LAM LESTER ASSET MANAGEMENT

RESPONSIBLE GROWTH

2025 YEAR END LETTER

January 29, 2026

2025 was a very volatile year, initially focused on Donald Trump's tariff wars, and later manipulated by his interference in tech stocks and attempts to influence Fed policy. With computer algorithms controlling 2/3 of all stock trading activity, momentum investing ruled the day. De-dollarization, the AI frenzy, and Trump's military threats drove gold prices to historic levels, and caused the tech sector to bifurcate (decimating software stocks) while defence stocks skyrocketed. Trump's easy money policy and circular deal making fuelled extreme "risk-on" behavior with investors taking on record margin loans and big tech spending trillions on an AI arms race financed with massive debt and uncertain investment returns. This has led to overconcentration and all-time high valuations in most indices. With soaring government debt, AI-dependent GDP growth, sticky inflation from tariffs and near record U.S. employment, government bonds struggled with stubbornly high yields.

The above distortions made it a very tough year for many active equity managers, particularly those with a long-term value and quality investment philosophy (including us), as they significantly lagged the main indices. Some top ranked managers even ended the year with flat or negative returns. Our Canadian Fixed Income Fund had another stellar year in 2025 with a gross return of +7.3%, well above the +2.6% return of the Canadian Universe Bond Index, as we stayed focused on high yielding shorter term corporate bonds. We are proud to state that Fundata ranked our Fund as the top performing Canadian fixed income fund in Canada for 2025, and the past 3 and 5 years as well, while Global Manager Research and eVestment, the two most consulted databases by institutional investors, once again ranked our Canadian Fixed Income strategy in the top percentiles.

CANADIAN EQUITY

For the 4th quarter of 2025, the **LAM Canadian Equity Fund** declined **-3%** versus +6.2% for the TSX Composite Total Return including dividends. Our underperformance was due to our lack of exposure to the Materials sector which rose by +11.9% mostly driven by gold stocks, and lower weightings in the Financial and Energy sectors which rose +10.5% and +5.8% respectively. As well, a few of our smaller cap holdings suffered large declines on one-time company specific news (having largely rebounded since), while our technology names were down on the threat of AI disruption. Contributors included **Royal Bank**, **Loblaw**, **EQB**, **Quebecor**, **Savaria**, **CCL** and **Dollarama**. Detractors included **AG Growth**, **MDA Space**, **Pet Value**, **Pollard Banknote**, **TECSYS**, and **Telus**.

For 2025, the **LAM Canadian Equity Fund** was up +**7.2%** versus +31.7% for the TSX Composite Total Return. Our underperformance was due to our lack of exposure to the gold sector which rose a staggering +145% and our lower weighting in the Financial sector which rose +35%. Together, the Financial and volatile Materials sector contributed an astounding 72% of the TSX return (i.e. +22.9% of the +31.7%), the rest of the market rising only +8.8%. Our main contributors were **Royal Bank**, **BMO**, **Definity Financial**, **Quebecor, Loblaw, Dollarama** and **Element Fleet** As well, **Guardian Capital** which announced it would be acquired by Desjardins Group at a large premium, contributed to our return. Detractors included technology companies such as **CGI Group**, **TECSYS**, **Constellation Software** and **Thomson Reuters**, which declined on the threat of AI disruption, as well as **Pollard Banknote** which generated record results and is expected to continue to do so, and **AG Growth**, which delayed its financial statements yet reported results that were ahead of expectations.

While we are disappointed with our relative return for the year, much of the TSX rise was driven by low quality mining names. We prefer to minimize risk from a diversified portfolio of high-quality well-managed businesses, rather than chase the latest momentum trade be it gold, AI, or defence stocks. This discipline has allowed us to generate an annualized return of around 10% for nearly 20 years, with lower volatility and lower market risk. While our portfolio proved to be immune to U.S. tariffs (which we had prioritized), it was not immune to investor sentiment or computer algorithms. While we remain cautious in this "risk-on" market, we are taking advantage of severe declines in high-quality stocks to position the portfolio for attractive long-term risk-adjusted returns.

U.S. EQUITY

In the 4th quarter, our U.S. Equity strategy returned **+2.2%,** compared to +2.7% for the S&P 500 Total Return Index. The S&P 500 continued to be driven by extreme concentration, with two companies, Alphabet and Apple, contributing approximately 67% of the index return. Healthcare also did well. It is worth noting that the S&P 500 Equal Weighted Index returned only +1.4% in the quarter, underscoring how narrowly concentrated the benchmark's gains were. Nevertheless, our overweight position in **Alphabet** helped us keep up with the index.

Our top contributors during the quarter included **Alphabet**, which continued to benefit from AI related demand across its Search and Cloud platforms; **JPMorgan**, which benefited from favorable banking conditions and strong capital markets; **Eli Lilly**, supported by continued momentum in its diabetes and obesity drugs Mounjaro and Zepbound; and **Uber**, which delivered strong earnings growth and improving free cash flow as operating leverage continued to build across its mobility and delivery platforms. Our largest detractors were **UnitedHealth**, which experienced higher medical costs, particularly within government sponsored programs where reimbursement has lagged rising utilization; **Carrier**, due to softer demand across certain HVAC end markets; and **Colgate**, as the consumer staples sector significantly trailed the AI driven market momentum.

For 2025, the U.S. Equity strategy returned **+13.8%,** compared to a +17.9% gain for the S&P 500 Total Return Index. Performance was again driven by narrow market leadership and AI frenzy, with the MAG 7 accounting for approximately 42% of the total index return for the year. Alphabet was the strongest performer within this group and a meaningful contributor to our results; however, index concentration was again evident compared to the S&P 500 Equal Weighted Index, which returned +11.4% for the year, a level our strategy exceeded.

Our performance in 2025 reflects positioning consistent with our investment discipline. Our strategy is designed to participate in market upside while avoiding being caught by overexposure to momentum driven sectors. In an environment where index returns were dominated by a narrow group of AI related stocks, our portfolio participated to a lesser extent by design. While many AI beneficiaries performed well in 2025, we believe that most AI related stocks are overvalued due to overly optimistic expectations. Our exposure to AI is selective and valuation conscious, anchored by companies such as Alphabet, Microsoft and Amazon, avoiding stocks whose outcomes are overly dependent on a single technology cycle. This leaves our portfolio less vulnerable and better prepared for a market where fundamentals, valuation discipline, and earnings durability regain importance.

GLOBAL EQUITY

In the 4th quarter, the Lynx Global Biodiversity Fund declined **-6.9%**, versus a return of +1.7% for the MSCI World Total Return Index (in CAD). Entering the quarter, performance had been strong as tariff related and geopolitical headlines eased. However, volatility increased significantly during the quarter as Healthcare, Financials, and a few of the MAG 7 kept the index in positive territory. The Fund's high exposure to the Industrial sector caused us to lag. Industrial outperformance was concentrated in the AI infrastructure, mining related, and defence sectors, which we have little exposure to, while environmental services, water infrastructure, and utility metering lagged. Our engineering firms were impacted by the threat of AI disruption (having largely rebounded since), while the U.S. government shutdown led many businesses to defer spending causing some of our holdings to report weaker than expected results or guidance.

Top contributors during the quarter were **Eurofins** (testing, inspection and certification), **Veolia** (water infrastructure, waste management and power generation), and **Montrose** (environmental services). Detractors included **Trex** (recycled decking), **Zoetis** (animal health), and **Bentley** (engineering design software). Market volatility nevertheless created opportunities to add to high quality companies that sold off despite unchanged fundamentals. We added to **Schneider Electric**, a world leader in energy management and automation solutions for which we see sustained demand for efficiency and grid optimization as electrical infrastructure becomes increasingly constrained. We took profits in smaller companies such as **CECO Environmental** and **Takuma** after reaching valuation targets, and exited a few names for which future growth prospects appear to have slowed.

For 2025, the Fund was down **-1.61%,** compared to +15.9% for the MSCI World Total Return Index (CAD). Results reflected the same market dynamics that defined the 4th quarter, with index returns concentrated in the MAG 7 and AI related stocks, and the Financial sector. While we are disappointed with our 2025 return, we remain confident in the powerful underlying themes and high-quality businesses in our global portfolio, which as of the date of this letter, is rebounding strongly up nearly +4% so far in 2026.

FIXED INCOME

The 4th quarter was a positive one for our **LAM Canadian Fixed Income Fund**, despite a more difficult period for bond indices and increased volatility in financial markets. The Fund ended the quarter with a gross return of **+0.7%** versus -0.3% for the FTSE Canada Universe Bond Index. For the year, we significantly outperformed the benchmark with a positive gross return of **+7.3%**, compared to +2.6% for the index.

Some of the year-end volatility was caused by political and geopolitical events, such as the U.S. government shutdown and tense negotiations between the U.S. and China. However, companies continued to report solid results and economic data remained resilient. In Canada, bond yields began the quarter by falling significantly until employment data showed unexpected economic strength. Central banks continued to cut interest rates during the quarter, with a 25 basis-point reduction in Canada and a 50 basis-point reduction in the U.S. However, in Canada, we appear to be close to the neutral rate, as the market and the Bank of Canada (BOC) do not anticipate any further rate cuts in the future. During the quarter, our main contributors were preferred shares from issuers such as **Brookfield** and **AltaGas** and some of our hybrid bonds such as **Capital Power 7.95% 2082/2032** and **CIBC 6.987% 2084/2029**. Our detractors included some of our high-dividend stocks such as **Telus** and **Pembina**, as well as longer-term bonds such as **Hydro One 3.72% 2047**.

For 2025, one of the key contributors to our performance was our preferred share exposure. The Canadian preferred shares index performed well once again, with a return of over +18%. Our performance also benefited from our exposure to hybrid bonds and high-yield securities such as **Autocanada 5.75% 2029**, **Superior Plus 4.25% 2028**, and **Capital Power 7.95% 2082/2032**, which returned over +10% for the year, including interest income. As well. our shorter duration continued to help buffer volatility. Our detractors include securities with longer maturities given that the yield curve steepened in 2025.

We are optimistic about fixed income markets in general going forward. Although spreads are tight, yields remain attractively high, specifically for corporate bonds given that the economic environment remains favorable. Most companies have strong balance sheets and high profit margins to weather more challenging times, while government bonds face considerable macroeconomic uncertainty and governments continue to increase their deficits. Our Fund, which focuses on shorter-term higher yielding corporate bonds, still offers a current yield of close to 5%, well above GICs and inflation, for a duration of just under 4 years.

MACROECONOMIC OUTLOOK

The overall macro picture continues to be clouded by U.S. policy chaos and unprecedented threats to the world economic and financial order. Nevertheless, the U.S. economy and stock market performed well in 2025, albeit driven by highly concentrated sectors and momentum related to AI, mining and metals, defence and financials. However, policy risks remain elevated and it is not possible to assign probabilities as there are growing concerns about the President's rationality and the protective actions that other countries are taking for their own economic, financial and geopolitical security. This is an election year and with Trump's ratings falling markedly, anything could happen as he pulls out all the stops to prevent a Republican electoral disaster.

The strong economy and the stock market in 2025 have been driven in large measure by AI related investments which have sharply boosted short-term profits of certain companies and by some productivity gains via reduced wage and other costs which is helping to contain inflation expectations close to the Fed's target. AI productivity gains are in large part, labour savings which, as labour markets softens, give the Fed room to ease policy.

Financial conditions in the U.S. have continued to improve and future Fed easing will sustain this. High yield spreads are nearing historic lows, making access to credit relatively easy. The corporate sector as a whole is in a strong financial position with booming profits, low debt to market values and strong liquid asset ratios. Recent economic data has been mixed due in good part to the government shutdown last fall. However, overall growth for 2025 was probably close to 4%, largely driven by AI and data center investments. 2026 may not be as strong, but efforts by the Trump Administration to use fiscal policy to boost popularity before the November elections could give growth a boost. AI related stocks now represent 35% to 40% of the U.S. stock market capitalization which highlights the large concentration risk in the main indices. This and the outsized gains last year mean that there will likely be lots of volatility and policy uncertainty this year. An encouraging note is that rotation into the lagging sectors, including small caps, seems to be slowly underway and should broaden the equity rally.

Cross winds continue to affect fixed income markets. AI induced productivity gains resulting in a softer labor market, low oil prices, and weakening shelter expenses are deflationary, but pro-cycle fiscal policy at a time of 3% to 4% real growth is potentially inflationary. As well, companies like Walmart and Amazon are now raising prices as pre-tariff inventory stocking runs-off. With fiscal stimulus ahead, inflation concerns may remain sticky and, along with rising government deficits, are keeping mid to long term government bond yields above 4%.

Canada ended 2025 with economic growth of roughly 1.2%, narrowly avoiding the recession that many forecasters had expected at the start of the year. The dominant headwind was the introduction of new U.S. tariffs averaging 6% to 7%, which weighed heavily on trade-exposed sectors such as steel, aluminum, and autos. Yet the economy proved more resilient than anticipated. A surge in “Buy Canadian” sentiment, combined with robust federal and provincial spending, provided an important buffer that helped stabilize domestic demand and keep growth positive. As well, a strong U.S. economy provided important support to Canadian business.

One of the most notable surprises was the labor market. After showing signs of strain earlier in the year, employment rebounded sharply in the second half of 2025. By November, the unemployment rate had fallen to 6.5%, driven in part by unexpected strength in manufacturing employment - the very sector most exposed to U.S. tariffs. This rebound helped underpin household income growth, even as consumers remained cautious. Headline CPI settled near 2.2%, broadly consistent with the BoC’s target. However, underlying pressures persist, particularly in groceries and shelter, where rent inflation remains stubbornly high, straining affordability. Also, with pre-tariff inventories having run down, some upward price pressure should soon be felt.

From a policy perspective, the BoC closed the year with the overnight rate at 2.25%. With modest growth and inflation contained but uneven, the likely path for 2026 is a prolonged pause. A rate hike remains possible if consumer demand and wage growth pick up, but near-term policy flexibility is constrained by global uncertainty and upcoming trade negotiations. The July 2026 USMCA renegotiation looms large, keeping business investment cautious with a wait-and-see posture across much of the private sector. That and continued gains in AI related productivity should keep wage inflation benign and work to offset price pressures elsewhere. Equity markets and bond yields are likely to remain range bound until the chaos south of the border is resolved.

Stephen Takacsy **Matthew Kaszel** **Olivier Tardif-Loiselle** **Tony Boeckh**