

# CAPSTONE TRADITIONAL EQUITY POOL

Q4 Commentary

CAPSTONE  
ASSET MANAGEMENT™

## AT A GLANCE

DECEMBER 31, 2022

- Strategic global and domestic mandate
- Disciplined value and GARP philosophies
- Equity exposure with less risk than market indices
- \$26 MM AUM
- Current price: 15.2326 (Series I)

## MARKET & POOL UPDATE

2022 was a tumultuous year for investors amidst persistent inflation, increasing interest rates and stock market volatility. Uncertainty will remain a key theme going into 2023 with the likelihood of a shallow recession and continued geopolitical risks. However, with market uncertainty comes opportunity and there are a number of changes the Investment Committee recently agreed to implement in the coming months. These changes should provide further diversification, a higher Sharpe ratio and a more defensively positioned portfolio. The Capstone Traditional Equity Pool returned 9.10% for the quarter and -8.76% for the year 2022. This compares to the S&P/TSX Composite Total Return Index (+6.0%), the S&P 500 Total Return Index (+7.6% in USD terms) and the MSCI EAFE Index - CAD-Hedged (+9.5%). Positive performance was driven by our Asian holdings, U.S. and global holdings and our small cap position.

The outperformance of our Asian exposure was concentrated over a handful of stocks. For example, one climbed 58% in a four week period due to an encouraging earnings report and another was up close to 180% over the year as its thesis started to play out, after three years of relative stagnancy. In addition, Taiwan Semiconductor (TSM), had been falling throughout 2022 as investors perceived semiconductor companies in general to have entered a down cycle. TSM was hit especially hard, as tensions between China and the U.S. over China's claim to Taiwan provided an extra headwind for the stock. Despite this turbulence, we maintained the stock position and, in November, the stock was propelled to a 31% gain when it was revealed that Warren Buffett and Berkshire Hathaway had bought \$4 billion worth of TSM near its lows.

Our small cap exposure - which we recently increased - was buoyed by a number of stocks across sectors and geographies that have climbed double digits, including the UK consumer discretionary stock, Domino's Pizza Group PLC at + 29%. In contrast, the biggest detractors were in our income position and diversified strategies fund, both of which lagged in the broader markets in part due to a few smaller company holdings performing relatively poorly.

In addition to those changes noted above, this quarter the Investment Committee has already implemented a few key changes. These include: decreasing exposures to some strategies that were not performing; the decision to no longer hedge our Japanese Yen exposure given the momentum reversal of the Yen; and, most importantly, to bring 20% of the Pool's allocation in house under the care of Senior Portfolio Manager, Paul Carter. In the latter, the focus will be on Canadian dividend paying stocks adding diversification as well as protection to the downside as mature dividend paying companies tend to be more insulated from market shocks. While market turbulence can be heart-stopping, we view market dislocations as opportunities to rebalance our exposures by increasing some high conviction plays while decreasing or eliminating assets which no longer meet our criteria. With these latest changes, we believe we are well poised going into 2023.

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 December 31, 2022. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
1.65%	9.10%	5.57%	-8.76%	8.69%	6.65%	5.96%

\* Annualized as of first trade date November 14, 2014