FGP CANADIAN BALANCED SMA

December 31, 2024

The FGP Canadian Balanced SMA portfolio lagged its blended benchmark return during the quarter.

The S&P/TSX Composite Index gained 4% in the quarter and 22% in 2024, while the FTSE Canada Universe Bond Index declined modestly in the quarter but remained up by over 4% for the year. Global growth was positive, while inflationary pressures continued to ease compared to 2023 and early 2024. In Canada, the latest measure of annual total inflation fell back to 1.9%, allowing the Bank of Canada (BoC) to reduce its policy interest rate by 1.75% in the second half of the year – the largest rate cut by any major global central bank in 2024.

Portfolio Positioning

The portfolio target remains overweight equities and underweight fixed income relative to its benchmark. Our portfolio benefitted from this asset allocation as the stock market outperformed the bond market.

Equities

Canadian sector performance varied widely in the quarter. The Information Technology sector was heavily skewed by one extremely expensive company, Shopify +41%, and our IT holdings, **CGI Group** +1% and **OpenText** -9%, lagged. We view CGI as a long-term compounder and OpenText, despite near-term challenges, is profitable, with low leverage, and prioritizes returning free cash flow to investors. Financials contributed positively, with our position in **Bank of Montreal** +16% outperforming the sector's average. Meanwhile, Communication Services was the worst performing sector and, although our investments fared better than the average, they remained negative.

During the quarter, we initiated a position in **Linamar**, a consistently profitable advanced manufacturing company with diversified operations, and a strong owner-operator model, which we find to be very attractively valued.

Fixed Income

Overall, our fixed income holdings modestly outperformed their benchmark. While shorter-term yields dropped in response to the BoC's rate cuts, longer-term yields rose, influenced by yields in global markets, specifically U.S. Treasuries. Our neutral to modestly shorter-than-benchmark duration had no meaningful impact on relative performance. Canadian credit performed well, and an overweight position in our corporate credit strategies drove positive relative performance for the portfolio. This is consistent with our expectations that credit, as opposed to duration, be the primary driver of alpha generation for the asset class.

Outlook & Strategy

We continue to maintain an above-benchmark allocation to equities relative to fixed income given the higher expected long-term return profile for equities. Near-neutral bond duration and an overweight in high quality corporate bonds are the key portfolio characteristics. We remain focused on downside protection as we navigate this unique and volatile market where the risk tone will likely remain driven by inflation, fears of a recession, and ongoing geopolitical news.

Unless otherwise noted, all figures are presented in Canadian dollars. Any figures shown for contributors, detractors, duration, yield, and performance relative to the benchmark are for the model portfolio and actual figures may be different, depending on timing of trades, weights of holdings and individual decisions on exclusion of securities. This communication contains forward-looking statements and readers are advised that actual results and future events could differ materially from those anticipated in such statements. The opinions expressed herein are subject to change without notice. The blended benchmark is 60% S&P/TSX Composite Index; 40% FTSE Canada Universe Bond Index. Past 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 December 31, 2024.

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