



CAPSTONE
ASSET MANAGEMENT™

CAPSTONE
CANADIAN EQUITY INCOME STRATEGY



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Capstone's Canadian Equity Income Strategy (the "Strategy") seeks to provide rates of return to investors in the form of both regular dividend income and long-term capital gains. Portfolios managed in the Strategy include publicly-traded equities of primarily large capitalization Canadian companies.

The Strategy is implemented within a client's Separately Managed Account ("SMA"). Through the use of SMA's, clients hold shares of individual companies rather than units of a pooled fund. This can provide clients with certain tax benefits, including gain and loss harvesting, and those related to charitable giving through in-kind donations.

Portfolios are invested in equity securities of what Capstone believes to be high quality Canadian companies. In Capstone's opinion, characteristics of high quality companies include market leading products and services, meaningful and durable competitive advantages, balance sheets that utilize only a prudent level of debt, reasonable capital allocation policies between reinvestment and returning capital to shareholders, and experienced, ethical and properly incented management teams.

Capstone's fundamental research approach is focused on understanding the business first, and the stock second. When determining whether or not to buy shares in a company, we take the view that those shares are an ownership stake in a business. If one is not comfortable owning a company outright, one shouldn't be comfortable owning a piece of the company at all.

Therefore, when conducting research into a company, Capstone attempts to assess the strength and durability of the company's business model, the experience and ethics of its management team, the conservatism or riskiness of its balance sheet, and the structure of the industry in which it operates.

As part of our research process, we view the company through a lens of Capstone's values – values that are rooted in our Biblical worldview. We understand that every company, like every individual, is imperfect, but we screen out companies where we believe the manner in which they conduct business is incompatible with these values.

Once we are comfortable with investing in a particular company, we then assess the stock of that company based on our valuation principles and methodologies. Ultimately, we are looking at buying shares of companies across multiple industries that are trading at prices below their intrinsic values, and then constructing a portfolio of stocks that are well-positioned to perform well for our clients over the long-run.

CAPSTONE'S CANADIAN EQUITY INCOME STRATEGY EMPLOYS A FUNDAMENTAL RESEARCH APPROACH ACROSS ALL ECONOMIC SECTORS, AND USES MULTIPLE VALUE-BASED MEASURES IN THE SELECTION OF INDIVIDUAL SECURITIES.

THE FUND MANAGER

Established in 2004 and headquartered in Langley, British Columbia, Capstone Asset Management serves a broad client base including private clients, foundations, and institutions. Through Pooled Funds, Limited Partnerships, and Separately Managed Accounts, Capstone provides investors with effective portfolio diversification by offering a broad array of investments within and outside traditional markets.

Capstone is the Portfolio Manager of the Canadian Equity Income Strategy. Upon the identification of an equity investment opportunity, a rigorous due diligence process is completed by the Investment Management Team. The opportunity is then presented to the voting members of the Strategy's Investment Committee for approval before being implemented in clients' accounts.

ACCESSING THE STRATEGY

Capstone's Canadian Equity Income Strategy is a key component of many of our discretionary portfolios, but it can be accessed as a standalone strategy, subject to certain conditions. It can be appropriate for both registered and non-registered investment accounts, and is also available to institutional investors.

HOW RISKY IS IT?

Capstone has rated the Canadian Equity Income Strategy as medium risk. There are many features of the Strategy's security selection and portfolio construction approach that help to mitigate portfolio risk such as diversification by industry and sector, diversification across 20-30 different companies, and Capstone's preference for companies that pay regular and increasing cash dividends.

WHAT IS THE TARGET RATE OF RETURN?

The Strategy's return objective is to outperform the S&P/TSX Composite Total Return Index by 2.0%, gross of fees, over rolling four-year periods. We believe this should result in an average annual rate of return of between 6% and 8% over the long-term.

DISTRIBUTIONS

- › Portfolio holdings pay regular and, at times, irregular cash dividends.
- › Capstone's approach is to reinvest these cash dividends so as to keep client accounts with less than 5% cash. Clients can elect to receive periodic distributions of some or all dividend income generated.

BENEFITS

- › Active management following a disciplined high conviction philosophy.
- › Canadian dividend income is a relatively tax-efficient form of income for Canadian taxpayers.
- › SMA structure can provide additional tax benefits related to loss/gain harvesting and in-kind charitable gifting of securities.





Capstone Asset Management Inc. is a Portfolio Manager, Investment Fund Manager and Exempt Market Dealer active in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia and Newfoundland & Labrador.

CUSTODIAN

National Bank Independent
Network
Suite 3000, PO Box 21
130 King Street West
Toronto ON M5X 1J9
P 1.844.451.3505

LEGAL COUNSEL

Borden Ladner Gervais LLP
1200 Waterfront Centre
200 Burrard Street
PO Box 4000
Vancouver BC V7X 1T2
P 604.687.5744

210 – 19923 80A AVENUE, LANGLEY BC V2Y 0E2
CAPSTONEASSETS.CA INFO@CAPSTONEASSETS.CA
T 604 546 1500 TF 1 855 437 7103 F 604 546 1501

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