MARSHALLZEHR MORTGAGE OPPORTUNITY FUND LP

Q2 Commentary

CAPSTONE ASSET MANAGEMENT™

JUNE 30, 2018

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 semi-annually with 90 days' notice
- $120MM AUM

MARKET & FUND UPDATE

Towards the end of this past quarter we have seen a gradual stabilization in the Ontario housing market after a slowdown during the first part of 2018. New mortgage financing rules combined with the implementation of various provincial housing regulations have sought to cool overheated markets. Combined with interest rate increases, buyers have shown more caution as they observe how the market will absorb these changes.

While the market slowdown has stabilized, the MarshallZehr Mortgage Opportunity Fund remains strong and no new pressures on projects have originated. That said, the 2017 financial audit by the fund's new auditor, PWC, was completed this past quarter. PWC took a more interpretive approach to the risk profile and valuations of the mortgages compared with the previous auditor and combined with the implementation of updated financial reporting standards, they recommended a write-down on the value of three mortgages. To maintain a conservative approach, Capstone agreed with this recommendation and the resultant price adjustment was implemented on April 30, 2018. The fund retroactively experienced a -1.78% performance for January 2018, while interest distributions have remained average. The result of this decrease in performance earlier in the year has caused the 1-year performance to drop from an annual average of 8+% to 5.48% (to June 30).

In spite of the write-downs to three project valuations, and the subsequent drop in price to the overall fund, there is still the possibility of recovering this amount because these are not yet completed. If these projects experience a better resolution than the auditors expect, then the price of the fund will increase to recover the corresponding amount that was written down.

Understandably, the price decline implemented this past quarter took many investors by surprise, but investors should be reminded that like most investments, this fund too holds no guarantees and is subject to various risks. While Capstone works hard to choose solid investments and to diversify the fund in many ways to mitigate many of these risks, not everything can be foreseen and losses are still possible. Investors should ensure their portfolios are appropriately diversified and hold this investment with an objective perspective, while evaluating its risk profile appropriately. It is worth noting that this has been the first decline in price since the Fund's inception four years ago. Capstone also expects the performance for the remainder of 2018 to fall in line with its long-term average.

PERFORMANCE (Net of fees)

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

1 MO.	*3 MO.*	*6 MO.*	*1 YR.*	*3 YR*	*INCEPTION**
0.58%	1.92%	1.41%	5.48%	7.94%	8.22%

**Launched June 30, 2014*