

The FGP Canadian Dividend Income SMA portfolio outperformed the S&P/TSX Composite Dividend Index return during the quarter.

Coming into 2024, there was much concern on Bay and Wall Streets about the potential for a recession, yet the market delivered historically strong returns. The S&P/TSX Composite Dividend Index gained 20% in 2024 after rising 2% in the final quarter. The Canadian economy continued to expand at a modest pace, while annual inflation fell back to 1.9%, allowing the Bank of Canada to reduce its policy interest rate by 1.75% – the largest rate cut by any major global central bank in 2024.

### Portfolio Performance

The portfolio outperformed its benchmark in the quarter and, while it trailed on an annual basis, it still delivered a strong absolute gain of 17% in 2024. The top contributors to portfolio outperformance in the quarter were AtkinsRealis, and Bank of Montreal, while Imperial Oil detracted from returns.

**AtkinsRealis** +39% delivered solid earnings fueled by strong revenue growth and margin expansion. A record \$16.8 billion engineering services backlog and two nuclear contracts totaling more than \$1 billion further bolstered results. Despite valuation gains, Atkin's shares continue to trade at a meaningful discount to its Canadian engineering peers.

**Bank of Montreal (BMO)** +16% shares rose as the peak in credit losses appears to be in the rear-view mirror and management has laid out a credible path to a 15% ROE over the medium term. BMO also raised its quarterly dividend by 3% (four cents) and intends to repurchase about 3% of its shares.

**Imperial Oil** -6% shares lagged due to a larger-than-expected capital program planned for 2025. However, the company delivered solid production and returned \$1.5 billion of cash to shareholders – \$300 million from dividends and \$1.2 billion in the form of share buybacks. We expect Imperial Oil will continue to deliver attractive returns to shareholders.

### Dividend Growth

Three portfolio companies announced higher dividends in the quarter: **Canadian Imperial Bank of Commerce**, **Canadian Natural Resources**, and **Suncor**, while **Tourmaline** paid a special dividend of \$0.50 per share. The portfolio continues to provide an attractive above-benchmark dividend yield of 4.0%. Given the ongoing unpredictability of the economic environment, the reliability of dividends as a component of total equity returns has become even more important. Dividends have historically represented one-third of Canadian equity returns over the past 30 years.

### Outlook & Strategy

Our value investment discipline prioritizes owning what we believe to be high-quality companies with resilient business models, earnings growth potential, conservative dividend payout ratios, and solid balance sheets. Equities have been among the best wealth-creating asset classes over the long term, but volatility is a necessary trade-off for these higher returns, underscoring the importance of maintaining a long-term view during more uncertain periods.

*Unless otherwise noted, all figures are presented in Canadian dollars. Any figures shown for contributors, detractors, dividend yield, 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.*

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