CAPSTONE CANADIAN EQUITY INCOME STRATEGY

Q4 Commentary

DECEMBER 31, 2023

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
- Stock selection aided by Capstone's proprietary Biblically Informed Overlay process
- $13 MM AUM

PERFORMANCE (Gross of Fees)

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	4.35%	3.91%	3.96%
3 MO	6.94%	8.10%	7.32%
6 MO	3.01%	5.72%	5.56%
YTD	11.59%	11.75%	9.63%
Since Inception*	18.35%	14.96%	12.63%

*Trading commenced on October 6, 2022.

MARKET & STRATEGY UPDATE

During the final quarter of 2023, Capstone's Canadian Equity Income Strategy (or "CCEIS") returned a very strong +6.9%. This compares to the broad market S&P/TSX Composite Total Return Index (the "TSX"), which returned +8.1%, and the S&P/TSX Composite Dividend Total Return Index (the "Dividend Index"), which returned +7.3%.

Over longer periods of time, company earnings drive stock prices. HA portfolio of reasonably priced equities of companies that grow their earnings per share faster than the average public company will tend to generate good investment returns and eventually outperform the broad market indices. However, over shorter periods of time, different macroeconomic forces often exert outsize influence on stock price movements. That has certainly been the case in recent months. Just as soaring bond yields resulted in a difficult environment for stocks in the third quarter of this year, falling bond yields buoyed stock prices in the fourth quarter. From the end of September to the end of 2023, the yield on the benchmark Government of Canada 10-year bond fell by almost a full percentage point – from 4.03% to 3.10%.

The reduction in competition for investor dollars from high quality bonds in recent months was a benefit for many of the high dividend paying stocks that we hold for CCEIS accounts. For instance, our Utilities stocks Emera, Fortis and AltaGas all returned between 7 and 8% in the quarter. However, declining interest rates proved to be rocket fuel for the more speculative parts of the stock market, which resulted in CCEIS slightly underperforming the TSX. For example, the Information Technology sector soared 24%, driven by the 39% return achieved by e-commerce software giant Shopify.

Overall, our stock selection preferences detracted from index-relative performance the most in the Information Technology and Financial sectors. Although our core holding in Waterloo-based software company OpenText returned 18% this quarter, this return lagged the sector as a whole. Within Financials, our core bank and insurance holdings all performed exceedingly well, with a weighted average total return of 13%. However, our position in asset and wealth management firm CI Financial reduced our return in the sector as CI's stock price fell 4%.

210 – 19923 80A AVENUE LANGLEY BC V2Y 0E2
T 604 546 1500 | **E** INFO@CAPSTONEASSETS.CA
CAPSTONEASSETS.CA

During the quarter, CI posted somewhat disappointing quarterly earnings . However, the company took advantage of the low stock price by launching a substantial issuer bid that resulted in the company buying back 4% of its outstanding shares at a price that equates to a mere 4.3x multiple of estimated 2024 earnings. We continue to hold the stock and believe that its tremendous discount to intrinsic value will be closed by the market over time.

For 2023 over all, CCEIS's +11.6% return was slightly behind the TSX (+11.8%) but well ahead of the Dividend Index (+9.6%). We start 2024 feeling cautiously optimistic about the prospects for CCEIS accounts, as our current portfolio is trading at a forward P/E ratio of 10x and an expected annualized dividend yield of 4.8%.

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