The FGP Canadian Equity SMA portfolio lagged the S&P/TSX Total Return Index during the quarter.

The Canadian equity market posted a modest positive return in the fourth quarter, but sector performance varied dramatically. The Information Technology sector's performance was heavily skewed by one company, Shopify +41%. This extremely expensive company is not representative of the entire IT sector.

In contrast, the unloved Communication Services sector was the worst performer, with all the large-cap companies down meaningfully in the quarter and the year. While the sector faces headwinds, we believe negative sentiment has likely peaked. Our Communications investments performed better than the sector's average but were still negative.

Financials were a positive contributor, with our holdings, led by **Bank of Montreal** (BMO) +16%, outperforming the sector's average. Our decision to buy BMO and sell TD Bank earlier this year is playing out as expected. Despite challenges with its commercial loan book, the peak in credit losses appear to be in the rear-view mirror and BMO has laid out a credible path to a 15% ROE over the medium term.

The primary detractor from relative performance was security selection in Information Technology and Energy. Our IT holdings, **CGI Group** +1% and **Open Text** -9%, lagged the sector's average return. We view CGI as a long-term compounder worthy of its premium valuation, while still offering better value than other IT companies. Meanwhile, OpenText is undervalued due to soft near-term guidance and delayed growth. Despite setbacks, the company is profitable, with low leverage, and prioritizes returning free cash flow to investors. In Energy, **Imperial Oil** -6%, had solid production performance and, despite lower oil prices, returned $1.5 billion of cash to shareholders. Shares underperformed due to a larger-than-expected capital program planned for 2025. Nonetheless, we find the shares inexpensive for such an exceptionally well-run company.

During the quarter, we added Linamar, a consistently profitable advanced manufacturing company, with diversified operations, and a strong owner-operator model. We find Linamar's growth potential compelling and purchased shares at what we believe to be a very attractive valuation.

Looking to 2025, uncertainty surrounds the Canadian equity market, particularly with Donald Trump's return as U.S. President. Trump's policies could pose risks, such as tariffs on Canadian exports, but also present opportunities, like a new trade agreement. Given geopolitical risks, interest rate fluctuations, and euphoric stock market valuations, it is prudent to assume that the Canadian market will not repeat 2024's strong returns.

Our portfolio offers defensive characteristics, with better valuation and dividend yield compared to the S&P/TSX Composite Index. In an uncertain economic and geopolitical environment, our strategy remains consistent: focus on quality companies with solid balance sheets, attractive returns on equity, experienced management teams, and the ability to grow earnings and dividends, all while offering reasonable valuation.

Unless otherwise noted, all figures are presented in Canadian dollars. Any figures shown for contributors, detractors, and performance relative to the benchmark are for the model portfolio and actual figures may be different, depending on timing of trades, weights of holdings and individual decisions on exclusion of securities. This communication contains forward-looking statements and readers are advised that actual results and future events could differ materially from those anticipated in such statements. The opinions expressed herein are subject to change without notice. Past performance may not be repeated.

These views are subject to change at any time based upon market or other conditions and are current as of December 31, 2024.

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