The FGP Mortgage Fund returned 1.78% in the quarter, compared with the FTSE Canada Short Term Bond Index return of 1.69%.

The first quarter of 2025 continued to see volatility and uncertainty, largely driven by the *America First Trade Policy* and its associated tariffs. These developments caused fluctuations in financial markets and added to the economic uncertainty, particularly in Canada, which faces ongoing trade tensions with its largest partner, the U.S. In response to these pressures, the Bank of Canada (BoC) cut its key policy rate by a total of 50 basis points to 2.75%. This marked the sixth and seventh consecutive reductions by the central bank and had a direct impact on fixed income markets, where Canadian bonds posted positive returns in the quarter.

Yields declined across the yield curve, with short-term bonds seeing more significant drops in line with the BoC's rate cuts. Longer-term bond yields also declined, though to a lesser extent, as they were influenced by developments in global fixed income markets, particularly U.S. Treasuries. Given the increasing level of uncertainty in financial markets, the duration position of the strategy remained aligned with that of the benchmark, meaning interest rate movements had little impact on relative performance during the quarter.

The portfolio has a high allocation to short-dated and floating-rate investments which produces a shorter duration than the benchmark. The relative impact from duration was modestly positive during the quarter, with additional support from good spread performance.

We expect to increase exposure to commercial mortgages with shorter durations, including floating rates, in an effort to increase the yield of the portfolio in a risk-controlled manner. Commercial real estate is a divergent market with segments performing quite strongly while others lag. Notably, low quality office space is still seeing increasing vacancy rates and does not offer compelling mortgage investment opportunities. Our mortgage exposure to office properties continues to be higher quality, lower leverage, and broadly diversified by region. We continue to focus on deploying capital to other segments of the commercial mortgage market such as multi-family housing and retail as we view the risk versus return from those segments as much more positive.

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 March 31, 2025.

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.

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