

CAPSTONE TRADITIONAL EQUITY POOL

Q2 Commentary

CAPSTONE
ASSET MANAGEMENT™

JUNE 30, 2020

AT A GLANCE

- Strategic global and domestic mandate
- Disciplined deep value philosophy
- Equity exposure with less risk than market indices
- \$19 MM AUM
- Current price: \$10.8279 (Class F)

MARKET & POOL UPDATE

Just three months ago, markets began plummeting across the globe due to COVID-19. Since the start of the pandemic, central banks in Canada and the US have implemented accommodative monetary policies with large scale asset purchases likely to continue until the economy is visibly in recovery. In terms of fiscal policy, Finance Minister Bill Morneau recently announced direct support for Canadians and businesses in the amount of \$212 billion. This additional spending will mean a higher federal government deficit, to the tune of \$1.2 trillion of debt in 2020-2021, marking the highest spending levels since the Second World War. This rapid and unprecedented growth in the balance sheets certainly raises some questions, such as whether the central banks are creating asset price bubbles. How will this impact inflation and will balance sheets remain inflated in the post-pandemic world? Unfortunately, we won't know the fall-out of these decisions anytime soon.

This past June, we witnessed the biggest improvement in employment data going all the way back to 1976. The participation rate (which refers to the total number of individuals either employed or searching for a job) also recorded its steepest increase on record, making up for a lot of what was lost a few months back. The number of job openings in June also rose from the May numbers, with opportunities concentrated across the accommodation and food services industry, retail, and construction; those which were hardest hit during the pandemic. Although we have experienced some of the deepest job losses in decades, labour income has increased. Consumer spending is also rebounding, perhaps due to stores and restaurants slowly re-opening in tandem with the extended government social benefits. This is good news for the economy and markets.

Capstone's Traditional Equity Pool was able to rebound slightly this quarter alongside this positive economic news. It is our goal right now to ensure that we protect the downside. As such, our Investment Management Team has undergone an extensive strategic review of the makeup of the Fund and made a few prudent changes. This Fund, which was previously heavily weighted to Canada, is now 1/3 Canada, 1/3 US, and 1/3 Global (including Asia and Europe). Because small cap positions tend to be harder hit than large cap positions, we were able to reduce our small cap exposure following a small cap rally and correspondingly increase our large and mega cap stock position. In terms of sector allocation, we have favoured technology-based companies that could benefit from a move to work-from-home and those companies suffering less or perhaps even benefitting from restrictions in place. Currently, technology is intentionally the largest sector within the Fund at 21.40%. Technology and health care proved to be the strongest performers this quarter, which was not surprising. We have seen a rebound in stock values as the economy has continued to re-open and CTEP returned a solid 10.59% in the second quarter.

This document is not an offer to sell securities. The Subscription Documents and Information Memorandum should be read carefully as they contain important facts about risks, liquidity, fees and expenses. Past performance may not be repeated.

PERFORMANCE (Net of fees)

Performance figures are those of Class F units as of June 30, 2020. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
1.68%	10.59%	-8.36%	-2.95%	0.99%	1.14%	1.64%

*Launched December 12, 2014