

CAPSTONE CANADIAN EQUITY INCOME STRATEGY

Q1 Commentary

CAPSTONE
ASSET MANAGEMENT™

MARCH 31, 2024

AT A GLANCE

- Dividend-paying Canadian equities mandate
- Emphasis on larger, industry-leading companies with sustainable free cash flow
- Active management approach driven by thorough fundamental research
- \$14 MM AUM

MARKET & STRATEGY UPDATE

The performance described herein is from our model account, which initially traded on October 6, 2022, and is presented gross of management fees. Performance varies among accounts due to different inception dates.

Capstone's Canadian Equity Income Strategy ("CCEIS") returned +6.8% during the first quarter of 2024, slightly ahead of both the S&P/TSX Composite Total Return Index (the "TSX Index") and the S&P/TSX Composite Dividend Total Return Index (the "TSX Dividend Index"), both of which returned +6.6%. CCEIS delivered positive returns each month this quarter.

So far in 2024, economic activity in Canada has been greater than expected, with real GDP growth during January and February of 1.0%, which is as much as the economy grew throughout all of 2023. While this relatively strong level of economic output has not directly impacted earnings estimates (the median Canadian stock saw a mere 1% rise in its forward EPS expectations over the quarter), markets continue to be enthused by how much inflation appears to be cooling in Canada. There is a growing consensus that the Bank of Canada will start to cut interest rates this spring. This in turn is making Canadian stocks appear more attractive from a valuation perspective. However, there continues to be investor preference for growth stocks over value stocks, with the Dow Jones Canada Select Growth Index beating the Select Value Index by 70 basis points over the quarter. Considering this continued headwind for value strategies in the quarter, we are pleased with CCEIS' modest outperformance.

Our sector weighting decisions detracted value relative to the TSX Index this quarter, as our overweights in Utilities and Communication Services, sectors that are replete with quality dividend stocks, did us no favours – these sectors returned -1% and -8% respectively. Large telecom companies BCE, Telus and Rogers experienced weakness in their stock prices on the heels of the CRTC announcement last fall that it would temporarily require large telephone companies to provide competitors with access to their fiber networks in Ontario and Quebec. While we own BCE in CCEIS portfolios, we also own COGECO Communications, which was the best performing stock in the sector (+1%).

Value lost through sector weighting decisions was more than offset by good stock picks across a number of industries. For example, in the Consumer Staples and Consumer Discretionary sectors, both High Liner Foods (+16%) and Sleep Country Canada (+18%) significantly outperformed most other consumer stocks. High Liner reported earnings in February – while its revenue and earnings growth was negative as we'd expected, the company left investors with a feeling of optimism about the trajectory of the business in 2024. This in turn caused sell-side analysts to subsequently raise their target prices for the stock.

In the Financials sector, CI Financial (+18%) was a standout for CCEIS, as the news that CI's Chairman personally bought several million dollars worth of stock in the open market served as a catalyst for the stock price.

Inception-to-date, CCEIS' annualized return to the end of March is **+17.1%**, ahead of both the TSX Index (+14.7%) and the Dividend Index (+13.1%).

If you would like to find out more about this strategy, please talk to your Portfolio Manager.

This is not an offer to sell securities. Past Performance may not be repeated.

PERFORMANCE

Capstone's returns presented here are from the Capstone Canadian Equity Income Strategy's model account, which initially traded on September 6, 2022, and are presented gross of management fees. Performance varies among accounts due to variations in inception dates and security weights.



	Capstone Canadian Equity Income Strategy	S&P/TSX Composite Total Return Index	S&P/TSX Composite Dividend Total Return Index
Q1 2024	6.82%	6.62%	6.62%
Since Inception*	17.14%	14.72%	13.14%

*Trading commenced on October 6, 2022. Inception returns are annualized.