FGP NORTH AMERICAN EQUITY SMA

December 31, 2024

The FGP North American Equity 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, with the index hitting all-time highs during the final quarter of 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 & Performance

The portfolio remains overweight U.S equities and underweight Canadian equities relative to its benchmark. This asset allocation contributed positively to performance as the U.S. equity market outperformed its Canadian counterpart.

Top contributors included: **Broadcom** +43%, which benefitted from AI-related semiconductor demand; **Fiserv** +22%, whose Clover business drove solid results through market share gains and structural growth in digital payments; and **Allison Transmission** +20% which benefitted from robust North American demand for fully automatic transmissions for heavy-duty trucks and strong visibility into next year supported by pricing power.

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.

Outlook & Strategy

We continue to maintain an above-benchmark allocation to U.S. equities relative to Canadian equities. We view the market as quite uncertain. Consequently, we continue to look at each company's underlying ability to grow earnings, and we remain disciplined and conservative in terms of valuation. Our core portfolio strategy remains to hold a limited number of high-quality investments that should generate earnings and dividend growth over time. 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, 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. 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.

Forecasting represents predictions of market prices and/or volume patterns utilizing varying analytical data. It is not a guarantee of the performance of the stock market, or of any specific investment.

This material is not an offer, solicitation or recommendation to purchase any security. Nothing contained in this material is intended to constitute legal, tax, securities or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. Securities mentioned herein are not to be construed as recommendations to buy or sell and may not be representative of FGP accounts/portfolios as a whole.

The general information contained in this publication should not be acted upon without obtaining specific legal, tax and investment advice from a licensed professional. The information, analysis and opinions expressed herein are for general information only and are not intended to provide specific advice or recommendations for any individual entity.

While the information included in this Commentary is obtained from sources that FGP believes to be reliable, we do not guarantee its accuracy, and the information may be incomplete or condensed.