

CAPSTONE TRADITIONAL EQUITY POOL

Q1 Commentary

CAPSTONE
ASSET MANAGEMENT™

MARCH 31, 2024

AT A GLANCE

- Strategic global and domestic mandate
- Disciplined value and GARP philosophies
- Equity exposure with less risk than market indices
- \$27 MM AUM
- Current price: \$17.0758 (Series I)

MARKET & POOL UPDATE

March marked the fifth month in a row of positive returns for both the Capstone Traditional Equity Pool and the broad Canadian equity market. So far in 2024, economic activity in Canada has been greater than expected with real GDP growth during January and February of 1.0%. While this relatively strong level of economic output has not directly impacted earnings estimates (the median Canadian stock saw a mere 1% rise in its forward EPS expectations over the quarter), markets continue to be enthused by how much inflation appears to be cooling in Canada. There is a growing consensus that the Bank of Canada will start to cut interest rates this spring. This in turn is making Canadian stocks appear more attractive from a valuation perspective.

The theme that dominated equity markets in 2023 continued into 2024, in that the current bull market for stocks has been disproportionately focused on large cap growth names, especially in the Information Technology sector. For instance, in the US, the Russell 1000 Pure Growth Index beat the Russell 1000 Pure Value Index by over 500 bps in the first quarter (+12.4% v. +7.2%). Similarly, the MSCI EAFE Growth Net Index beat the MSCI EAFE Value Net Index by over 260 bps (+9.4% v. +6.8%). In addition, the MSCI World Small Cap Net Index (\$CAD) returned only +6.7%, well short of the MSCI World Net Index (\$CAD)'s +11.3%. For managers that follow value-oriented investment approaches, especially those with a bias against large cap and mega cap stocks, environments such as these will always be more challenging than normal.

While CTEP's performance over this past quarter was generally in line with value indices, its benchmark outperformed due to strength in both large cap US equities and the US Dollar relative to the Canadian Dollar (the benchmark consists of an equal-weighted mix of the S&P/TSX Composite Total Return Index, the S&P 500 Total Return Index (in \$CAD) and the MSCI EAFE Net Return (in \$CAD)). At the manager level, a significant change in the Pool was the repositioning of CTEP's Asian exposure to a global small/mid cap equity strategy on February 13. This allocation change represented 15% of the Pool's holdings and remarkably returned 13.6% over the remainder of the quarter. Glenn Murray and Paul Carter, Portfolio Managers at Capstone, will be meeting with members of this investment team at their headquarters in April.

Taking into account the underlying holdings of each manager, the Pool began the second quarter close to being fully invested, with about 97% equity exposure and the remainder in cash and fixed income instruments. This portfolio provides investors with excellent equity diversification by sector, market cap and geography.

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 (Gross of Fees)

Performance figures are those of Series I units as of March 31, 2024. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
4.25%	6.96%	13.50%	10.04%	3.15%	9.16%	6.43%

* Annualized as of first trade date November 14, 2014