CAPSTONE MORTGAGE POOL

Q3 Commentary

SEPTEMBER 30, 2026

AT A GLANCE

- Construction and development mortgages in Canada
- Diversified by developer and development type
- Mortgage terms are 3 to 36 months
- Low to no correlation with bond and equity markets
- $273 MM AUM as of September 30, 2026
- Price as of September 30, 2026: $7.5417 (Series I)

MARKET & POOL UPDATE

The most notable update for the Capstone Mortgage Pool ("CMP") over the last quarter is the announcement of the fund's planned wind-down. The decision, its implications, the structure of the wind-down, and the path forward were discussed in previous written communications, a webinar on October 2, and a detailed FAQ document. If you have not seen these materials, please contact your advisor for more information. The key message going forward is that the wind-down will be phased over a number of years, assets will continue to be managed with the objective of maximizing value during that period, and proceeds will be distributed to all unitholders on a pro rata basis as liquidity becomes available. Market conditions remain an important factor in the timing and extent of liquidity. The following update builds on the data and analysis presented in our September 16 webinar.

Following a buildup in sales activity through the second quarter and into the summer months, the southern Ontario housing market lost momentum in September, bringing an end to what appeared to be the beginning of a sustained recovery. Sales activity and home prices both softened during the month, highlighting the continued fragility of buyer confidence and reinforcing that the housing market remains highly sensitive to economic and geopolitical developments.

A significant headwind facing the market is the recent rise in fixed mortgage rates. Government bond yields have continued to trend higher, rising by approximately 1 percentage point from a year ago, prompting lenders to increase fixed mortgage rates. While borrowing costs remain below the peaks experienced in previous cycles, the recent increase is likely to reduce affordability and put renewed pressure on buyer demand heading into the final quarter of the year. Prospective purchasers who were beginning to re-enter the market during the summer may once again adopt a more cautious approach as financing costs rise.

Economic data has also become less supportive. Employment figures surprised to the downside in September, following similarly weak results in August. Consecutive months of labour market weakness have raised concerns about the pace of economic growth and consumer confidence. Historically, deteriorating employment conditions have weighed on housing demand as households become more cautious about making large financial commitments.

At the same time, uncertainty surrounding international trade has intensified. Ongoing tensions and policy uncertainty in the United States have raised additional concerns for Canadian businesses and investors, particularly given the importance of cross-border trade to Ontario and the broader Canadian economy. This uncertainty is compounded by escalating geopolitical risks stemming from the conflict involving Iran, which has contributed to volatility in global financial and energy markets.

Looking ahead, the direction of interest rates and labour market conditions will likely determine whether the housing market regains momentum or enters a more prolonged period of consolidation. For now, the September slowdown is a reminder that, while a recovery remains possible, the path forward is unlikely to be linear. Unless economic conditions stabilize and borrowing costs ease, sales volumes are likely to remain subdued, with price growth expected to be modest at best. Well-priced properties in desirable locations should continue to attract interest, but overall market conditions are expected to favour buyers more than sellers compared with earlier in the year.

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With respect to CMP specifically, several projects moved closer to resolution in Q3:

- Surrey Tower remains under contract, with the due diligence period extended.
- A Toronto condominium project achieved completion and registration and began the purchaser closing process.
- A group of completed townhomes in Barrie was listed for sale.
- A completed apartment building in London was listed for sale.

As outlined above and in our updates over the past year, sales activity remains challenging due to a limited and highly selective pool of buyers. Nonetheless, transactions are occurring, and we are working with our external partners to ensure CMP is well positioned to respond to buyer interest. We are also proactively pursuing opportunities to generate liquidity, including the potential sale of mortgage positions, and will continue to evaluate all available options.

PERFORMANCE (Gross of Fees)

Performance figures are those of Series I units as of September 30, 2026. Performance is annualized for periods longer than one year.

1 MO.	*3 MO.*	*6 MO.*	*1 YR.*	*3 YR.*	*5 YR.*	*10 YR.*	*INCEPTION**
-0.3%	-0.1%	-2.2%	-19.8%	-4.6%	0.5%	4.5%	6.0%

**Annualized as of first trade date: April 30, 2012*

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