MARSHALLZEHR FIRST MORTGAGE FUND LP

Q1 Commentary

CAPSTONE
ASSET MANAGEMENT™

MARCH 31, 2019

AT A GLANCE

- Construction and 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 twice per year (January and July) with 90 days' notice
- $13MM AUM

MARKET & FUND UPDATE

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

We have been saying for a while now that it takes time for monetary and fiscal policy changes to be absorbed into the economy. Over the past few years there have been many new changes thrown at Canadians. Several have focused on the housing market, but alongside these policy changes, we have also experienced five interest rate hikes since 2017. It is our belief that we are finally beginning to see the impacts of these changes. Growth appears to be slowing in many areas of the Canadian economy and, for this reason, we believe the Bank of Canada is likely to hold steady on interest rates in 2019. Additionally, we may even see an interest rate cut if the Canadian economy continues to decline.

On the Canadian housing front specifically, the slowing pace of growth has not been much of a surprise. While we have seen housing prices decline in many Canadian regions over the past six months, investors would be wise to remember that price declines do not mean price collapse. While markets are no longer red hot, there is still pent up demand and supply issues in many regions. In fact, in many areas the year over year price changes have remained the same or even increased. This is particularly true for the GTA and city of Toronto, which remain the geographic exposure of the MarshallZehr First Mortgage Fund.

Over the past three months this fund has returned 1.39%, or 5.41% annualized, and this is right in line with our expectations. For the remainder of 2019 we anticipate a 5%+ return for investors with stable cashflow. Demand for bank grade debt remains high and any new deposits or maturities within this fund are easily placed.

PERFORMANCE (Net of Fees)

Performance figures are those of Class F units as of March 31, 2019. Performance is annualized for periods longer than one year.

1 MO.	3 MO.	6 MO.	1 YR.	2 YR.	INCEPTION*
0.47%	1.39%	2.82%	5.79%	5.67%	5.41%

**Launched July 31, 2016*