LESTER ASSET MANAGEMENT

RESPONSIBLE GROWTH

2024 YEAR END LETTER

January 29, 2025

Our view last year of a "goldilocks" scenario, where disinflation occurs within a growing economy while central banks cut interest rates, panned out. This translated into great returns for our investors in both our equity and fixed income strategies. While most stock markets rallied in 2024, a handful of U.S. tech-related stocks (MAG7), drove U.S. and global indices, while most stocks and foreign markets generated modest returns. As for bonds, shorter maturities rallied strongly because of lower inflation and central bank rate cuts, just as we expected. Longer-term bonds rose more modestly, in fits & starts, as 10-year yields remained stubbornly high in a tug-of-war between lower inflation and stronger U.S. economic growth combined with low unemployment.

Our bullishness to generate "equity-like" returns with low risk in our fixed income strategy proved to be justified. As we mentioned on several occasions, the post-pandemic high inflation environment created a uniquely attractive opportunity for investors to benefit from elevated yields on fixed income securities, and we took full advantage of this. Our Canadian Fixed Income Fund had another very strong year in 2024 with a gross return of +11.4%, well above the +4.2% return of Canadian Universe Bond Index and well above yields on GICs. After receiving several Global Manager Research (GMR) Top Performer Awards in the past few years, our LAM Canadian Fixed Income strategy ranked once again in the 1st quartile among fixed income managers in Canada.

In equities, we achieved over a 20% return in our LAM Canadian Equity Fund and over 17% in our U.S. strategy. During the year, we also successfully launched Canada's first Global Biodiversity Fund benefitting from powerful environmental tailwinds to protect and restore nature, which generated double-digit returns. 2025 has started off with extreme volatility in overbought AI stocks with recent news of competing low-cost tools developed in China. Note that we have little exposure to this sector and our portfolios are not vulnerable to such volatility.

CANADIAN EQUITY

For the 4th quarter of 2024, the **LAM Canadian Equity Fund** produced a gross return of **+2.2%** versus +3.8% for the TSX Composite Total Return including dividends. Our underperformance was due to our lower weighting in the Financial sector which rose +6.6% and not owning Shopify which alone contributed +1.5% to the TSX return. Our main contributors were space technology leader **MDA Space**, **High Liner Foods**, **TECSYS**, **BMO** and **Enbridge**. Detractors included renewable energy producer **Boralex**, **Pollard Banknote**, and **Telus**. During the quarter we added to **EQB** and **CN Rail**, and bought back two quality stocks, which we had earlier taken profits in, namely utility pole and railway tie manufacturer **Stella Jones** and supply chain AI solutions provider **Kinaxis**.

For 2024, the **LAM Canadian Equity Fund** was up +**20.9%** versus +21.7% for the TSX Composite Total Return. Our slightly underperformance was due to our lower weighting in the Financial sector, having no exposure to gold, and not owning Shopify which added +1.9% to the TSX return. Nevertheless, we kept pace with the market thanks to strong contributions from a diversified group of companies including **MDA Space**, **Definity Financial**, **Canadian Western Bank**, **TECSYS**, **Element Fleet**, **WSP Global**, and **Dollarama**. As well, **MDF Commerce** and **Park Lawn**, both acquired by private equity during the year at large premiums, contributed meaningfully to our return. Detractors included **Pollard Banknote**, **Quarterhill**, **CN Rail**, **Boralex, Pet Valu** and **Telus**.

We continue to take a disciplined approach by being well diversified by industry and minimizing exposure to resource-based companies to reduce cyclicality and volatility. This has allowed us to generate an annualized return of around 10% for over 18 years, with lower than market risk. Regarding U.S. tariffs, our portfolio should be relatively immune to these since we have little exposure to exporters to the U.S., and most of our holdings are either domestic businesses, have U.S. manufacturing facilities, sell products that are exempt from tariffs such as FDA approved ones, or are in services businesses. This being said, we are prepared to experience more volatility in the coming year and will use this to our advantage to purchase good businesses at cheaper prices.

U.S. EQUITY

During the 4th quarter, our U.S. Equity strategy declined **-1.1%** on a gross basis compared to a +2.4% return for the S&P 500 Total Return Index. Our underperformance was primarily driven by our low exposure to AI related tech stocks and banks, and our overweighting in industrials, which lagged in December. However, it is worth noting that the S&P 500 Equal Weighted Index, a more balanced measure of the 500 stocks in the index, declined -1.9% during the quarter, highlighting the broader market's weak overall performance.

Our top contributors for the quarter included **Amazon**, which benefited from higher Prime memberships, increased basket sizes, and ongoing AI tailwinds in its AWS cloud business, **Booking Holdings** which saw strong demand in its online travel platform, and **Williams Companies** which increased guidance in its energy infrastructure projects and is well positioned to capitalize on increased U.S. energy production. Detractors included P&C insurance company **Arch Capital** which faced increased costs from higher catastrophe losses, **Eli Lilly** which, while reporting strong growth in its Type 2 diabetes and anti-obesity drugs, Mounjaro and Zepbound, failed to meet lofty expectations after an exceptional run during which we took some profits.

During the quarter, we initiated a position in **Uber Technologies**. Uber has transformed into a highly profitable ride-hailing tech company with expanding food and freight delivery services. The company is expected to grow EBITDA from $2 billion in 2023 to over $6 billion in 2024 and $8 billion in 2025. Growth drivers include higher geographic market penetration, Uber One subscriptions, and new service offerings, coupled with lower insurance costs. Margins are expected to continue expanding as the company continues to scale. With robust free cash flow, we anticipate Uber will begin to aggressively repurchase its shares, especially as the stock has underperformed the S&P 500 and trades at an attractive valuation relative to other tech stocks.

For 2024, our U.S. strategy delivered a +**17.1%** gross return, compared to the S&P 500 Total Return Index's +25% gain. Our underperformance reflects our lower exposure to the mega-cap tech related stocks (MAG7) which largely drove the outsized market gains. The dispersion of returns between those few stocks and the rest of the market is most evident in the fact that the S&P 500 Equal Weighted Index only returned +13% for the year, a significant variance that highlights the reliance on a small group of companies driving market performance. This marks the second consecutive year of 20%+ annual returns for the U.S. market driven largely by the same small group of stocks which now have a disproportionate weighting in the main indices. We believe this leaves U.S. equity markets vulnerable to a potential correction due to lofty expectations in the richly valued MAG7 stocks, which suggests that more diversified strategies like ours should outperform going forward.

GLOBAL EQUITY

In the 4th quarter, the **Lynx Global Biodiversity Fund** declined by **-2.7**% on a gross basis, versus the MSCI World Index Total Return which rose by +6.4% including dividends in Canadian dollars. Our underperformance was mainly due to our lack of exposure to the MAG7 stocks which drove over half the index's return, and to AI related tech stocks and U.S. banks which rallied post Trump's election victory. It is worth noting that the MSCI World Equal Weighted Index was down -4.6% in U.S. dollars, highlighting the massive impact of a small number of mega U.S. companies on the index's performance, while most other stocks were down sharply. Our results were also impacted by weak European markets to which we are overweight and a decline in the Euro currency.

Our top contributors during the quarter included **Trimble** (global positioning and sensor technology), which delivered exceptional results supported by a 14% increase in recurring revenue and an improved outlook, **CECO Environmental** (industrial air and water solutions) which while reporting mixed results rallied strongly post-election, and **AECOM** (engineering and consulting) which provided an optimistic 2025 outlook for infrastructure projects, particularly in their Water & Advisory business, a growing segment with superior margins. Our main detractors were **DSM-Firmenich** and **Croda** (both sustainable ingredients companies) and **Novonesis** (enzymes and culture-based biosolutions), despite each company reporting positive organic growth, improved volumes and stable outlooks. We increased our position in all three companies, believing that the sell-off in these European global leaders was overdone and represents a knee-jerk reaction to the threat of U.S. tariffs.

During the quarter, we added **Nederman**, a global leader in environmental technology solutions focused on industrial air filtration. The company provides systems designed to capture, filter, and recycle air pollutants, dust, and fumes generated in industrial processes, reducing harmful emissions that can negatively impact nature's ecosystems. Nederman's technology platform, *Insight*, is now being rolled out globally and enables customers to monitor key metrics for compliance and efficiency while accelerating the replacement of underperforming parts thus driving higher margin aftermarket sales.

Since its inception on February 12, 2024, the Fund has delivered a gross return of +**10.5%** compared to +23% for the MSCI World Index Total Return, in Canadian dollars. While we lagged the index, it should be noted that the underperformance occurred entirely in the 4th quarter as we were ahead of the index until September 30. Our return was also achieved despite a large cash drag from early inflows into the Fund and without owning any of the MAG7 stocks, which contributed over 50% of the index return for the period. We are nevertheless pleased to have completed the inaugural year of our new global strategy with double-digit returns.

Since the re-election of Donald Trump, the S&P500 Clean Energy Index is down a staggering -13.5% at the time of writing this letter, while our Fund is up + 1.2%. With over US$525 billion invested in Clean Energy and Climate funds and only around US$4 billion invested in nature-based biodiversity funds, we see a bigger opportunity than ever for a paradigm shift by investors into less "politicized" environmentally friendly themes such as ours.

FIXED INCOME

While market tone was generally positive, the final quarter of 2024 was marked by a difficult December. Bond yields rose causing bond prices to fall, however our shorter duration higher yielding holdings benefitted us. We are very proud of the performance of the **LAM Canadian Fixed Income Fund** during the quarter, which generated a positive gross return of **+1.7%**, while the FTSE Canada Universe Bond Index lost -0.04%. Donald Trump's election victory was seen as positive for riskier assets such as tech stocks, crypto currencies, and credit spreads, however the market is now anticipating more inflationary fiscal policies and protectionism. This has led to a rapid rise in bond yields, as the market expects interest rates to be higher than previously thought. Unsurprisingly, the Canadian market followed the U.S. in sympathy, despite a marked dichotomy between the two economies. For the 4th quarter, our main contributors were preferred shares from issuers such as **Brookfield** and **Altagas**, and high yielding dividend stocks such as **Enbridge**. As well, several of our hybrid bonds, such as **Laurentian Bank 5.3% 2081/2026** and **Enbridge 6.625% 2084/2033**, increased in value.

For the full year 2024, we significantly outperformed all fixed income benchmarks with a gross return of **+11.4%**, the FTSE Canada Universe Bond Index having gained only +4.2% and the Hybrid Canada Bond Index +8.7%. Our excellent performance was due in part to our preferred shares with "floors" or with high "reset rates". Indeed, the Canadian preferred share index was one of the best performing asset classes in 2024 (as it was in 2023), with a return of over +25%. Our performance also benefited from our shorter duration higher yielding bonds and exposure to hybrid debt such as **Pembina 4.8% 2081/2030** and **Algonquin 5.25% 2082/2031** which both rose more than +10% during the year.

For 2025, we remain bullish on Canadian fixed-income assets, given still high yields on bonds and preferred shares when compared to inflation which is now below 2%. Regarding the risk of recession due to U.S. tariffs, bonds should provide a safe haven if growth forecasts and future policy rate levels are revised downwards. However, it is important to note that credit spreads are at historically low levels. Security selection therefore remains very important in the current environment, and we must remain attentive to economic data and geopolitical events likely to create volatility. It's also important to note that the Canadian economy is more sensitive to higher rates due to consumers' greater reliance on mortgage debt and higher unemployment. The announcement of potential U.S. tariffs and weakness in our currency brings its own set of challenges for the Bank of Canada, particularly as a change of government seems imminent, adding to the economic uncertainty.

MACROECONOMIC OUTLOOK

Entering 2025, the North American economy is on a solid footing, but the range of uncertainty has widened which will naturally affect financial markets. There are several factors at play which may not be resolved for a while. However, our bottom line is that on balance, events will evolve in a positive way, and we remain bullish on both Canadian stocks and bonds. U.S., domestic, and international politics and policy are front and centre now and how they play out will affect volatility. Trump tariff threats are real and could have a damaging effect on Canada's economy and certain sectors, and on the rest of the world. However, Trump is very transactional and focused on maintaining a strong U.S. economy and stock market. Reality will cause the new U.S. Administration to be pragmatic and the outcome of trade talks is likely to be more modest than the fear mongers are saying. Until a deal gets done, confidence will be negatively affected, particularly as Canada has a trade surplus with the U.S. Though more modest than Trump plays up, much of it derives from Canadian energy exports to the U.S. and Trump is committed to increasing energy supply. In trade talks to come, Canada has many cards to play that should soften the U.S. rhetoric against 'Canada stealing billions of dollars from the U.S.'

On the domestic front, the resignation of Prime Minister Trudeau is seen to be very positive for the economy and financial markets. Per capita living standards in Canada, translated into U.S. dollars, is about the same as it was 15 years ago. The Canadian stock market performance has reflected this poor economic performance. The Trudeau government has been anti-business, anti-growth, deficits have been enormous, regulation intensified and the Canadian dollar chronically weak. Unemployment is 6.7% versus 4.1% in the U.S., due partially to the high rate of immigration and growth in the labour force, which should support lower inflation but played a big role in raising home prices. The good news is that a change in government will likely result in a more positive environment for the Canadian economy and for the stock market which is cheap compared to the U.S. With inflation well under control and below the Bank of Canada's target, there is plenty of room to bring down interest rates which is good for both stocks and bonds. The Canadian dollar has hit record lows recently, due to a combination of poor economic policy, fear of Trump tariffs, and higher interest rates differentials in the U.S. due to higher inflation and stronger growth there. As a result, there has been a growing sense that the Fed may delay further easing. This could keep the Canadian dollar at a level considered cheap. Canadian assets are attractive to foreign investors and there should continue to be strong inflows of foreign investments here.

Canadian interest rates remain well below those in the U.S. due to lower inflation and a weaker economy. In the past few months, the U.S. 10-year government bond yield rose over 100 basis points to 4.8% on January 14. The selloff in U.S. bonds was caused by fears that Trump's economic policies will be inflationary and increase the already massive U.S. fiscal deficit and debt to GDP ratio. These fears seem overblown, though the U.S. selloff dragged Canadian bonds down with it, however, yields only rose by half that of the U.S. The negative reaction in bond markets is already reversing course (the U.S. 10-year bond yield is now around 4.5%), and we expect the Canada 10-year bond yield to head back down below 3% where it was previously. Overall, we believe investors should expect a solid North American economy in 2025 and positive financial markets. There is likely to be heightened volatility due to policy uncertainty in both countries, but we expect most conflicts to be resolved in a positive way over the course of the year.

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