

MARSHALLZEHR MORTGAGE OPPORTUNITIES FUND LP

Q4 Commentary

CAPSTONE
ASSET MANAGEMENT™

DECEMBER 31, 2019

AT A GLANCE

- Construction and development mortgages in Canada
- Diversified by developer and development type (high density residential, retail space, etc.)
- 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
- \$132 MM AUM
- Current price: \$102.1493 (Class F)

MARKET & FUND UPDATE

The Canadian housing market was down 2.3% in 2019. Ontario posted the largest decline out of all the provinces, likely the result of affordability and stress tests. Despite the overall decline, the Greater Toronto Area (GTA) has continued to see sales growth throughout the past quarter tracking alongside population growth as the demands for housing continue to rise. The condo market has also seen a noticeable uptake, specifically on micro units that are under 500 square feet. There continues to be a huge migration to the GTA and the GO Transit Service has helped to open up accessibility for commuters. Difficulties in obtaining new building site permits and greater demand than there is supply, by about 3:1, has kept housing costs high within the GTA.

This quarter, one of the MarshallZehr Mortgage Opportunities Fund projects was successfully sold to owners who have implemented a new transition strategy for the property, thereby creating new value. This development has allowed us to recover and recapitalize with a strong business strategy for the project moving forward. The MZMOF returned 2.54% for the quarter, our strongest to date.

Capstone's focus continues to be on housing affordability, so we shy away from sites with limited market appeal. There are also yield improvements to be found when seeking opportunities outside of the core where there is less competition. We are financing less retail space at this time due to uncertainty regarding big box stores and the gaining popularity of online shopping. Overall, the mortgage portfolios are maintaining their long-term average returns and the Capstone team is able to quickly deploy maturing funds into new, high quality investment opportunities.

The MarshallZehr Mortgage Opportunities Fund is currently funding 40 projects across 23 developers. This quarter we saw 7 projects mature and funded 2 new mortgages, with more in the pipeline. Capstone diversifies this portfolio by a variety of characteristics such as developer, location and project type. As we commence 2020, we expect business to continue as usual and stability combined with high yields remain the primary objectives for this portfolio.

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



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
0.92%	2.54%	4.60%	8.83%	7.47%	8.24%	8.30%

*Annualized as of the first trade date July 15, 2014