

MARSHALLZEHR FIRST MORTGAGE FUND LP

Q4 Commentary

CAPSTONE
ASSET MANAGEMENT™

DECEMBER 31, 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 twice per year (January and July) 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. Unlike other mortgage portfolios at Capstone, this one focuses solely on bank grade debt with exceptionally secure risk metrics.

On the Canadian housing front, the activity seen in 2018 was not much of a surprise, as the market was already shifting to a slower pace at the end of 2017. We expected rising interest rates and were aware of the implementation of stricter borrowing regulations, all of which resulted in a slowing of home sales and price increases compared to previous years. In our opinion, the current market trends are healthier than what we have seen for a while, but we are closely watching unemployment rates in various regions as these can be early indicators of housing market strength or vulnerability.

Throughout 2018, the MZFMF experienced full maturities for mortgages relating to 3 projects and the fund extended financing to 1 new project. By the end of the year, the MZFMF was funding 10 projects for 9 developers. Demand for bank grade debt remains high and any new deposits or maturities within this fund are easily placed.

The MZFMF has continued to steadily move forward and has provided very little excitement so far in 2019. The return for the past year provided a solid 5.82% for investors, exceeding the 5.00% long term target set for this fund. Our expectations for the remainder of 2019 are very positive and we anticipate returns for this fund to either continue or exceed its current long-term average.

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 December 31, 2018. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	INCEPTION*
0.48%	1.41%	2.89%	5.82%	5.37%

*Launched July 31, 2016