

The FGP Preferred Share Fund returned 4.66% in the quarter, compared with the S&P/TSX Preferred Share Index return of 5.52%. So far this year, the Fund has returned 26.06%, compared with the benchmark's return of 20.49%.

As we continue to move through 2024, the broad economic environment remains somewhat unchanged from the previous quarter. Overall global growth remains in positive territory, continuing to be led by the U.S. economy. Inflation is much lower in many global economies so far in 2024 than in 2022 and 2023. In Canada, the latest measure of annual total inflation fell back down to 2%, which is right at the Bank of Canada's (the BoC) target for the first time in over three years.

This situation allowed the BoC to lower its policy interest rate in September for the third consecutive time. We believe there are more cuts coming as underwhelming growth in the Canadian economy and a cooling, but still healthy, labour market caught the attention of our central bank earlier this summer.

As we saw in other risk assets (equities, fixed income credit, etc.), the preferred share market generated strong absolute performance during the quarter and remains on track to finish 2024 on very solid footing. The portfolio did modestly underperform its benchmark during the quarter as a number of the current holdings understandably saw the pace of their performance slow after what was a very strong start earlier in the year. We remain quite confident with the underpinning fundamentals of these investments and are comforted further by their attractive dividends.

Looking forward, we expect preferred share returns to deliver improved resilience and modest capital appreciation in addition to rising dividends. A recent taxation change should drive continued renewed interest in this market segment. Additionally, the transition of banks filling their Additional Tier 1 capital buckets with Limited Recourse Capital Notes (LRCN) and institutional preferred shares and calling away exchange-traded preferred shares has notably accelerated this year as the regulator has permitted many bank preferred shares to be redeemed.

The following factors lead us to be optimistic for resilient returns in the Canadian preferred share market over the medium term:

- the impact of higher dividend levels
- less preferred shares outstanding from being called away (lower supply)
- less issuance as LRCN/institutional preferred shares and other corporate hybrids are issued instead (lower supply)
- cash being redeployed in remaining issues (strengthening demand)

Weights as at September 30, 2024		
Type of Preferred Share	Weight in the FGP Preferred Share Fund	Weight in the S&P/TSX Preferred Share Index
Fixed Resets	80.7%	77.1%
Straight Fixed	5.7%	21.0%
Floating Rate	7.8%	1.9%
Floating Resets	5.8%	

Source: FGP, TSX

The Foyston, Gordon & Payne Inc. (FGP) performance figures and portfolio statistics shown in this report are for the FGP Pooled Funds. Client returns may vary due to cash flow timing and client-specific constraints.

Investment returns and assets under management are expressed in Canadian dollars unless otherwise noted. Investment returns are gross of investment management fees, net of fund expenses for FGP Pooled Funds, and include reinvestment of dividends and income. Returns are time weighted and annualized for periods greater than one year. Values change frequently and past investment performance may not be repeated.

These views are subject to change at any time based upon market or other conditions and are current as of September 30, 2024.

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