

2nd QUARTER LETTER 2025

July 24, 2025

The 2nd quarter of 2025 was one of the most volatile in recent memory for both global equity and fixed income markets. The quarter saw a continuation of unprecedented and erratic policy announcements and threats from the Trump administration regarding tariffs and annexations, creating geopolitical and macroeconomic turmoil and uncertainty resulting in wild swings in global financial markets. Panic among investors spilled over from the 1st quarter and peaked in mid-April before Trump reversed course and delayed most tariffs. The S&P500 plunged nearly 20% in under 2 months before recovering fully by the end of June. Trump's about-face was forced upon him by rising yields on mid to long term U.S. treasuries which increase the cost of U.S. government debt. The bond market was clearly punishing him by sending him a clear message to "back-off".

Meanwhile in Canada, federal elections took place and voters chose Liberal leader Mark Carney as the best man to fight Trump on tariffs and annexation, and strengthen the Canadian economy and military. The Canadian stock market has significantly outperformed the U.S. market so far this year and the U.S. dollar has declined by -5.5% versus the Canadian dollar. As a result, Canadian investors in U.S. stocks are barely breaking even versus gains of near 10% in Canada. Investors are anticipating that Canada will come out stronger by lessening its dependence on the U.S., establishing new trading relationships with other countries, and removing inter-provincial trade barriers (and getting its house in order !). We expressed this optimism in our 1st quarter letter, and remain bullish on both Canadian equity and Canadian fixed income.

On another note, the 2nd quarter marked Lorie Hache's 30-year anniversary and Olivier Tardif-Loiselle 5-year anniversary with LAM. As Vice-President and Head of Client Services, Lorie remains focused on ensuring that our clients receive exceptional service, while Olivier, as Lead Manager of Canadian Fixed Income, continues to generate among the best returns in the country. Congratulations to both Lorie and Olivier!

CANADIAN EQUITY

For the 2nd quarter of 2025, the **LAM Canadian Equity Fund** rose **+11.6%** on a gross basis versus +8.5% for the TSX Composite Total Return Index including dividends. Equity markets were highly volatile during the quarter due to uncertainty caused by Donald Trump's tariff threats, initially plunging in April only to rebound strongly during May and June as he back-pedaled and delayed most tariffs. Year-to-date, the Fund is up **+8%** versus +10.2% for the TSX, our underperformance being solely due to our lack of exposure to the Gold sector which was up over 40% and added +3.3% to the TSX return.

Our strong outperformance versus the TSX during the quarter was mainly due to positive market reaction following solid financial results announced by most companies in our portfolio. We had also added to positions that had declined unreasonably on tariff fears such as **Savaria**, **CCL**, **Stella Jones**, **Pollard Banknote** and **Jamieson Wellness**, yet rebounded sharply, adding to our returns. Our top contributors for the quarter included **MDA** (space technology), **Definity Financial** (P&C insurance) which announced that it would acquire Travellers' Canadian operations, **Pet Value** (pet supply retailer), **Savaria** (home accessibility equipment supplier), **Dollarama** (discount retailer), **Kinaxis** (supply chain solutions provider), and **Element Fleet** (vehicle fleet management). Detractors were mainly limited to **TECSYS** (supply chain software provider), **Enbridge** and **Altagas** (energy infrastructure), and **CGI Group** (IT consultants). As stated on previous occasions, we believe that our portfolio is relatively immune to U.S. tariffs and to any consumer slowdown. We also continue to take advantage of market declines to purchase oversold stocks. However, given that equity markets have been reaching new highs lately, we have been trimming certain positions that have risen considerably and have either become overweight in the portfolio or expensive.

U.S. EQUITY

During the 2nd quarter, our U.S. strategy rose **+7.9%** on a gross basis compared with **+10.9%** for the S&P 500 Total Return Index including dividends. While absolute performance was strong, our relative underperformance was primarily driven by our lower exposure to the Technology sector which represents 34% of the benchmark (the highest percentage in history) yet contributed roughly 65% of the index's entire return (i.e. 7% of the 10.9%). Nevertheless, we are outperforming the S&P 500 year-to-date with a return of **+7.2%** versus **+6.2%** for the index, while maintaining lower risk through better sector diversification.

Top contributors unsurprisingly included technology-related holdings that rebounded sharply from the April sell-off, particularly **Microsoft**, **Booking Holdings**, and **Uber Technologies**. These companies benefited from resilient earnings reports and renewed investor interest for quality growth names. Our main detractor was **UnitedHealth Group**, which faced pressure following a CEO transition and operational reset within its Optum Health division. The business is currently absorbing elevated medical costs from newly onboarded patients, a group that has not yet been fully offset by government reimbursement rates, leading to near-term margin compression. While management has initiated remediation efforts focused on patient engagement and care optimization, the recovery remains contingent on stabilizing care intensity levels.

With ongoing uncertainty around U.S. trade policy and tariffs, we believe our portfolio remains well-positioned given its diversification and defensive profile. Our largest weightings have limited sensitivity to commodity prices and cross-border trade, and in the event of an economic slowdown, our holdings are expected to outperform due to their resilient business models. With approximately 5% in cash, we hope to take advantage of further volatility to add sound companies trading at attractive valuations.

GLOBAL EQUITY

During the 2nd quarter, the **Lynx Global Biodiversity Fund** generated a gross return of **+7.5%**, versus **+5.8%** for the MSCI World Total Return Index including dividends in Canadian dollars. While the Technology sector led the strong global equity market performance, our strategy delivered even better returns, driven by solid financial results and outlooks across our portfolio. Year-to-date, the Fund is up **+3.9%**, slightly trailing the MSCI World's **+4.1%** return, our slight underperformance being the result of a lack of exposure to the Financial sector which was the largest positive contributor to the benchmark. The majority of our holdings either reaffirmed or increased their financial outlook, highlighting the quality and resilience of the companies our strategy invests in. During the brief but sharp market selloff in April, we deployed cash by adding to high-conviction names while adding a new position in **Bentley Systems**, an engineering software provider whose clients are primarily infrastructure design and environmental consulting firms serving defensive end-markets such as public works and utilities. As markets rebounded in May and June, several of our holdings approached our internal valuation targets and were selectively trimmed, consistent with our disciplined investment process.

Top performers this quarter included **Montrose Environmental Group** (environmental services), **Eurofins Scientific** (laboratory testing), and **Itron** (smart grid metering), all of which delivered strong operating results. The main detractors were **Zoetis** (animal health), **Trex** (sustainable outdoor decking), and **Arcadis** (environmental engineering & consulting). Zoetis delivered solid results, and we remain confident in its market leadership, strong brand, and long-term growth prospects, despite some emerging competitive pressures. Trex reported softer results as the home renovation market remains challenged, though we are optimistic that channel inventory rebuilding is underway. Arcadis continues to deliver on its profitability initiatives, although market sentiment appears slower to recognize its progress. While the 2nd quarter rally was notable, we expect further market volatility and will take advantage of such to reinvest at attractive prices. Importantly, it should be noted that most biodiversity-related business opportunities in the U.S. are driven at the state and municipal levels where support has remained steady despite federal politics.

FIXED INCOME

The 2nd quarter of 2025 was marked by heightened volatility in bonds, with macroeconomic and geopolitical factors being the main culprits. April got off to a rocky start due to the Trump administration's tariff announcements eventually causing mid- and long-term U.S. treasury yields to rise. This forced Donald Trump to soften his tone and postpone most tariffs which then helped calm the bond market. Even so, in May, yields rose across the curve, initially due to concern that the Bank of Japan failed to intervene in its local bond market, as Japan is one of the world's largest holders of U.S. Treasuries. This was followed by Trump's proposed "Big Beautiful Bill", which is seen as increasing fiscal spending leading to higher deficits. This would increase the need for the U.S. to issue more bonds, putting further pressure on bond prices and leading to higher yields. In June, Middle East geopolitics fueled more uncertainty, but as tensions simmered, market positivity returned.

Yields on government bonds ended the quarter only slightly higher in Canada following the easing of tariffs, as investors felt less negative about their potential impact on the Canadian economy. Thus, investor appetite rose for riskier assets in general and credit spreads on corporate bonds tightened, which translated into higher bond prices for much of our portfolio. Thus, for the 2nd quarter we are pleased to report that our **LAM Canadian Fixed Income Fund** rose **+1.5%** on a gross basis, compared to a loss of -0.6% for the FTSE Canada Universe Bond Index. Since the beginning of the year, the Fund has posted a positive gross return of **+3.6%**, compared with only +1.4% for the Canadian bond index.

Our main contributors for the quarter included high-yield bonds such as **AutoCanada 5.75% 2029**, **Air Canada 4.625% 2029** and **Secure Waste 6.75% 2029**, and preferred shares from issuers such as **Brookfield** and **Altagas**. Hybrid bonds such as **Northland Power 9.25% 2083/2028** and **Pembina 4.8% 2081/2030** also contributed positively. High-yielding dividend securities such as **Capital Power** and **Telus**, which we limit to 5% of the portfolio, also performed well. Going forward, we are bullish on fixed income markets as the Bank of Canada (BoC) takes a "wait and see" attitude before cutting rates further, assessing further inflation data and the impact of tariffs. In the U.S., there is pressure to lower rates, however the Federal Reserve (Fed) is also waiting for more clarity before acting. Inflation is running higher than hoped in part due to tariffs and a resilient economy and job market, while tax cuts and higher spending and government debt levels are further clouding the picture.

MACROECONOMIC OUTLOOK

Monetary policy in both Canada and the U.S. remains focused on the still too high but falling headline measures of price inflation and the tight labor market. The good news is that the CPI is now down to 2.8% annualized, while the core CPI, adjusted for the spike in mortgage rates, is below the 2% midpoint inflation target. This is down sharply from the peaks recorded in 2022. Also, as we have frequently pointed out, these are lagging indicators and do not reflect the progress made by the more sensitive and leading measures. For example, in Canada, the Producer Price Index (PPI) is currently showing a decline of more than 5% from a year ago.

More significantly, is the sharp decline in market-based measures of inflation expectations. These show that on 5, 10 and 20-year horizons, inflation expectations are all below 2% and falling as the time horizon lengthens. The current tightness of monetary policy can be seen in several ways. For example, the BoC policy rate is well above the current, but falling, rate of price inflation. The yield curve (10-year minus two-year Government of Canada bond yield)—a reliable measure of policy tightness—is the most negative in 20 years. The BoC has been reducing its balance sheet (quantitative tightening) rapidly and money supply growth is negative after adjusting for inflation. In short, monetary policy, which always works with a long and variable time lag, will continue to push inflation down. The determination of both the BoC and the Fed to restore confidence in the value of money is a key factor in the growing expectation that future inflation will be well anchored within the central bank targets. This dynamic will have a positive impact on interest rates and lead to strong returns in bond portfolios.

Restrictive monetary policy is inevitably having the effect of not only bringing inflation down but cooling the overheated North American economy. This is resulting in a softening of some indicators in the job market, which, together with the positive inflation numbers, are what the central banks need to see to bring down short-term interest rates further. This will take the pressure off of long-term yields as bond prices rise. This could take a few more months as both the BoC and the Fed are still worried that inflation may prove sticky. Over the past 12 months, the 10-year Government of Canada bond yield has been range bound between 3.5% and 4%, in spite of the sharp drop in short-term rates. This is a bullish sign when assessed against the declining rate of price inflation, both actual and expected. The stage is being set for another bond rally.

It should also be noted that Canada's fiscal deficit as a percent of GDP is much lower than the U.S. deficit. This could be an important factor in the Canadian bond market outperforming the U.S. The North American economy, in the face of a major tightening in monetary policy and sharp rise in interest rates, has shown surprising resilience. However, it is slowing and likely to create headwinds for equity markets. While the bond market could well outperform stocks, it is inevitable that falling interest rates may more than offset the negative effects of a temporary weakening in the economy, which is what stock markets may already be anticipating as they make new highs. Nevertheless, Canadian stocks continue to be cheaply valued relative to the U.S. which offers some protection to investors in the face of headwinds from a slowing economy.

The Canadian dollar has been range bound versus the U.S. dollar since 2014 at between 1.20 and 1.45. It previously faced significant headwinds due to the exceptional strength in the U.S. dollar against virtually all currencies (up close to 35% on a trade weighted basis over the past 10 years), a decline in commodity prices (the overall commodity index is down by about 30% since the peak in 2021), self-inflicted wounds from poor policies under the Trudeau government, and fear from the impact of tariffs since Trump's election. However, the Canadian dollar has strengthened by 5.5% so far this year, the U.S. dollar having declined against most major currencies as confidence in the U.S. wanes due to Trump's erratic behavior. We expect this trend to continue as a still cheap but rising Canadian dollar should make Canadian assets attractive to foreign investors.

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