

# CAPSTONE CANADIAN EQUITY INCOME STRATEGY

## Q1 Commentary

MARCH 31, 2025

### AT A GLANCE

- Dividend-paying Canadian equities mandate
- Emphasis on larger, industry-leading companies with sustainable free cash flow
- Active management approach driven by thorough fundamental research
- \$29 MM AUM

### MARKET & STRATEGY UPDATE

Capstone's Canadian Equity Income Strategy ("CCEIS") composite return in Q1 2025 was +1.4%, modestly trailing the S&P/TSX Composite Total Return Index (+1.5%) and the S&P/TSX High Dividend Index (+3.0%). Over the twelve months ending March 31, CCEIS delivered +16.9%, outperforming both the TSX Composite (+15.8%) and the TSX High Dividend Index (+14.1%).

The Canadian equity market faced significant headwinds in Q1, dominated by escalating global trade tensions and aggressive US tariffs, which heightened economic uncertainty. Despite these challenges, the TSX finished the quarter in positive territory, driven largely by strong performance in materials, and positive performance, albeit to a lesser extent, in utilities, energy, and communication services. Gold stocks, in particular, surged, with the S&P/TSX Global Gold Index climbing 36.6% on the back of a record-high gold price above USD 3,100/oz.

Monetary policy helped dividend-paying sectors like utilities and communication services. While the Federal Reserve held rates steady, the Bank of Canada cut rates twice, lowering the overnight rate to 2.75%. However, risks of tariff-related inflation complicate the outlook for further rate cuts.

CCEIS added notable value in the Energy and Utilities sectors, but its exposure to Materials and Consumer Discretionary offset this. CCEIS participated in the gold rally through B2Gold, but its quarterly return of 16% lagged the broader sub-sector. A revised life-of-mine plan from B2Gold for its Goose project in Nunavut was disappointing, as reduced resource estimates prompted investors to reassess the company's long-term earnings potential somewhat.

Our typical underweight in metals and mining, due to the sector's capital intensity and inconsistent long-term returns, proved to be a headwind in Q1, as these stocks now represent nearly 12% of the TSX Index. However, CCEIS benefitted from strong stock-specific drivers, particularly in energy and utilities.

A standout performer was Veren Inc., which announced an all-share merger with Whitecap Resources, which is valued at \$15 billion. The merger creates the largest landholder in Alberta's Montney formation, with production expected to reach 370,000 boe/d. The combined entity has the potential for \$200 million in annual cost savings and a 26% increase in free cash flow, strengthening Whitecap's financial position. We intend to support the merger and retain Whitecap Resources as a core holding. The transaction enhances the company's scale, profitability, and dividend potential, while likely attracting more institutional interest.

This marks the fifth acquisition of a CCEIS holding since the strategy's launch in October 2022, following similar deals with Summit Industrial Income REIT, Sleep Country Canada, CI Financial, and Canadian Western Bank. With a concentrated portfolio of around 25 holdings, this M&A activity has been a key contributor to CCEIS' outperformance.

*\*Actual performance is impacted by cash flows and allocation timing factors and will be individual to each separately managed CCEIS account.*

