

1st QUARTER 2026 LETTER

April 24, 2026

Similarly to last year, the 1st quarter of 2026 was marked by more chaos caused by Donald Trump and extreme volatility in financial markets. In fact, there has been a non-stop series of geopolitical events that have rattled markets, including threats to annex Greenland, the kidnapping of Venezuela's President, disregarding the U.S. Supreme Court decision on tariffs by immediately introducing new tariffs, and declaring war on Iran. The latter naïve and ill-thought-out move has caused the closure of the Strait of Hormuz, through which passes 20% of the world's liquid petroleum supply, ultimately raising the price of almost everything we consume. This has only emboldened the Iranian regime and backed Trump into a corner with no off-ramp in sight.

As a result, the volatility that has characterised Trump's reign of terror and tweets, continues unabated. Most stock markets corrected by about 10% by the end of March, while bond markets are caught between rate cuts to stimulate a slowing economy and rate hikes to combat inflation caused by higher energy prices. Meanwhile, AI related volatility is rising over doubts about investment returns on ever massive capital expenditures and cybersecurity concerns, all the while industry concentration continues to grow within major equity indices.

On another note, we are pleased to announce that Ben McAusland has joined LAM as Senior Analyst, Fixed Income & Alternative Strategies, to help launch a new investment strategy that will leverage our core strengths, such as our leading position in Canadian Fixed Income, while benefiting from market volatility. Ben spent over 10 years at National Bank of Canada in various roles within the wealth management sector and will make a strong addition to our team. We are also pleased to welcome Annika Johnston, as Associate Client Services, who will work closely with Lorie to continue delivering an unparalleled client experience.

CANADIAN EQUITY

For the 1st quarter of 2026, the **LAM Canadian Equity Fund** declined by **-2.9%** on a gross basis versus a rise of +3.9% for the TSX Composite Total Return. Our underperformance versus the TSX was mainly due to low exposure to the energy sector, which was up over 42%, our lack of exposure to the gold sector, which was up 11%, and our larger weighting in the technology sector which was down -19%. Without such large weightings in energy and material stocks, having contributed +4.3% and +1.9% respectively to the TSX return during the quarter, the Canadian Index would have been down similarly to the U.S. and global indices. Of note is that the Fund is having a very strong month in April, outperforming the TSX at the time of this writing.

Contributors during the quarter were space technology leader **MDA Space**, home accessibility products supplier **Savaria**, energy infrastructure behemoth **Enbridge**, gas utility **Altagas**, telecom services provider **Quebecor**, and **Bank of Montreal**. Detractors included tech-related companies such as **Thomson Reuters**, **CGI Group**, **Kinaxis**, **Constellation Software**, **D2L**, and **Altus Group**, which despite each reporting record profits and trading at attractive valuations, continued to suffer from negative sentiment regarding AI disruption. Other high-quality names hurt by sentiment, yet issuing records results, were **Element Fleet**, **Definity Financial** and **WSP Global**.

Today's market reality is one of momentum investing, algorithmic trading and hedge funds aggressively buying into themes like AI and indiscriminately selling entire sectors such as software, without regard for valuation or how well individual companies are doing or how they are integrating AI into their products and services to strengthen their moats. These massive swings in ETF flows out of one sector and into another (basket trading), are having a huge impact on individual stock prices. The same can be said for gold and oil & gas. It takes tremendous restraint not to get caught up in the hype and stay the proven course of building wealth while preserving capital. We thus continue to focus on buying good businesses at attractive prices, knowing that patience will ultimately be rewarded and that their true value will eventually be reflected in the market.

U.S. EQUITY

During the 1st quarter of 2026, our U.S. Equity strategy declined **-3.5%** on a gross basis versus -4.3% for the S&P 500 Total Return Index. Our outperformance was driven by several results and a defensive approach of profit taking and raising cash levels prior to the weakness experienced in March. **Williams Companies** was a top contributor, benefiting from being in the energy sector, supported by strong earnings growth and defensive infrastructure attributes. **Analog Devices** benefited from accelerating AI-related spending, with revenues increasing 30% and record data center orders, as demand for power delivery and interconnect solutions surged. **Keysight Technologies** also outperformed, as its electronic testing business saw exceptional demand from AI data center buildouts, reporting record orders of \$1.65 billion and 27% revenue growth. Our main detractors included **Microsoft**, which declined as investors reacted to elevated capital expenditure and modest deceleration in Azure cloud growth. **Booking Holdings** was pressured by AI disruption concerns despite guidance of 15% revenue growth. **Eli Lilly** declined as growing GLP-1 competition intensified, including Novo Nordisk's announced price cuts on Wegovy and Ozempic. During the quarter, we exited **Norfolk Southern**, seeing limited upside during the regulatory phase of its proposed acquisition by Union Pacific. We also initiated a position in **Zoetis**, the world leader in animal health, where recent competitive pressure created an attractive entry point. Given heightened geopolitical risk and shifting expectations around monetary policy, we believe our strategy remains well positioned through its diversified and defensive profile.

GLOBAL EQUITY

The Lynx Global Biodiversity Fund was down **-1.5%** on a gross basis in the 1st quarter of 2026 versus -1.7% for the MSCI World Index Total Return (CAD\$). The portfolio got off to a very strong start in January, benefiting from strong earnings and favorable economic conditions, providing a tailwind for industrial and environmental services companies. Selling pressure in March due to the war in Iran, offset earlier gains which provided a buffer against the large drawdown in global equity markets. **Clean Harbors** was a leading contributor, supported by profitability improvements in its reusable motor oil segment and a peer being acquired at a multiple far higher than its current valuation. **Corteva** contributed positively as sentiment improved ahead of its seed business spin-off. **Veolia** reported results ahead of organic growth targets. Detractors included **Trimble** and some of our engineering firms which faced multiple compression driven by AI disruption concerns despite strong results, while **Xylem's** conservative financial outlook reflected short-term water-related project delays.

We exited our **John Deere** position after reaching our valuation target. Industrial exposure was reduced as we took profits, with proceeds redeployed into **Microsoft** and **Uber**. Microsoft was added following a pullback tied to AI spending, presenting an attractive entry point. The company has committed to protecting nature through partnerships with The Nature Conservancy and AI-driven biodiversity monitoring. Uber is building the leading autonomous EV ride-sharing platform, supported by growing free cash flow, margin improvement, and record share repurchases. The Fund remains positioned around companies exposed to long-term structural drivers including growing demand for water and waste treatment, remediation, green infrastructure, nature-based regulation, electrification, and responsible growth of power generation and energy transition. Portfolio activity continues to be guided by valuation discipline and the durability of underlying business fundamentals.

FIXED INCOME

The 1st quarter of 2026 was, once again, extremely volatile but nonetheless positive for our **LAM Canadian Fixed Income Fund**, with a gross return of **+0.7%** compared to +0.2% for the FTSE Canada Universe Bond Index. Volatility was almost entirely driven by geopolitical events. The year started off well, with most asset classes in positive territory, until the outbreak of war in Iran. Then, bond yields rose significantly with bond indices going into the red, although our portfolio remained in positive territory. The closure of the Strait of Hormuz has affected a meaningful portion of the global energy supply and other vital products such as fertilizer. Consequently, the market is anticipating higher inflation, and thus fewer potential rate cuts and possibly rate hikes if higher oil prices persist. Until now, the Bank of Canada (BOC) and the U.S. Federal Reserve (Fed) have kept their key interest rates unchanged, however higher commodity prices have created some uncertainty.

During the quarter, our top performers were preferred shares from issuers such as **Brookfield** and **Altagas**, and some high-yield bonds, including **MDA Space 7% 2030** and **ATS 6.5% 2032**. Detractors included bonds of longer maturity, such as **Hydro One 3.72% 2047**, which were impacted by higher long-term yields, and bonds of consumer lender **GoEasy 6% 2030** which fell following higher provisions for credit losses in its auto and recreational vehicles business. After a thorough analysis, we are comfortable continuing to hold this position, the bonds having partially rebounded. It should be noted that our position represents just over 1% of the portfolio, which is very modest for a substantial current yield. Given slightly wider corporate credit spreads and higher government bond yields, we believe that the Fixed Income asset class—and corporate bonds in particular—remains attractive, particularly from a capital preservation and yield perspective.

MACROECONOMIC OUTLOOK

Canada entered 2026 in a more complicated place than the late 2025 narrative suggested: growth has remained positive but modest, inflation is now being tugged in opposite directions by energy pressure, and trade policy uncertainty has become a persistent drag on confidence and investment. The outlook is still for sub-trend real GDP growth of roughly 1% to 1.2% for 2026, picking up slightly to around 1.5% in 2027. Government spending for defense, infrastructure and tariff support with some increased domestic demand, particularly in the resource sector, has been carrying most of the load. Net trade, housing affordability, and uncertainty continue to weigh on activity. Overall, Canada has shown remarkable resilience which has been supported by the fact that, even as the U.S. tariff environment remains a negative, CUSMA/USMCA exemptions continue to cushion a meaningful share of bilateral trade. However, the opening of the 2026 review window is itself a headwind, reinforcing a wait-and-see stance in trade-exposed investment decisions.

The tariff story is less a single shock and more an ongoing challenge that may persist for some time. Exporters have adjusted supply chains, documentation, and product mix to preserve preferential access where possible, but uncertainty remains particularly acute for industries that sit at the intersection of industrial policy and national security (e.g. metals and advanced manufacturing). Canada's trade performance has shown signs of rebalancing as growth in non-U.S. exports is helping offset weakness in U.S. bound exports, underscoring an active - yet incomplete - diversification response to the new environment.

The U.S. war with Iran and resulting volatile oil prices have reintroduced a classic Canadian macro tension. As a net energy exporter, Canada could see a near-term lift to incomes and investment in energy-producing regions with higher oil prices, but the higher prices transmit quickly into headline CPI and inflation psychology, especially through gasoline and freight costs. Recent analysis frames the 2026 energy shock as fluid and potentially material. Continued geopolitical risks remain unresolved in the near term and hence are capable of producing sharp price moves that are difficult to anticipate and gage. The net result is that disinflation progress has stalled, even though underlying domestic demand is lukewarm. Disinflationary pressures should prevail over time. This complicates the policy trade-off between supporting growth and keeping inflation expectations anchored. The result is that BOC policy will likely remain on hold until there is clarity on geopolitics, a return of oil prices to pre-war levels, and the impact of trade renegotiations.

For the Canadian dollar (CAD), these crosscurrents matter. Oil strength can provide support, but bouts of global risk aversion and U.S. dollar strength dominate, producing more of a "two-factor" influence, as the Loonie used to be seen as a pure oil proxy. The CAD generally weakens when oil falls or when domestic data disappoints, but even so amid tensions in the Middle East. Over the past year, the CAD has been range bound between 1.35 and 1.40 level which is likely to prevail until there is more clarity on tariffs, trade and the war.

On monetary policy, the BOC's challenge is that growth is not strong enough to be inflationary on its own, but supply shocks (tariffs and energy) have kept headline inflation "sticky" and expectations elevated, particularly in the U.S. where they have edged up to around 3% recently. There is a risk of re-acceleration in specific categories. The BOC continues to implement policy through its target for the overnight rate and remains tightly data dependent. Several recent outlooks characterize the most plausible baseline as a prolonged hold (or at least a cautious pivot), because an oil-driven inflation pulse makes it harder to move quickly toward easing without risking a loss of credibility on price stability.

Fiscal policy has remained an important counterweight to private-sector caution. Recent federal reporting shows a larger year-to-date deficit versus last year, reflecting ongoing spending pressures even as revenues have been supported by items including customs import duties and income taxes. At a strategic level, Finance Canada's stated priorities emphasize maintaining a fiscal foundation while supporting major investments intended to strengthen productivity, sovereignty, and long-run resilience—signalling that the policy mix will likely stay supportive even if deficits remain politically and market-relevant. However, it is important to note that Canada's government debt to GDP is one of the lowest among western countries and thus there is room for a continued robust fiscal policy which has seen roughly 3.5% growth in government expenditures.

The financial system remains resilient, but regulators are clearly treating 2026 as a year where tail risks could become elevated. OSFI's latest risk framing highlights secured real estate lending, non-bank financial institutions, private credit, and liquidity/funding risks, with explicit attention to how institutions plan for and manage geopolitical shocks and periods of market stress. That regulatory posture matters for macro-outcomes, in that it supports system stability, but it also implies continued conservatism in credit conditions if risks rise.

Canada's outlook is best summarized as slow growth with high variance. Trade frictions and the USMCA review restrain business investment, while energy volatility causes inflation noise and regional divergence. Policy is pulled between supporting activity (fiscally) and maintaining inflation credibility (monetarily).

The past year has demonstrated that, while volatility and uncertainty have been elevated, investors have tried to look beyond this. Both the U.S. and Canadian stock markets are up over the past year, albeit for very different reasons (AI in the U.S. and gold and oil in Canada), though market breath is narrow. Meanwhile, the bond market has struggled mainly due to higher U.S. treasury yields from de-dollarization, government deficits and shutdowns, and erratic behavior by the Trump administration; however higher yielding shorter maturity corporate bonds continue to do well. In the longer run, inflation will fall, the BOC will lower interest rates, and corporate profits will continue to be healthy, providing support to resilient economies and capital markets.

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