stack, considered bank grade and traditionally provided by lending agencies such as Canadian Banks, Trust companies and Credit Unions.
- Terms are 3-36 months
- Low to no correlation to bond and equity markets
- Liquidity is accommodated semi-annually with 90 days' notice
- \$10MM AUM

MARKET & POOL UPDATE

The MarshallZehr First Mortgage Fund (MZFMF) extends financing to real estate developers in the Greater Toronto Area. Unlike the other mortgage pools managed by Capstone, this one focuses solely on bank grade debt with exceptionally secure risk metrics.

Over this past quarter, media headlines have focused on the slowdown in the Ontario housing market. However, it is important to note that the comparison is using record property valuations from last Spring. After the early year run-up, we saw a weak second half of 2017 and in a lot of ways, a stabilization of prices in the beginning of 2018. This recent slowdown is likely a necessary and healthy pullback and is not surprising considering the many policy changes introduced by various levels of government. While developers are healthy, and supply still appears to be short, there are some very real risks to the housing market that we are keeping a close eye on. These include the impact of rising minimum wage rates and the potential renegotiation of NAFTA. The consequences of these could be higher unemployment, a slowing of consumer spending and weakness in the housing market. By applying effective diversification while employing a rigorous due diligence process, we strive to mitigate some of these risks while maintaining a stable return.

As mentioned in previous commentaries and worth repeating, a significant impact to returns has come from the inclusion of DIP (Debtor in Possession), which are priority loans administered through the court system. The security on these projects is incredibly attractive (usually 10-35% loan to value) and the process is entirely supervised by the court appointed receiver. These positions have been providing above average returns with exceptionally low risk parameters.

OUTLOOK & POSITIONING

Performance for the MZFMF over the past quarter came in at 1.41% and terms to maturity are averaging around 8 months. Capstone's expectations for 2018 remain very positive and 5% continues to be the target average return. This portfolio is an excellent option for investors seeking a low risk, fixed income solution which provides regular monthly distributions and is uncorrelated to traditional bond and stock markets.

This 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 (Net of fees)

Performance figures are those of Class F units as of March 31, 2018. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR	INCEPTION*
0.48%	1.41%	2.79%	5.55%	5.18%

*Launched July 31, 2016