

# CAPSTONE CANADIAN EQUITY INCOME STRATEGY

Q3 Commentary

CAPSTONE  
ASSET MANAGEMENT™

## AT A GLANCE

SEPTEMBER 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
- \$13 MM AUM

## MARKET & STRATEGY UPDATE

In the third quarter of 2023, Capstone's Canadian Equity Income Strategy (or "CCEIS") returned -3.7%. By comparison, the S&P/TSX Composite Total Return Index returned -2.2% and the S&P/TSX Composite Dividend Total Return Index returned -1.7%.

The main story this quarter for investors was a soaring increase in bond yields in Canada and abroad. For instance, the yield on the benchmark Government of Canada 10-year bond climbed another 77 basis points this quarter from 3.26% to 4.03%, which is now more than 7 times the fall of 2020. This presented a strong headwind for stocks across the board for various reasons. As bond yields climb, bonds look more attractive relative to stocks, especially with respect to dividend-paying stocks. This pulls investor dollars away from the stock market. Additionally, companies with debt that is maturing in the near-term face the prospect of significantly higher interest expense and decreased earnings. In Canada, every major sector (with the exception of Energy) declined significantly during the quarter.

During equity market declines, the "risk-off" posture adopted by investors tends to disproportionately impact higher growth companies that have excessive valuations. The recent market decline, on the other hand, has been driven more by the rapidly-changing bond yield environment, which has hurt most value-oriented stocks that pay high dividends. As a result, our overweight positioning in the usually-defensive Utilities and Communications sectors materially impacted CCEIS' index-relative returns this quarter, as those sectors experienced total returns of -12% and -13% respectively.

On the positive side, our core holding in Canadian Western Bank ("CWB"), based in Edmonton, was a benefit to CCEIS' quarterly return, as CWB's stock returned 14% (15% including its dividend), which is well ahead of other Canadian bank stocks. CWB reported better-than-expected quarterly earnings at the beginning of September, driven by an unexpectedly high net interest margin that more than offset an increase in the provision for credit losses.

Year-to-date, CCEIS's +4.4% return is ahead of both indices (+3.4% and +2.1%, respectively).  
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
1 MO	-3.52%	-3.33%	-2.65%
3 MO	-3.67%	-2.20%	-1.64%
6 MO	-0.51%	-1.13%	-1.30%
YTD	4.35%	3.38%	2.15%
Since Inception*	10.68%	6.34%	4.95%

\*Trading commenced on October 6, 2022