

MARSHALLZEHR MORTGAGE OPPORTUNITY FUND LP

Q2 Commentary

CAPSTONE
ASSET MANAGEMENT™

JUNE 30, 2017

AT A GLANCE

- Construction & 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 semi-annually with 90 days' notice
- \$90MM AUM

MARKET & POOL UPDATE

The second quarter of 2017 brought extensive media attention focused on the housing market in Ontario. The Ontario provincial government announced 16 new housing measures to curb the rapid increase in housing prices, but it is our opinion that these are a little bit too late and its influence will lessen over time. What is probably creating a bigger impact in the rise of prices is the significant lack of housing supply. It is our opinion that this is primarily due to developers wrestling with ever increasing government red tape and a tightening of financing in this arena.

Home Capital, a major financier of development projects in the GTA, was also chief in headlines this past quarter. Their heavy media attention and conflict with the OSC resulted in them turning off the taps to developers and focusing all their attention on creating liquidity in the face of massive deposit withdrawals. By the end of the quarter, Warren Buffet stepped in to back the flailing company and to restore investor confidence. However, at least temporarily, the damage has been done. Their lack of financing increased the gap in the market and painfully highlighted to some developers the risk they can face when remaining loyal to one or a limited few financiers. This situation has opened many doors for Capstone's mortgage pools as well-established developers boasting projects with excellent risk metrics look for alternative funding solutions.

OUTLOOK & POSITIONING

Improving the MarshallZehr Mortgage Opportunity Fund's diversification and risk metrics is one of the best ways Capstone can manage the portfolio's risk profile as a whole. This quarter has seen new developers join the pool with new projects boasting strong capitalization for their interest rate charged. Throughout the past 3 months, the MarshallZehr Mortgage Opportunity Fund experienced 1 project maturity worth \$3.2MM and provided 8 new fundings worth a total of \$6.8MM. There is still a cash position of 5% and it is expected that the majority of this will be invested within the first few weeks of July. By June 30th, the Pool was diversified by 32 different projects with a total of 21 developers.

Capstone Asset Management continues to look for innovative opportunities to provide investors with an excellent return for the risk taken. Targeting a long-term net return of 8% net of fees, this pool continues to deliver exceptional value for investors seeking access to the construction financing market in the GTA.

PERFORMANCE (Net of fees)

*Performance figures are those of Class F units as of June 30, 2017. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR	INCEPTION*
0.66%	2.02%	4.11%	8.78%	9.20%	9.36%

*Launched July 31, 2014