# FGP TOTAL BALANCED SMA

December 31, 2024

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

Global 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. Outside North America, political instabilities led to regional divergence, but the MSCI EAFE still climbed 13% in 2024 despite a soft fourth quarter. The FTSE Canada Bond Universe declined modestly in the quarter but gained 4% in 2024. Global growth was positive, led by the U.S. economy, while inflationary pressures continued to ease. Canada's 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 foreign equities, with a slight tilt to the U.S. relative to international, and underweight Canadian equities and fixed income relative to its benchmark. This asset allocation contributed positively to performance as the U.S. outperformed the MSCI EAFE, and Canadian stock and bond markets.

## 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. Outside North America, overall equity returns matched their benchmark. 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 competition, and **Nintendo** on valuation. We added **Publicis**, one of the world's largest advertising agencies, with earnings visibility near-term at half the valuation of Nintendo, and **Linamar**, a consistently profitable and diversified advanced manufacturer 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 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 foreign 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.

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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