MARSHALLZEHR MORTGAGE OPPORTUNITY FUND LP

Q3 Commentary

CAPSTONE
ASSET MANAGEMENT™

SEPTEMBER 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
- $121MM AUM

MARKET & FUND UPDATE

Ontario has seen a stable housing market throughout the last quarter and trends remain healthy. While sales and price hikes have not burned as hot as previous years, stability is preferable from an investment perspective. The MarshallZehr Mortgage Opportunity Fund continues to partner with builders who see great development opportunities in the Greater Toronto Area and sales of existing projects have been exceptionally strong. We continue to see more demand than the fund can provide, but this is a good problem to have! Excellent supply allows us to be selective to ensure that the fund is well diversified with quality projects.

Several factors have been influencing the economic climate in Ontario and we continue to watch these closely. First, the Bank of Canada raised interest rates in July and this, combined with more stringent lending rules, has made borrowing a bit more difficult for both residential and commercial borrowers. Additionally, the renegotiation of NAFTA—now named USMCA—has created a general level of investor uncertainty in the marketplace, which is why we were very pleased to see a preliminary deal struck at the end of September. The new agreement seems to have provided some protection within the auto industry, as well as maintained the current trade dispute settlement mechanisms. Since Ontario has a heavy auto manufacturing and export industry, these provisions should bode well in managing employment risks.

The MarshallZehr Mortgage Opportunity Fund experienced a typical third quarter with a return of 1.99% (for July – September 2018). Performance remains stable and, as mentioned last quarter, we continue to actively pursue opportunities to improve the valuations of the projects that experienced write-downs earlier in the year.

We work hard to choose solid investments and to diversify the fund in many ways. This helps to mitigate various risk factors; however, 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. For the remainder of 2018, we expect the performance of this fund to fall in line with its long-term average.

PERFORMANCE (Net of fees)

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

1 MO.	*3 MO.*	*6 MO.*	*1 YR.*	*3 YR.*	*INCEPTION**
0.65%	1.99%	3.94%	5.53%	7.83%	8.22%

**Launched June 30, 2014*