

CAPSTONE TRADITIONAL EQUITY POOL

Q3 Commentary

CAPSTONE
ASSET MANAGEMENT™

AT A GLANCE

SEPTEMBER 30, 2023

- Strategic global and domestic mandate
- Equity exposure with less risk than market indices
- \$26 MM AUM
- Current price: \$15.0454 (Series I)

MARKET & POOL UPDATE

Capstone Traditional Equity Pool (CTEP) I Series returned -2.31% in the third quarter, compared to CTEP's benchmark which returned -1.7%. The month of September was particularly volatile as we saw performance drop 3.5% in this portfolio, compared to the S&P/TSX Composite Total Return Index which came in at -3.3% and the S&P/TSX Composite Dividend Total Return Index at -2.7%.

The most notable story this past quarter has been observed in the bond market. Bond yields soared due to the growing conviction that North American economies will most likely be subject to higher interest rates for longer than was perhaps previously anticipated. For instance, the yield on the benchmark Government of Canada 10-year bond climbed almost another 50 basis points in September from 3.56% to 4.03%, marking the fifth monthly increase in a row. This presented a large headwind for stocks right across equity markets because as bond yields climb, they now look more attractive relative to stocks, especially dividend-paying stocks. Additionally, companies with debt that is maturing in the near-term now face the prospect of significantly higher interest expenses and decreased earnings. Value and dividend paying stocks have paid the price in Canada and every sector (with the exception of Energy, which eked out a slightly positive return) was down significantly by the end of the quarter. In the US market, the very highly concentrated 7 securities (i.e., Apple, Tesla, Alphabet, Amazon, Meta, Microsoft, and Nvidia) dominated the market and maintained their recovery from last year's correction. We have mostly avoided these positions due to their overconcentrated weightings and their very high valuations and, as a result, this pool's US holdings underperformed compared to the US market as a whole.

International markets were characterized by a significant divergence in performance between growth indices and value indices this past quarter. For example, the MSCI EAFE Value Index (\$CAD) returned +3.2% while the MSCI EAFE Growth Index (\$CAD) returned -6.3%. This suggests to us that investors overseas have shifted to a more "risk off" mentality, with a greater focus towards established, quality securities and less towards those with a more aggressive growth mandate. This portfolio's positions in Asia (Japan and Korea specifically) were impacted by this shift as we have focused more on a long-term growth mandate in this region. While our conviction remains strong that this strategy will be an excellent contributor to long-term performance, we do expect it to produce higher than typical volatility in the short-term.

The Capstone Traditional Equity Pool seeks to provide return in the form of capital gains alongside dividends and interest by investing in individual stocks of varying market capitalizations from micro to large cap, diversified throughout North America and globally. 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 September 30, 2023. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
-1.19%	-2.31%	-3.05%	7.76%	6.07%	5.31%	5.29%

* Annualized as of first trade date May 02, 2014