

CAPSTONE TRADITIONAL EQUITY POOL

Q2 Commentary

CAPSTONE
ASSET MANAGEMENT™

AT A GLANCE

JUNE 30, 2022

- Strategic global and domestic mandate
- Disciplined value and GARP philosophies
- Equity exposure with less risk than market indices
- \$26 MM AUM
- Current price: 14.4283 (Series I)

MARKET & POOL UPDATE

Economic Context:

In a recent poll conducted by Maru Public Opinion, more than two thirds of Canadians believe the economy will fall into recession later this year: a clear indicator of a general sentiment of economic uncertainty. Last month, Canada's inflation rate rose to 8.1% - less than anticipated - and we also saw the Bank of Canada (BOC) hike interest rates 100 basis points, continuing its quantitative tightening in an effort to combat inflation. There has also been a cooling effect on housing market activity across the country in the last few months, but it's important to note that we are still above pre-pandemic valuations. The Canadian economy has in fact recovered remarkably quickly since the onset of Covid 19 in early 2020: we are seeing strength in employment numbers including wage growth (which is now rising above pre-pandemic levels) and strong GDP growth of 3.1% in the first quarter. Yet despite these positive indicators, there continues to be enough unfavorable ones perpetuating this sense of uncertainty.

In the markets, forward Price/Earning (P/E) ratios have returned to levels not seen since the second quarter of 2020. For example, the TSX - in particular its 12-month forward P/E - is at its lowest level in a decade if you disregard the 2020 pandemic levels. In addition, it will likely normalize near these current levels as growth has repriced and multiples have compressed. The outlook for traditional markets may continue to be murky for some time and will, now more than ever, depend on companies' abilities to meet earnings forecasts despite most having been reduced. However, with higher interest rates here, it is difficult to estimate the outcomes and overall directionality of the markets.

Traditional Equity Pool:

Where does this leave the Traditional Equity Pool? As investors now prioritize value, we are looking for fundamentally attractive businesses with high earnings potential and free cash flow; this is in contrast to trend following or more momentum-based trading strategies. This environment has created buying opportunities as we look at stock valuations that we have not seen in several years.

In terms of geographic exposure, our Pool is currently overweight in North America. Outside of Canada and the U.S., Asia remains the next biggest exposure, specifically Japan and South Korea. While our Asian positions were the biggest detractors this quarter, we still believe that their intrinsic value will eventually be realized despite their shorter-term performance. Our largest exposures by sector include information technology, health care, financials, and consumer discretionary. In terms of market capitalization, our stock selections are currently evenly divided between mega/large and mid-cap stocks versus small/micro and nano stocks which helps to add diversification. Not only that, but small cap stocks will also tend to perform better in higher inflationary environments and coming out of bear markets. With almost 20% of the Pool in cash, we are ready to quickly evaluate any emerging opportunities that meet the mandate of the Pool.

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

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 June 30, 2022. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
-2.75%	-7.20%	-13.58%	-15.78%	9.00%	7.03%	5.61%

* Annualized as of first trade date November 14, 2014