

CAPSTONE TRADITIONAL EQUITY POOL

Q3 Commentary

CAPSTONE
ASSET MANAGEMENT™

SEPTEMBER 30, 2018

AT A GLANCE

- Strategic global and domestic mandate
- Disciplined, deep value philosophy
- Equity exposure with less risk than market indices
- \$22MM AUM

MARKET & POOL UPDATE

North American stock markets have trended positive so far in 2018. By September 30, the Canadian market (S&P TSX total return) was up 1.4% YTD, while in the U.S. the S&P 500 total return index rallied 10.6% YTD. Many risks still persist in the traditional equity arena. On the Canadian side, this includes the lack of recovery in the oil market, seen in the disparity between WTI (West Texas Intermediate) and WCS (Western Canadian Select) oil prices. We do not expect this difference to turn around until the pipeline issues in Canada are resolved. In addition, higher interest rates and uncertainty between global trading partners is putting pressure on Canadian market sentiment and growth expectations.

In the U.S., rapid increases in interest rates, renegotiation of trade agreements and the implementation of tariffs, particularly with China, has created uncertainty in global markets. Historical analysis has shown that in midterm election years, a specific market cycle emerges in the U.S., namely, a stock market sell-off in September to October and then a rally up in November to March. During periods of downside volatility in the stock market, risk analysis has indicated that correlations between various investments move towards 1. This means traditional equity investments that tend to be somewhat uncorrelated, begin reacting in the same way when negative events unfold and they all begin to drop at the same rate. This obviously increases portfolio risk on the downside. Equity diversification across industries, sectors and geography will all help to buffer against this scenario most of the time, but contagion can quickly spread. Investors must recognize this risk when evaluating the place of traditional equities within their overall portfolios.

To date for 2018, the Capstone Traditional Equity Pool has outperformed the Canadian market with a return of 4.4% compared to the TSX at 1.4%. Primary contributors to the strong return include our Canadian small and mid-cap holdings, as well as the global position which focuses on equities in Asia.

Our Investment Committee is committed to improving diversification in this pool by increasing its global exposure and introducing investment managers that specialize in specific areas. Transition will occur gradually with consideration given to market timing, pricing opportunities and overall portfolio implications. As always, our primary goal is to maximize investor return for the risk taken.

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 September 30, 2018. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	2015	2016	2017	INCEPTION*
-0.68%	-0.51%	3.96%	8.48%	6.29%	-3.41%	12.70%	1.85%	4.57%

*Launched December 12, 2014