MARSHALLZEHR FIRST MORTGAGE FUND LP

Q3 Commentary

CAPSTONE
ASSET MANAGEMENT™

SEPTEMBER 30, 2018

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 semi-annually with 90 days' notice
- $11MM AUM

MARKET & FUND UPDATE

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

Ontario has seen a stable housing market throughout the last quarter and trends remain healthy. While sales and price hikes have not burned as hot as previous years, stability is preferable from an investment perspective. The MZFMF continues to partner with builders who see great development opportunities in the GTA and sales of existing projects have been strong. This fund remains fairly small and we continue to see more demand than the fund can provide. This is a good problem to have, as excellent supply means we can be selective to ensure the fund is well diversified with quality projects.

Several factors have been influencing the economic climate in Ontario and we continue to watch these closely. First, the Bank of Canada raised interest rates in July and this, combined with more stringent lending rules, has made borrowing a bit more difficult for both residential and commercial borrowers. Additionally, the renegotiation of NAFTA—now named USMCA—has created a general level of investor uncertainty in the marketplace, which is why we were very pleased to see a preliminary deal struck at the end of September. The new agreement seems to have provided some protection within the auto industry, as well as maintained the current trade dispute settlement mechanisms. Since Ontario has a heavy auto manufacturing and export industry, these provisions should bode well in managing employment risks.

The MZFMF has continued to steadily move forward and has provided very little excitement so far throughout 2018. Demand for bank grade debt, such as this fund provides, remains high and any new deposits or maturities are easily placed.

Performance for the MZFMF over the past quarter came in at 1.46% and this is right on target with averages from previous quarters. The 1-year return as of September 30 was 5.75%, which is above the long-term performance target of 5%. Our expectations for the remainder of 2018 are very positive and we anticipate returns for this fund to either achieve or outperform its long-term average.

PERFORMANCE (Net of fees)

Performance figures are those of Class F units as of September 30, 2018. Performance is annualized for periods longer than one year.

1 MO.	3 MO.	6 MO.	1 YR.	INCEPTION*
0.48%	1.46%	2.89%	5.75%	5.33%

**Launched July 31, 2016*