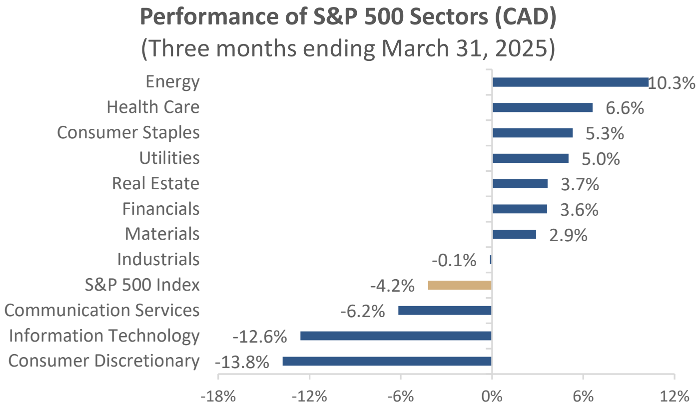
The FGP U.S. Equity Fund returned -2.22% in Canadian dollars in the quarter, compared with the S&P 500 Index (CAD) return of -4.20%.



Source: Bloomberg

After a very strong 2024, we saw volatility in risk assets return. Despite the market noise and ongoing back-and-forth on tariffs, financial markets somewhat surprisingly finished the quarter on a mildly positive note. A notable exception during the first quarter was the U.S. equity market where we witnessed negative absolute returns but also lower-than-average relative performance. As an example, the S&P 500 Index finished the quarter down roughly 4% in Canadian dollars, underperforming nearly all its developed market peers. The tech-heavy Nasdaq Composite Index fared even worse as valuations in some of the tech darling names started the process of returning to some version of reality.

The portfolio's outperformance, particularly during the March market pullback, reflects our disciplined approach of investing in high-quality companies at attractive valuations, a strategy that provided downside protection during the quarter. Stock selection in the Consumer Staples sector contributed to relative performance as did our overweight in Financials and our underweight in Information Technology. Stock selection in the Health Care and Communication Services sectors detracted from performance, as did our absence from the Energy sector.

Leaders

Among the top contributors to performance in the quarter were Philip Morris International Inc. (Consumer Staples), up 33%; Genpact Ltd. (Industrials), up 18%, and Fiserv Inc. (Financials), up 8%.

- Philip Morris continued to show solid results, especially from its innovative reduced-risk products like IQOS and Zyn. These offerings demonstrate strong market performance and underscore our investment thesis that Philip Morris is exceptionally well-positioned to capitalize on the ongoing shift among consumers toward more health-conscious alternatives. This strategic pivot aligns with our philosophy, as it not only supports the company's growth but also corresponds with broader societal trends toward improved public health.

- Genpact is a leading business process outsourcing (BPO) company originally spun out of GE in 2007 and listed as a public company. In previous quarters, investors were overly pessimistic about the impact of generative AI (GenAI) on Genpact. The company, however, continues to execute well, showing solid mid-single-digit revenue growth.

- Fiserv provides technology to the financial sector and payment processing services to merchants. Fiserv provides a link between SMEs and payment processors such as Visa and Mastercard. The company manages about USD 2 trillion in payment volume annually. Its main driver of growth is a subsidiary called Clover that provides hardware terminals to SMEs and the software that runs the terminals. The company delivered double-digit revenue growth helped by underlying economic growth, increasing use of digital payments by consumers, and Clover's increasing market share.

Laggards

Among the top detractors from performance in the quarter were Broadcom Inc. (Information Technology), down 28%, and Alphabet Inc. (Communication Services), down 18%. While both companies were affected by the underperformance of technology stocks in the quarter, our theses in these companies still held firm.

- Broadcom is a technology company selling semiconductor products that lead the market and which are set to benefit from growth in cloud adoption and AI. The company's financial results continued to be in line with our expectations.

- For Alphabet, which runs Google, investors are concerned about whether this search engine could hold on to its effective monopoly in the search business. While we appreciate the potential risks to the search business, we believe Alphabet has a very attractive collection of other businesses that do not get fully captured in the current valuation. Alphabet trades below the market's multiple, making the company attractively priced for us.

Portfolio Activity

In general, we like businesses that make something once and then have very little incremental cost for every new sale. For example, in the eGaming industry, programmers write the code to create a game, and the company sells the game many times – perhaps millions of times – without having to spend very much additional money. One such company is Electronic Arts Inc. (EA), the only new position in the portfolio in the quarter. EA is a video game producer generating over half its revenue and earnings from sports-specific games like soccer and football.

Increasingly, the business model for eGaming is shifting from one where players buy a game once to one where players spend money while playing. We think part of the opportunity is that over time, companies can increase this monetization. Right now, people can play a game for hundreds of hours and spend very limited amount of cash. So, if you can incentivize these types of people to spend more, that becomes the opportunity.

We continue to think that longer term, gaming itself is a secularly growing industry and EA, being the number one provider of sports gaming, is in a unique position to benefit from this growth. The increased monetization of gaming gives some stability and resilience to the company's revenue profile. EA also has non-sports games, a factor which gives the company increasing upside potential to grow revenue and monetize these games too.

We did not remove any companies from the portfolio.

Outlook & Strategy

At the end of the quarter, the portfolio traded at 19 times earnings, with expected earnings per share (EPS) growth of 9% in 2025. By comparison, the broader market traded at 21 times earnings, with expected EPS growth of 10%. We believe the companies in our portfolio remain well-positioned to provide durable earnings growth while trading at relatively attractive valuations which should continue to provide downside protection.

Unless otherwise noted, all figures in this commentary are presented in Canadian dollars.

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.

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