

# MARSHALLZEHR FIRST MORTGAGE FUND LP

Q2 Commentary

CAPSTONE  
ASSET MANAGEMENT™

JUNE 30, 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

A year ago, the Federal and Provincial Governments imposed more stringent regulations on the housing market in an attempt to cool quickly rising prices and manage personal debt levels. While there has certainly been a softening in some segments, the housing market has not seen the hard landing that some predicted. Sales in the higher-end single family homes have certainly fallen off, but the more recession proof multi-family developments remain in strong demand.

A trend we are seeing in the Ontario housing market is that many buyers are making regional plays. This means that buyers are moving outside their preferred location and purchasing less square footage; if there is access to transit, that is a bonus. A smaller home and public transit mean better affordability. Developers capturing this segment of the market are experiencing excellent success with their projects.

In addition to migration, we also continue to see strong immigration in the GTA. In the densely populated corridors of the south, the issue of "more heads than beds" remains a key driver for high prices. The bottom line is that developers cannot build homes fast enough to satisfy the demand of population growth in this region.

It was a busy quarter as the MarshallZehr First Mortgage Fund saw \$3.3M in maturities and was able to provide financing to \$4.8M in new projects. This activity represented a nearly 40% turnover rate for the portfolio. With the new rules implemented in 2018, many good developers are seeking alternative sources of capital and are willing to pay competitive rates for quick financing solutions to keep their projects on time. The magnitude of the opportunities in this segment of the market has allowed Capstone to be picky when choosing projects. This has caused the MZFMF to outperform the fund's long-term targets while maintaining an excellent risk profile. Over the past year, this investment has provided a 5.88% return net of fees, exceeding the target of 5%. Looking at the second half of 2019, the current attractive environment for this type of financing leads us to believe this fund has the potential to continue providing investors with an above average return for the risk that is taken.

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 June 30, 2019. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	2 YR.	INCEPTION*
0.48%	1.49%	2.90%	5.88%	5.77%	5.47%

\*Launched July 31, 2016