CAPSTONE TRADITIONAL EQUITY POOL

Q1 Commentary

CAPSTONE
ASSET MANAGEMENT™

MARCH 31, 2020

AT A GLANCE

- Strategic global and domestic mandate
- Disciplined deep value philosophy
- Equity exposure with less risk than market indices
- $17 MM AUM
- Current price: $9.7914 (Class F)

MARKET & POOL UPDATE

In our December 2019 Commentary we expressed our doubts as to the sustainability of a bull market through 2020. However, we also noted that it would require a certain trigger for markets to take a corrective turn. Certainly, none of us could have predicted the arrival of two black swan events which would send markets around the globe into a downward tailspin. COVID-19 and record low oil prices due to disputes between Saudi Arabia and Russia have pulled that trigger. In the last week of February, we witnessed markets worldwide reporting their largest one-week declines since 2008.

When there is a disruption in the social order, we feel a sense of uncertainty. And where there is uncertainty, we can expect stock market volatility. This is absolutely the biggest catalyst for activity and poses the greatest risk for traditional portfolios. As we have all no doubt experienced, there has been incredible uncertainly during the past few weeks. Fear of the unknown is driving many decisions – including investment decisions. While we do not know how long this will last, we have begun to see some dramatic stimulus measures from central banks. In Canada, we have seen interest rates cut three times in March, each time by 50bps – bringing down the policy rate to 0.25%. These measures are aimed at keeping financial markets working and as a result, we did see some recovery towards the latter part of March. Historically, during times of crisis, traditional markets tend to become more positively correlated. During the uncertainty surrounding this COVID-19 crisis, we have again seen these markets moving in the same direction.

Among our funds, Capstone Traditional Equity Pool (CTEP), by virtue of its exposure to public markets, has been the hardest hit by the stock market volatility. As is typical in market corrections, our smaller cap positions were hit harder than our larger cap positions, although typically small cap stocks are also the first to recover. Not surprisingly, our Asian positions have suffered as well in this last quarter. Although we ended the quarter in negative territory, some of the short positions we hold were able to offset the negative performance from some of the long positions within the portfolio. Year to Date (as of March 31st), CTEP was down 17.1%, versus the S&P/TSX Composite Index which was down 20.9%.

We remain confident that the strategy currently employed is the best option in this difficult environment. With the speed of the sell-off over the past month (and the nature of this sell-off being different from 2008) there is a chance that once the infection rate turns, combined with additional support through fiscal stimulus packages around the globe, the rebound could be equally as quick. The relatively nimble government response, including regulatory actions, have helped to stabilize markets to a certain degree and we feel well positioned to take advantage of new opportunities as they present themselves.

PERFORMANCE (Net of fees)

Performance figures are those of Class F units as of March 31, 2020. Performance is annualized for periods longer than one year.

1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
-10.93%	-17.13%	-12.90%	-11.51%	-3.37%	-0.66%	-0.20%

** Annualized as of first trade date December 12, 2014*