

# MARSHALLZEHR MORTGAGE OPPORTUNITIES FUND LP

Q1 Commentary

CAPSTONE  
ASSET MANAGEMENT™

MARCH 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
- \$124MM AUM

## MARKET & FUND UPDATE

We have been saying for a while now that it takes time for monetary and fiscal policy changes to be absorbed into the economy. Over the past few years there have been so many new changes thrown at Canadians. Many of these have focused on the housing market, but alongside these policy changes, we have also experienced five interest rate hikes since 2017. It is our belief that we are finally beginning to see the impacts of these changes. Growth appears to be slowing in many areas of the Canadian economy and, for this reason, we believe the Bank of Canada is likely to hold steady on interest rates in 2019. Additionally, we may even see an interest rate cut if the Canadian economy continues to decline.

On the Canadian housing front specifically, the slowing pace of growth has not been much of a surprise. While we have seen housing prices decline in many Canadian regions over the past six months, investors would be wise to remember that price declines do not mean price collapse. While markets are no longer red hot, there is still pent up demand and supply issues in many regions. In fact, in many areas the year over year price changes have remained the same or even increased. This is particularly true for the city of Toronto and GTA, which remains the geographic exposure of the MarshallZehr Mortgage Opportunities Fund.

As a response to softening in the housing market, the MarshallZehr Mortgage Opportunities Fund has focused over the past 18 months on bolstering the quality of the portfolio. In return for better quality it has sacrificed some yield. While the long-term target for this fund remains at 8%, this past quarter returns have been in the 7.8% (annualized) range. Looking into 2019, we would expect this trend to continue. This pool currently holds 43 mortgages with 23 developers. Capstone's Investment Management Team works hard to find quality opportunities to provide investors with both a consistent distribution and a solid capital foundation.

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 March 31, 2019. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	INCEPTION*
0.67%	1.96%	3.83%	7.92%	7.56%	8.18%

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