

MARSHALLZEHR FIRST MORTGAGE FUND LP

Q3 Commentary

CAPSTONE
ASSET MANAGEMENT™

SEPTEMBER 30, 2017

AT A GLANCE

- 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
- \$11MM AUM

MARKET & POOL UPDATE

This past quarter was characterized by the Bank of Canada (BoC) raising interest rates twice, to settle at 1%. However, unlike many other mortgage or real estate investment options, the MarshallZehr First Mortgage Fund's yield has been fairly insulated against domestic interest rate changes. In fact, interest rates relating to construction lending are far more influenced by the quality of the project itself and its underlying factors, as well as the completion of permit and zoning requirements. Consideration is given to the financial health of the developer, pre-sale volume and deposit amounts. Many developers are now asking for 20% deposit instead of 5-10% for new builds. These factors provide greater project security and influence the rate that a developer is charged on its loans.

Over time, residential rate changes can affect overall real estate sales volumes, but it is also true that in a healthy economy, interest rate affordability issues may be offset by rising wages. For these reasons, BoC decisions to raise or lower rates are not directly correlated to this investment's yield.

OUTLOOK & POSITIONING

Capstone's Investment Management Team is very selective in accepting mortgages into the MarshallZehr First Mortgage Fund. Currently there are 15 projects in this portfolio and they are diversified by developer, type, and location. This investment holds several large positions, but the majority are under \$500,000 each. Recently, this fund has had the opportunity to participate in several DIPs (Debtor in Possession contracts), which are first priority loans initiated when projects are 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. This Fund is participating in several small DIP positions and expecting above average returns with exceptionally low risk parameters.

The long-term target return for this portfolio is 5% annually and performance is currently on track to achieve this target. The MarshallZehr First Mortgage Fund is suitable for investors who do not have short term liquidity requirements, but are looking for a low risk, fixed income option that is not correlated to traditional bond or 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 September 30, 2017. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	INCEPTION*
0.49%	1.38%	2.68%	4.97%

*Launched July 31, 2016