

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

North American equity markets gained, led by the U.S. S&P 500 which advanced 9% in the quarter and an impressive 36% in 2024, following 2023's 23% gain. Canada's S&P/TSX Composite rose 4% in the quarter and 22% in 2024 while the FTSE Canada Bond Universe declined modestly in the quarter but gained 4% for the year. Global growth was positive, led by the U.S. economy, while inflationary pressures continued to ease. In Canada, annual inflation fell back to 1.9%, allowing the Bank of Canada (BoC) to reduce its policy interest rate by 1.75% – the largest rate cut by any major global central bank in 2024.

Portfolio Positioning

The portfolio remains overweight U.S. equities and underweight Canadian equities and fixed income relative to its benchmark. This asset allocation contributed positively to performance as North American stocks outperformed bonds, and the U.S. equity market outperformed its Canadian counterpart.

Equities

Top contributors included **Broadcom** +43%, which benefitted from AI-related semiconductor demand, and **Fiserv** +22%, whose Clover business drove solid results through market share gains and structural growth in digital payments. In Canada, the Information Technology sector was heavily skewed by one extremely expensive company, **Shopify** +41%, while 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. During the quarter, we exited **Ulta Beauty** amid increased competitive pressures from Sephora and Amazon and initiated a position in

Linamar, a consistently profitable and diversified advanced manufacturing company with a strong owner-operator model.

Fixed Income

Overall, our fixed income holdings modestly outperformed their benchmark. While shorter-term yields in Canada dropped in response to the BoC's rate cuts, longer-term yields rose, influenced by global markets, specifically U.S. Treasuries. Our near-neutral duration had no meaningful impact on relative performance. An overweight position in our corporate credit strategies drove positive relative performance for the portfolio, 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. In addition to our broad asset allocation targets, strategic themes include an overweight to U.S. equities relative to Canadian 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 35% S&P/TSX Composite Index; 25% S&P 500 (C\$); 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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