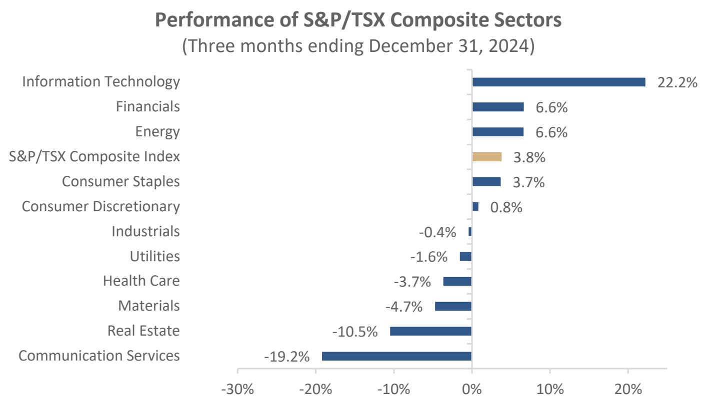
The FGP Canadian Ex-Energy Equity Fund returned 1.59% in the quarter, compared with the S&P/TSX Composite Index total return of 3.76%. In 2024, the Fund returned 15.48%, compared with the benchmark's return of 21.65%.



Source: Bloomberg

The Canadian equity market had a modest positive return in the quarter, but individual sector returns varied quite dramatically. We believe it's worth mentioning the two extremes during the quarter. The Information Technology sector's performance was driven largely by one very large company, Shopify Inc., which gained 41%. This extremely expensive company is not representative of the entire IT sector.

The sector at the other extreme, Communication Services, is the most unloved sector, with all the large-cap companies down meaningfully in the quarter and the year. While the sector faces many headwinds, we believe the negative sentiment probably reached its peak. Our Communications investments performed better than the sector's average but were still negative in the quarter.

The three sectors that contributed the most to relative performance in the quarter were Financials, Materials, and Real Estate. The three sectors that detracted the most were Information Technology, Communication Services, and Consumer Discretionary.

Leaders

Among the top contributors to the portfolio's relative performance in the quarter were Cogeco Communications Inc. (Communication Services), down 5%; Transcontinental Inc. (Materials), up 5%; and Quebecor Inc. (Communication Services), down 10%.

- Cogeco is Canada's only cable and internet service provider with operations in both Canada and the United States. Unlike the other Canadian communication companies with wireless operations, Cogeco is largely a pure-play cable (fixed) broadband operator. Cogeco's most recent results were modestly better than market expectations. CEO Frédéric Perron's revitalization plan is in the early innings, and we expect the company's valuation could improve under his execution. The company's low valuation, with a single-digit price-earnings (P/E) multiple, and high dividend yield are attractive. We believe the shares are quite undervalued.
- Transcontinental is a North American packaging products manufacturer and a commercial printer. The company's results were better than expected. Both divisions reported growth in earnings before interest, taxes, depreciation, and amortization (EBITDA). The company's efforts at cost-cutting, and monetizing real estate continue to help margins and improve the balance sheet. Transcontinental is now in a position to conduct a modest merger or acquisition if the right opportunity presents itself. With a single digit P/E multiple and a 5% dividend yield, we believe Transcontinental offers exceptional value and a compelling risk-reward profile.
- Quebecor, Quebec's leading cable and internet operator, also owns Freedom Mobile, Canada's fourth largest wireless operator. Quebecor's latest quarterly results were somewhat mixed. The company's wireless operations experienced strong growth while competitive pressure in its Quebec cable business negatively impacted profitability. Nonetheless, we believe in the company's long-term ability to expand its wireless operations and take market share away from the Big 3 - Rogers, Bell, and Telus. Quebecor's valuation, dividend yield, and earnings multiple are all quite attractive.

Laggards

Among the detractors from the portfolio's relative performance in the quarter were CGI Inc. (Information Technology), up 1%; Open Text Corp. (Information Technology), down 9%; and Saputo Inc. (Consumer Staples), down 14%.

- CGI Group is one of the world's leading system integrators, and we're pleased with the company's ongoing progress. In its latest quarterly results, the company modestly grew revenue and earnings. CGI's earnings before interest and taxes (EBIT) grew 4.7% year-over-year. CGI's bellweather indicator of future earnings is its book-to-bill ratio. Although new bookings relative to what was billed were down year-over-year, the ratio at 104.4% still infers future growth. While CGI is one of our more expensive companies, we believe it offers better relative value than many other Canadian IT companies. Incoming CEO François Boulanger is expected to continue with CGI's well-defined management model, and we see CGI as a long-term compounder worthy of its premium valuation.

- Open Text is one of the world's largest providers of enterprise-oriented cloud-based software and enterprise solutions for information management. Given the company's weaker performance in its latest quarter and soft guidance for its next quarter, Open Text expects the subsequent two quarters will bring growth. We believe the shares are down because the market is not satisfied with this back-end loaded growth. Despite some of these setbacks, the company is profitable, with low leverage, and prioritizes paying back all its free cash flow to investors. We continue to view the company as too undervalued to sell at this time, and we continue to watch Open Text closely.

- Saputo is a Top 10 dairy processor globally with leading positions in Canada, Australia, Argentina, the U.S., and the U.K. Saputo is continuing to implement its Global Strategic Plan to improve efficiency and profitability which should lead to continued improvement in the firm's free cash flow. While Saputo's latest quarterly results were generally positive, the firm had slightly lower earnings due to some weakness in its international operations and the impacts from higher depreciation. The market reacted negatively to these results. There were positives in the quarter: the company renewed its share buyback program and continues to pay down debt. Furthermore, Saputo's valuation is approaching its historic trough. We believe the company's positive operational performance should eventually translate into valuation improvement, and thus a higher share price. With its low valuation coupled with the strong intrinsic value of its global dairy processing franchise, we believe Saputo is worth more than what the market thinks, and so the shares offer a good risk/reward profile.

Portfolio Activity

During the quarter, we did not initiate any new positions, nor did we fully exit any positions.

Outlook & Strategy

We are entering 2025 with greater uncertainty for the Canadian equity market due to the election of Donald Trump to another term as U.S. President. It's pointless to speculate on how the Canadian or U.S. markets could perform given the many variables in play. We think our Canadian equity portfolio has some defensive characteristics as the portfolio's valuation and dividend yield are superior to that of the S&P/TSX Composite Index. In a market that is facing great uncertainty due to geopolitics, interest rate fluctuations, and euphoric stock market valuations, it would be prudent to assume that the Canadian market will not repeat 2024's double digit returns.

Our mind is focused on the trading relationship between Canada and the U.S. The new policies Trump may invoke are both threats - tariffs on Canadian exports - and opportunities - a potentially updated trade agreement. We won't know the result of the current threats until Trump enters office. Keep in mind that Canada's economy, which is only 10% the size of the U.S. economy, is indeed the largest buyer of U.S. goods and services. In other words, Canada is important to the U.S.

While the facts offer evidence of an important ongoing bilateral trading relationship, there are still many unknowns which can influence markets and stocks. Politics, interest rates, and the equity market euphoria - in particular, the Magnificent Seven and anything related to generative artificial intelligence - means we are in a period during which fundamentals don't seem to matter. Many low-priced companies, with solid earnings, don't seem exciting relative to technology companies, bitcoin, and speculative investments that have high valuations but little or no earnings.

We think the bifurcation between cheap and expensive companies is quite wide, both in Canada and the U.S. When P/E multiples are high, as they are now, future investment returns are typically low. We expect our portfolio to look much better should reality start to permeate exciting investment themes. Fundamentals do matter. It is possible we could witness a situation where expensive stocks correct materially, while inexpensive securities maintain (relatively) their value. Admittedly, there is a lot of euphoria and momentum with U.S. securities, so this might not happen.

Our strategy is to continue to capitalize on the opportunities which we understand best, which is what we already own.

We look for opportunities within the portfolio always as a starting point. Indeed, we think some of our underperformers, such as Magna International Inc., Nutrien Ltd., Rogers Communications Inc., and Saputo, offer more compelling risk-reward profiles despite having had weak returns in 2024. These are all solid companies, with understandable business models, trading at inexpensive valuations.

We will remain steadfast on all our companies' fundamentals, their balance sheets, and management's strategy/execution. We will alter our investment weights according to fundamentals and valuation.

In short, the future is impossible to predict, so our strategy is to focus on companies with solid balance sheets, attractive returns on equity, management teams we understand, and the ability to grow earnings and dividends.

The Foyston, Gordon & Payne Inc. (FGP) performance figures and portfolio statistics shown in this report are for the FGP Pooled Funds. Client returns may vary due to cash flow timing and client-specific constraints.

Investment returns and assets under management are expressed in Canadian dollars unless otherwise noted. Investment returns are gross of investment management fees, net of fund expenses for FGP Pooled Funds, and include reinvestment of dividends and income. Returns are time weighted and annualized for periods greater than one year. Values change frequently and past investment 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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