

3rd QUARTER LETTER 2025

October 27, 2025

During the 3rd quarter of 2025, global equity markets continued their strong rebound from the April lows, however this was driven by a narrow group of Artificial Intelligence (AI) related stocks and a flurry of technology announcements by the Trump Administration. Momentum trading and quantitative strategies have overtaken markets which now appear to be manipulated by Donald Trump as he gets involved in everything from technology to mining companies to cryptocurrency. The massive amounts of money being spent on AI without knowing what the return on invested capital will be seems reckless. Nvidia's market cap is now greater than the GDP of Germany, Japan, UK, France and Canada. Does this make sense? Even industry experts are now saying that AI is a bubble ready to burst, and that there may not be any real winners in the data center "arms race".

Meanwhile in Canada, trade negotiations continue with newly elected Liberal Prime Minister Mark Carney who has vowed to strengthen the Canadian economy, improve productivity, and lessen Canada's dependence on the U.S. while expanding trade relationships with other countries. The Canadian stock market continues to outperform the U.S. this year, but this has largely been on the back of commodities such as gold. As per our previous letters, we remain bullish on both Canadian equity and Canadian fixed income, particularly in the context of a declining interest rate environment and an eventual resolution to trade talks with the U.S.

On another note, **Fundata**, the leading provider of Canadian investment fund data and analytics to financial professionals and investors, has ranked the **LAM Canadian Fixed Income Fund** as the top performing investment fund in the Canadian Fixed Income category as of September 30, 2025. **Fundata** also awarded our fund a Grade A rating, which means that our strong returns have been achieved with low risk. Our fixed income strategy goes back nearly 18 years, and has consistently produced among the top risk-adjusted returns in the country. We are very proud of this achievement and are confident in our ability to continue generating significant value-added for investors in fixed income and balanced portfolios.

CANADIAN EQUITY

For the 3rd quarter of 2025, the **LAM Canadian Equity Fund** rose **+2.3%** on a gross basis versus +12.5% for the TSX Composite Total Return Index including dividends. Equities continued to rebound from their April lows but were driven by strong momentum in concentrated sectors such as Gold (+45.6%) which we are not exposed to due to its inherent risk and volatility, and Energy (+12.6%) and Financials (+10.6%) in which we have a lower weighting. Our return was also hampered by high cash balances after having taken profits following our very strong 2nd quarter, as we preferred to err on the side of caution given the ongoing tariff uncertainty and global geopolitical risks. Year-to-date, the Fund is up **+10.5%** versus +23.9% for the TSX, our underperformance being mainly due to our lack of exposure to the Gold sector which was up 109% and added +8.1% to the TSX return.

Our top contributors for the quarter were **Bank of Montreal**, **Royal Bank**, **Enbridge**, and **Altagas**, as well as **Guardian Capital** which rose +56% on the announcement that it would be acquired by Desjardins Group. Detractors included IT consultants **CGI Group**, P&C insurance company **Definity Financial**, renewable power producer **Boralex**, and digital financial services provider **EQB**. While our portfolio has been resilient to U.S. tariffs and a consumer slowdown, it did not benefit on the upside from the momentum trading in the Gold and Energy sectors, while some of our technology holdings sold off on fear they would be impacted by AI. We believe this to be an overreaction and are taking advantage of weakness in software stocks to add quality names such as **Constellation Software** and **Thomson Reuters**. Despite our underperformance, we expect strong results from the companies we own and are confident they will produce attractive risk-adjusted returns going forward.

U.S. EQUITY

During the 3rd quarter of 2025, our U.S. equities gained **+3.9%** on a gross basis compared to +8.1% for the S&P 500 Total Return Index. Year-to-date, our strategy has returned **+11.4%**, versus +14.8% for the benchmark. The index's performance was again dominated by the MAG7 and AI driven momentum stocks, which together accounted for nearly 80% of the S&P 500's gain during the quarter. Our more diversified approach, with lower sector concentration, participated in the market rally but to a lesser degree and with lower risk.

Our top contributors included **Alphabet**, **Allegion**, and **JPMorgan**. Alphabet surged following strong cloud revenue growth and a favorable antitrust ruling. Allegion delivered strong results, raised its full-year outlook, proved resilient to tariffs, and is benefitting from improved non-residential demand including data centers. JPMorgan enjoyed strong trading revenue amid increased market volatility and robust investment banking activity, while stable credit metrics and solid capital ratios reinforced the bank's resilience.

Detractors included **Carrier Global**, **Booking Holdings**, and **Colgate-Palmolive**. Carrier reported solid commercial results and growing data center sales but trimmed its outlook as U.S. residential HVAC weakness persisted. Booking Holdings guided to conservative "room night" growth as investors rotated to businesses with more direct AI exposure. Colgate-Palmolive underperformed due to increased value-seeking consumer behavior, which muted short-term organic growth for this otherwise high-quality defensive stock. Looking ahead, we continue to invest in companies that have clear catalysts and predictable, visible earnings that are trading at attractive prices, while managing risk by taking profits when valuations are high and upside is limited.

GLOBAL EQUITY

In the 3rd quarter of 2025, the **Lynx Global Biodiversity Fund** generated a gross return of **+1.8%**, compared with +9.5% for the MSCI World Index Total Return (CAD). Year-to-date, the Fund has returned **+5.7%**, versus +14.0% for the index. As with the S&P500, the global benchmark's gains were concentrated in AI related stocks that benefited from short-term momentum trading, which accounted for the majority of the index's performance. While our portfolio includes companies that benefit indirectly from rising AI investment in data centers, capital will need time to flow to these companies before the positive effects are reflected in their performance. Examples include engineering services and water related technology.

Top contributors included **CECO Environmental** (industrial air & water solutions) and **Montrose Environmental Group** (environmental services). CECO delivered strong organic growth, raised full year guidance, and secured its largest-ever order in U.S. power emissions management. Montrose raised full year guidance after reporting strong revenue growth and continued strength across its air monitoring, testing, and long-term remediation businesses. Despite solid fundamentals, ingredient companies such as **DSM-Firmenich** (sustainable health & nutrition) and **Novonesis** (biosolutions) have lagged on short-term concerns around tariffs and softer consumer end market demand. Most of our holdings have raised or reaffirmed guidance, reinforcing our confidence that their strong fundamentals will drive solid portfolio performance despite political and economic uncertainty.

FIXED INCOME

The 3rd quarter of 2025 was a strong one for fixed income markets in general, and even more so for corporate bonds. Economic data in the U.S. was mixed during the quarter, with inflation appearing to remain within an acceptable range and employment starting to come under pressure. This prompted the Fed to go ahead with its first rate cut since the beginning of the year, with the market anticipating more cuts by year end. In Canada, the Bank of Canada (BoC) also cut its interest rate in September, the third cut this year. Inflation, now well under control, combined with a difficult job market exacerbated by the impact of tariffs on certain sectors, prompted the BoC to take proactive action. The likelihood of another rate cut before the end of the year is also quite high in Canada due to ongoing trade uncertainty and a slowing economy.

During the quarter, credit spreads narrowed further, translating into higher corporate bond prices. As a result, we are very pleased with the quarterly performance of our **LAM Canadian Fixed Income Fund** which rose **+2.8%** on a gross basis, compared to a return of +1.5% for the FTSE Canada Universe Bond Index. Since the beginning of the year, the Fund has posted a very strong gross return of **+6.5%**, compared to +3% for the bond index.

The macroeconomic environment during the quarter was favorable for credit spreads and riskier assets in general. Hybrid bonds such as **Enbridge 6.625% 2078/2028**, **Laurentian Bank 5.3% 2081/2026**, and **Northland Power 9.25% 2083/2028**, as well as preferred shares from issuers such as **Brookfield** and **Altagas**, were our main contributors during the quarter. Our high-yielding dividend stocks, which we limit to 5% of the portfolio, such as **Pembina** and **Enbridge**, also performed well. Since the beginning of the year, our main contributors have, unsurprisingly, been similar to those mentioned above. Preferred shares in particular are having another excellent year, with a return of over +13% year-to-date for the preferred share index.

We are optimistic about fixed income assets for the coming quarters. Yields remain attractive, and despite our strong performance so far this year, our Fund still offers a current yield of approximately 5%, well above inflation, for a duration of only 4 years. Our Fund, which focuses on short-term corporate bonds, is all the more attractive given that the environment remains favorable for most businesses. Companies in general have strong balance sheets and high profit margins to weather economic challenges, while governments are lowering interest rates and increasing their deficits. In the U.S., we continue to monitor the budget situation and the Fed's statements which can have a pronounced effect on bond markets, while in Canada, we await Mr. Carney's federal budget. A higher-than-expected deficit of approximately \$75 billion or more is anticipated, with the budget divided into two parts: operating expenditures and investments. It will be interesting to see if he can revitalize the Canadian economy through tax incentives and major infrastructure investments.

MACROECONOMIC OUTLOOK

Despite ongoing uncertainty caused by ever-changing U.S. policy and tariffs, markets have been buoyed by a combination of factors: lower interest rates (monetary easing), lower taxes (fiscal stimulus), and a looser regulatory regime (deregulation). While lower interest rates have pushed up bond prices and some riskier assets, massive investments in AI have been driving stock markets higher. And in Canada, in spite of ongoing uncertainty and the negative impact of tariffs on local businesses, the TSX Composite has surged to new highs on the back of skyrocketing gold prices caused by central bank buying and fueled investor speculation.

Central bank policy will continue to play a big role in how the global economy evolves. In North America, economic growth is slowing and the labour market is softening, which was the trigger for central banks to start lowering interest rates again, despite inflation rates that remain stuck at the higher end of the target range in Canada or slightly above the range in the U.S. Given the amount of uncertainty over how Trump's tariffs will play out, both the Fed and the BoC are likely to remain cautious and ease further, but only if inflation and labor market data are supportive. The key point, though, is that financial conditions are easing, which is positive for bonds as well as stocks, helping to offset the impact on earnings from a softer economy.

On tariffs, despite stalled negotiations, we expect Canada will be able to work out a satisfactory deal with the U.S. administration as Trump's strategy has always been to attack with maximum bluster and then quietly back down and claim victory. Meanwhile, investors must endure uncertainty and a higher perception of risk. A bigger risk by far is the tariff war between the U.S. and China. This battle is over economic, technological and military dominance. It has been developing for decades and both U.S. political parties are aligned in trying to limit Chinese power. China has the upper hand as they trade little with the U.S., are self-sufficient in critical industries and have near monopolies in sectors such as rare earths. There appears to be no stable equilibrium between the two countries and, while there will be apparent attempts to work out a truce, it will be temporary and the longer-term outlook between the two countries is of serious concern.

A big area of risk is the AI boom, or some would say bubble. AI related investments are estimated to have accounted for an astounding 92% of U.S. GDP growth in the first half of 2025. Without data centers and information processing technology, GDP growth was only 0.1%. And as of now, the benefits of AI to productivity and profits are not conclusive. If those benefits are not proven on a timely basis, there will inevitably be disappointment and a sharp correction in this highly speculative segment of the stock market. There are also signs of bubbles in other areas of the market such as gold and other risky assets such as Bitcoin. In general, the valuation of major stock indices becomes stretched as they get more and more concentrated in “hot” sectors. For example, the top 10 stocks now represent 40% of the S&P500’s total market capitalisation, and the concentration of AI driven stocks is even higher. While it is always hard to tell the difference between a bubble and a bull market, it does seem prudent for investors to become more conservative in their asset allocation when speculation runs high and valuations are stretched.

Another area of concern is the spread between high-yield corporate and government bonds. This has narrowed to near-record levels suggesting overvaluation and mispricing of risk; however, corporations’ balance sheets are generally in good shape and absolute yields are still attractive, well above inflation. Nevertheless, investors should exercise caution in illiquid alternative strategies such as private debt and real estate loans.

The Canadian dollar has continued to move within the US\$0.69 and US\$0.83 range for the past 10 years now. It has been weak in recent months, however given the concern over the impact of U.S. tariffs, the Canadian dollar has been surprisingly resilient. The relative cheapness of our currency has been an important inducement for foreigners to invest in Canada, which is perceived to be a more stable country than the U.S. currently is under the Trump Administration, and with Canadian equities in general representing better value.

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