

CAPSTONE TRADITIONAL EQUITY POOL

Q3 Commentary

SEPTEMBER 30, 2024

AT A GLANCE

- Strategic global and domestic mandate
- Disciplined value and GARP philosophies
- Equity exposure with less risk than market indices
- \$34 MM AUM
- Current price: \$18.6600 (Series I)

MARKET & POOL UPDATE

Global equity markets experienced strong gains in the third quarter, supported by a broadly synchronized easing of monetary policy as global inflationary pressures subsided. Most central banks have begun cutting policy interest rates, providing a tailwind for risk assets. In the U.S., the growth-oriented S&P 500 Total Return Index posted a solid +4.7% in CAD terms. The U.S. Federal Reserve held rates steady in July but unexpectedly cut the Fed Funds rate by 50 bps in mid-September, further fueling investor optimism.

International markets also performed well, with the MSCI EAFE Net Return in CAD terms advancing +5.9%. European equities rallied on the back of rate cuts from the European Central Bank and the Bank of England, while Japanese stocks climbed despite the Bank of Japan's decision to chart its own course by raising rates. Meanwhile, in Canada, the S&P/TSX Composite Total Return Index surged 10.5%, driven by the strong performance of interest rate-sensitive sectors like Banks and Utilities, which saw double-digit returns.

In this favourable environment, the Capstone Traditional Equity Pool (CTEP) returned +7.7%, outperforming its custom benchmark of 7.0%. A key driver of CTEP's strong performance was the Capstone Canadian Equity Income Strategy (CCEIS), which delivered impressive results due to exceptional gains in several core holdings. CI Financial rose 28%, Cogeco Communications surged 40%, and Canadian Western Bank posted a 24% gain. Furthermore, the announced sale of Sleep Country Canada to Fairfax in early Q3 resulted in a 34% total return, providing a significant boost to the Pool's performance.


Another notable contributor to CTEP's return was its relatively new investment in LM Asset Fund LP, which benefited from its high-conviction equity position in telecommunications firm Lumen Technologies. Lumen's stock price surged 545% this quarter, after announcing a key strategic partnership with Microsoft. The company also increased free cash flow projections which was fueled by a growing demand for its connectivity solutions amid the current AI boom.

CTEP's benchmark-relative outperformance was somewhat tempered by its exposure to the Fiera Global Equity Fund, managed by PineStone Asset Management. As market sentiment has shifted away from large-cap growth stocks recently, some of Fiera's core U.S. technology holdings faced price pressures, impacting performance over the past few months.

Year-to-date, CTEP has delivered a robust return of +16.9%, reflecting steady performance across its diverse portfolio. While the pool remains well-diversified across sectors, industries, and investment styles, we continue to maintain a value tilt, which should provide some protection if market valuations compress in the coming weeks and months.

PERFORMANCE (Gross of Fees)

Performance figures are those of Series I units as of September 30, 2024. Performance is annualized for periods longer than one year.

	1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
	2.52%	7.67%	9.28%	24.02%	3.27%	10.64%	7.05%

*Annualized as of first trade date November 14, 2014

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.

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