LAM LESTER ASSET MANAGEMENT

RESPONSIBLE GROWTH

3rd QUARTER 2026 LETTER

October 27, 2026

The 3rd quarter of 2026 saw persistent volatility in both Fixed Income and Equity markets. Donald Trump's war on Iran continued to wreak havoc on energy prices with Brent crude surging back over US$100 per barrel. This pushed inflation expectations higher leading to the Fed raising rates along with the ECB and Bank of Japan. Yields skyrocketed amid a broad global sell-off in bonds, with 10-year U.S. Treasury yields surging to 5.3%. Nevertheless, short-term corporate bonds held up well, which is where LAM is positioned in its Fixed Income strategy. Large cap Equity indices managed to stay in positive territory thanks to a narrow group of AI-driven mega-cap stocks, however the broader market sold off, particularly interest rate sensitive sectors such as Utilities, Real Estate, Telecom, and Consumer-oriented sectors. The ever-increasing concentration of stocks tied to explosive capital spending on AI, while concerns grow about debt-fueled circular investments among these companies, cybersecurity and safety risks, lack of regulatory oversight, competition and declining pricing, and uncertain returns on investment, have started to weigh on the market and represent a growing risk to investors.

We are pleased to announce that we have officially launched a unique investment strategy which aims to achieve consistent equity-like returns through regular high-yield interest payments while providing a level of capital preservation through downside protection. The **LAM Structured Note Program ("SNP")** is comprised of a portfolio of structured "income" notes custom designed by LAM to target a minimum annual yield of 14% with at least 20% downside protection. The notes are issued by the Royal Bank of Canada ("RBC"), thus carrying its high credit quality, however, they are only issued for the benefit of LAM's clients and are not available to the public. While this strategy is currently available only on a segregated basis to larger accounts such as very high net worth individuals, family offices, foundations, and institutional clients, we are actively pursuing different avenues to provide exposure to this unique investment strategy to all our clients through a pooled fund offering.

We also wish to inform clients that the **Lynx Global Biodiversity Fund** is evolving into a broader mandate. Effective January 1, 2027, we plan to combine the Fund with our U.S. Equity strategy for which we have generated strong long-term returns, and which was only available on a segregated basis. Environmental related themes will remain a core part of this expanded global strategy, as we believe the tailwinds are stronger than ever and have yet to be fully appreciated by the market. The investment process remains the same, and the Fund will be renamed the **LAM Global Equity Fund** to reflect its broader scope and our highest conviction ideas.

CANADIAN EQUITY

For the 3rd quarter of 2026, the **LAM Canadian Equity Fund** declined by **-3.2%** on a gross basis versus the TSX Composite Total Return which rose +1.6% on a very narrow group of stocks concentrated in Energy, Gold, and Technology. Our underperformance was mainly due to our low weighting to the Energy sector and lack of exposure to the Gold sector due to their volatile and cyclical nature. While we lag the TSX year-to-date, we are very pleased with the start of the 4th quarter as the Fund is up **+4%** so far in October versus +2% for the TSX.

Our top contributors during the quarter unsurprisingly included technology-related stocks such as **TECSYS**, **Kinaxis**, and **Thomson Reuters**, which each rallied on strong results and increased guidance, while **Jamieson Wellness** rose on news that it would be acquired by Kirin Holdings of Japan. Our main detractors included **MDA Space**, **Element Fleet**, and **Enbridge**. As mentioned in our 2nd quarter letter, fears that AI will replace established software businesses has started to fade as these companies have been reporting resilient results and the successful integration of AI into their products and services. We therefore continue to avoid stocks where prices have been driven up to unsustainable levels by momentum investing strategies and remain focused on high quality, profitable, and sustainable growing businesses trading at attractive levels.

U.S. AND GLOBAL EQUITY

During the 3rd quarter, our **U.S. Equity strategy** was down **-0.5%** on a gross basis versus +2.3% for the S&P 500 Total Return Index, bringing year-to-date performance to **+5.7%** versus +12.7% for the Index. Top contributors included **Microsoft**, as Azure growth accelerated to 43% and the cloud business surpassed $100 billion in annual revenue, easing concerns over the return on its AI investments; **Charles River Laboratories** which rallied as stronger bookings and raised guidance pointed to an improvement in biotech research spending; and **Mastercard** which beat expectations with revenue up 14%, supported by resilient consumer spending and cross-border travel showing signs of improvement. Our main detractors included energy infrastructure behemoth **Williams**, which declined despite raising its full year guidance and long-term growth outlook following the attractively priced acquisition of Momentum Midstream; **Carrier Global**, which guided toward lower margins due to steel tariffs yet beat expectations and raised its outlook on a sharp rebound in U.S. residential HVAC and a 300% jump in data center orders; and **Cisco** which dropped despite record results and $9.3 billion in hyperscaler orders as investors focused on a lower gross margin outlook.

The **Lynx Global Biodiversity Fund** declined by **-0.6%** on a gross basis versus +2% for the MSCI World Index Total Return (CAD$). Year-to-date, the Fund is up **+1.2%** versus +16.1% for the index. Our overweighting in industrials and underweighting in the Technology sector has detracted from our relative performance. Within those two sectors however, our technology holdings outperformed the Technology sub-index and our industrial holdings held up better than the Industrials sub-index. Top contributors included **Microsoft** as concerns over the return on its AI infrastructure spending eased; **Agilent** which rallied on accelerating growth, margin expansion, and raised guidance, as life science markets improved for its testing equipment; and engineering firm **Tetra Tech** which beat expectations and raised full year earnings guidance while expanding its share buyback program to nearly $900 million. Detractors included environmental services leader **Veolia** which declined in sympathy with the Utility sector on rising interest rates despite strong results and raised guidance; **Onterris** which missed earnings and cut guidance reflecting lower emergency response revenue and launched a strategic review to help enhance shareholder value; and water technology leader **Xylem** which lowered its revenue outlook slightly overshadowing margin expansion and raised earnings guidance.

As previously mentioned, the above two strategies will be combined effective January 1, 2027, in order to broaden the scope of the **Lynx Global Biodiversity Fund** which will be renamed the **LAM Global Equity Fund.**

FIXED INCOME

During the 3rd quarter, the **LAM Canadian Fixed Income Fund** declined **-0.8%** on a gross basis amid a difficult market for bonds, as inflation fears persisted driven by the conflict in the Strait of Hormuz, continued massive investments in data center infrastructure and AI, and resilient U.S. economic data, causing U.S. bond yields to rise. In Canada, despite lower inflation and a more uncertain economic outlook given the stalled trade agreement negotiations with the U.S., bond yields also rose across the entire yield curve, the market now expecting Canada's overnight interest rate to rise by nearly 100 basis points by December 2027 despite the challenges ahead and soft economic data.

We nevertheless significantly outperformed the FTSE Canada Universe Bond Index which was down -3%. Year-to-date, we remain well ahead with a positive gross return of **+2.3%**, compared to -0.8% for the Canadian bond index. Among our main contributors were high-yield corporate bonds, notably **NFI Group 6.625% 2033**, and **Laurentian Bank 7.403% 2081/2031** which were callable in June 2026, yet had their maturity extended with a "reset" coupon rate that was 2% higher than the previous one, driving up the price of these bonds. Unsurprisingly, among the underperformers were bonds with longer maturities, such as the **Telus 4.85% 2044**, **Hydro One 3.72% 2047**, and **Brookfield Renewable 5.84% 2036**. We remain optimistic about the fixed income asset class for the coming quarters, as yields have become even more attractive, particularly for corporate bonds. Our Fund continues to offer a current yield of nearly 5.2%, well above inflation, with a duration of approximately 3.5 years, much shorter than the overall index and designed to avoid any negative impact from inflation surprises or rising bond yields.

STRUCTURED NOTE PROGRAM

The recently launched **LAM Structured Note Program ("SNP")** is off to a strong start. Since its inception in May, nearly 80 notes have been purchased by our clients, designed by LAM and issued by RBC. The strategy has so far achieved an average contingent annual yield of over 15% with an average downside protection of nearly 40%, well above our stated targets. This is due to the market conditions and volatility of specific sectors chosen by LAM as underlying assets associated with the structured notes. Currently, sectors where we are finding the best opportunities, unsurprisingly, include technology, semi-conductors, banks, oil and gas, and mining.

MACROECONOMIC OUTLOOK

The macroeconomic outlook has become more uncertain since the end of the 2nd quarter, with the risk of stagflation rising. Economic activity has remained resilient despite trade tensions and geopolitical disruption, but renewed escalation around Iran and the Gulf has sharply increased energy-market risk. If disruption persists, higher energy costs could slow growth while delaying the decline in inflation. Longer-term technological progress and productivity gains remain supportive, but the near-term outlook depends increasingly on events in the Middle East and central banks' response.

U.S. equity markets face a narrower margin for error. Technology shares remain sensitive to interest-rate expectations and whether large AI investments generate sustainable returns. Investors must distinguish companies with durable cash flow from those whose valuations already assume only exceptional growth. Higher bond yields increase the discount rate applied to future earnings and can pressure valuations. Strong earnings and continued investment may provide support, but a prolonged energy shock could squeeze household purchasing power, raise operating costs and increase the risk of disappointment.

Canada's inflation outlook depends heavily on the duration of the energy shock. Higher crude prices feed into gasoline, transportation, manufacturing and distribution costs, and may eventually affect a wider range of goods and services. The key distinction is between a temporary rise in the price level and persistent inflation. Moderating labour-cost growth, economic slack and productivity gains will contain underlying pressure. Recent data offer some reassurance: CPI excluding gasoline slowed and the Bank's preferred core measures of inflation remained near or below 2.5%. Prolonged supply disruption could nevertheless prompt businesses to pass costs on to consumers and influence inflation expectations. The Bank must weigh these risks against the damage higher borrowing costs could do to housing, consumption and investment.

Trade uncertainty remains a constraint on Canada's medium-term outlook. Tariffs and uncertainty surrounding North American trade arrangements complicate investment decisions and may raise costs for manufacturers and other trade-exposed businesses. Diversification toward other markets, alongside investment in energy, infrastructure and defence, could provide some offset, but these changes take time. Canada's natural resources and institutions remain advantages; sustained gains in living standards also require stronger private investment and improved productivity. Higher oil prices benefit energy producers and government revenues but are not an unqualified benefit: households and energy-intensive businesses face higher costs, while global demand could weaken if the shock persists.

The Gulf conflict is the most immediate geopolitical risk to the global economy. On October 22, oil prices rose about 4% after Houthi attacks on Saudi infrastructure intensified fears of supply and shipping disruption. Brent settled at US$113.17 a barrel and West Texas Intermediate at US$99.47. Risks extend beyond the Strait of Hormuz to the Bab el-Mandeb route at the mouth of the Red Sea. Attacks on vessels, damage to energy infrastructure, higher insurance premiums and longer routes can increase costs even when exports continue. Middle Eastern crude exports have recovered toward pre-conflict levels, but markets are pricing in the possibility of further disruption. De-escalation and reliable shipping could bring prices down quickly; a prolonged confrontation could sustain high energy prices and keep rates higher for longer, raising the risk of slower growth alongside persistent inflation. The Russia–Ukraine war remains another source of energy and security uncertainty.

The 3rd quarter and subsequent weeks reinforce the need to distinguish short-term volatility from longer-term investment value. Canadian equities have exposure to energy and commodities, while U.S. markets remain sensitive to technology valuations, bond yields and AI returns. Producers may benefit from higher crude prices, but transport, consumer-facing and energy-intensive businesses face weaker demand and margin pressure. Opportunities exist among sound businesses whose valuations do not fully reflect long-term earnings potential.

Overall, our near-term outlook is more cautious, though not fundamentally pessimistic. Resilient activity, technological investment and potential productivity gains remain supportive over the longer term. The apparent crumbling of Republican support and poor prospects for the mid term elections is a possible huge plus factor for Canada. The immediate risk is that the Gulf conflict prolongs the energy shock, slows the return of inflation to central-bank targets and delays interest-rate relief. The BoC's October 28 decision and updated projections will help assess the balance between rising headline inflation and softer underlying measures. The Fed also meets October 27–28 after raising rates in September and receiving a renewed inflation warning in the latest CPI report. In Canada, trade uncertainty and higher energy costs complicate the recovery; in the United States, investment and consumption remain supports, but inflation and elevated rates leave markets vulnerable to disappointment. We believe a disciplined approach emphasizing financial strength, sustainable cash flow and reasonable valuations is especially important. Uncertainty can create opportunities for patient investors but requires careful risk assessment and a clear distinction between durable trends and temporary market enthusiasm.

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