

# CAPSTONE CANADIAN EQUITY INCOME STRATEGY

Q2 Commentary

CAPSTONE  
ASSET MANAGEMENT™

## AT A GLANCE

JUNE 30, 2023

- Dividend-paying Canadian equities mandate
- Emphasis on larger, industry-leading companies with sustainable free cash flow
- Active management approach driven by thorough fundamental research
- \$9 MM AUM

## MARKET & STRATEGY UPDATE

If the forces driving equity markets so far in 2023 could be summarized into a single term, it would be “Artificial Intelligence” (or “AI”). Computer chip designer NVIDIA is the poster child for the latest Wall Street frenzy, with its stock soaring 189% this year, making the company the newest member of the \$1 trillion club. In the latest quarter, almost 25% of the largest 500 public companies in the U.S. cited “AI” during their earnings conference calls, blowing away the previous record from just three months before. This investor exuberance led the technology-heavy NASDAQ Composite to a +12.8% return in the second quarter, and the Index’s best first half of the year (+31.7%) since 1983.

In market conditions like these, it is extremely difficult (dare we say, impossible) for Canadian stocks to keep pace with the Tech-heavy U.S. market. While the relative weight of the Information Technology sector in the Canadian stock market has quintupled over the past decade, Tech stocks still represent less than 9% of the S&P/TSX Composite Index (versus 28% for the S&P 500 Index in the U.S.). As a result, the Canadian stock market experienced a total return of only +1.1% in the second quarter.

Fortunately, Capstone was able to triple the S&P/TSX Composite Total Return Index’s performance this quarter, achieving a total return of +3.3% in the Capstone Canadian Equity Income Strategy (“CCEIS”). And we did this with, ironically, our performance in the Information Technology sector being the greatest drag on relative performance. Capstone’s outperformance this quarter was not driven by AI buzz, but instead by the likes of Mattresses and Telephone Poles.

Early in the quarter, Sleep Country Canada, which has been a core holding since CCEIS’ inception, acquired the Canadian assets of New York-based mattress-in-a-box company Casper Sleep for what we believe was a very attractive price. Despite the challenging environment of reduced consumer spending and economic uncertainty, Sleep Country then delivered a robust earnings report, and increased its quarterly dividend by more than 10%. As a result, the stock returned +23% in the quarter. We continue to hold our position in Sleep Country, as the stock currently trades at a mere 10x multiple of forward earnings and pays a dividend that yields over 3.3% annualized.

Wood products company Stella-Jones, which manufactures utility poles and railway ties, posted an exceptionally strong first quarter earnings result in May, with 18% organic sales growth in its infrastructure-related businesses. The company also hosted its inaugural investor day in Toronto, during which it unveiled exciting medium-term financial targets that we believe will continue to attract investor interest. Even though Stella-Jones’ stock price jumped 32% in the quarter, and has appreciated by more than 65% since October, the company still trades at a reasonable multiple of forward earnings (~13.8x) considering its growth profile.

Year-to-date, CCEIS has returned +8.3%, comfortably ahead of the S&P/TSX Composite Total Return Index (+5.7%).

If you would like to find out more about this Fund, 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 October 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
Q2 2023	3.3%	1.1%	0.3%
Since Inception*	14.9%	8.7%	6.7%

\*Trading commenced on October 6, 2022