

CAPSTONE TRADITIONAL EQUITY POOL

Q3 Commentary

CAPSTONE
ASSET MANAGEMENT™

SEPTEMBER 30, 2019

AT A GLANCE

- Strategic global and domestic mandate
- Disciplined deep value philosophy
- Equity exposure with less risk than market indices
- \$21MM AUM
- Current price: \$11.2419 (Class F)

MARKET & POOL UPDATE

Throughout 2019, we have seen a continuation of the bull run in both the Canadian and U.S. markets in general. Most of the gains were made in the first four months of the year, while this past quarter maintained the status quo. A characteristic that has been prevalent particularly in the U.S. market has been the positive impact of stocks that are viewed as providing safety and yield, such as those from the real estate and utility sectors. In addition to this, funds with lower volatility are receiving more inflows compared to those with strategies of growth and momentum. This flight to safety trend is likely a response to the increased risk of a global slowdown. Concerns have been growing slowly as we see manufacturing and retail space numbers begin to decline, U.S. corporate profits go down, and trade wars, particularly between China and the U.S., drag on global growth.

In light of this market outlook, the Capstone Traditional Equity Pool has continued its mandate to diversify both globally and within North American markets. While we know that the traditional stock markets are connected more than ever before, diversification will still mitigate some risks as they may be focused in particular regions and sectors. Within the securities themselves, we are also diversifying across small, medium and large cap investments. Over the past 5 years we have not seen the rally in the small to mid cap market that we have experienced in the broader market. This means that while the stock market is increasingly being viewed as overvalued or overpriced, there are still areas where stocks can be found that meet our deep value approach. However, this market also tends to be more volatile than the broader stock market and so some caution is required when implementing this strategy into the portfolio.

In response to concerns about slowing growth, central banks have been pulling down rates to stimulate market activity. Lower rates have boosted investor confidence, which in turn causes markets to strengthen. Looking forward, we expect loose central bank policies to support markets as far as they are able. Investors need to implement appropriate diversification and ensure that their risk profile adequately accommodates the volatility and uncertainty present in the traditional investment arena.

Capstone's Investment Committee has been deploying a number of changes to our Traditional Equity Pool over the past three quarters. These changes have improved diversification and moved further away from a North American bias. Within the next month, we will see additions to the European and Asian holdings, as well as a slight increase in Canadian exposure. Once this is accomplished, we believe this Pool will be better aligned with both our macro and micro view of investment opportunities, while also providing effective traditional stock market diversification.

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, 2019. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	INCEPTION*
0.79%	0.76%	1.60%	-4.13%	2.27%	2.70%

*Launched December 12, 2014