

KEY TAKEAWAYS

- The small-cap market lost momentum and rate-sensitive sectors underperformed in the fourth quarter.
- The portfolio was adjusted to mitigate tariff risks and add resilient names, such as North West and Bausch Health.
- Canadian market valuations are appealing, with the potential for M&A activity in 2025.

PORTFOLIO MANAGER



Marc Gagnon MBA, CFA

Vice-President, Portfolio Manager,
North American Equities

PERFORMANCE ANALYSIS

A slightly positive quarter to end the year

After an excellent start to the year, the Canadian small-cap market lost some of its momentum in the last quarter, ceding its lead to the S&P/TSX Composite. Given the rise in interest rates at the end of the year, rate-sensitive sectors, such as utilities and real estate, underperformed during the quarter. Donald Trump's re-election and fears of friction with China also hurt materials in recent weeks.

The year ended with some notable acquisitions at the small-cap level, including that of CI Financial Corp by the Abu Dhabi sovereign wealth fund.

PERCENTILE RANKING (GROSS RETURNS)

Period	Percentile ranking	Nb of funds in category
1 year	33	49
3 years	27	46
5 years	9	45

Source: Morningstar ratings, Canadian Small/Mid Cap Equity

TOP 5 CONTRIBUTORS (% , QTD)

Issuer	Return	Weight	Contribution
MDA Space	69.91	1.57	0.66
AtkinsRéalis Group	38.17	1.15	0.41
TransAlta	45.46	0.94	0.38
D2I	55.12	0.78	0.35
Secure Energy Services	34.74	1.24	0.34

TOP 5 DETRACTORS (% , QTD)

Issuer	Return	Weight	Contribution
Ero Copper	-36.14	0.87	-0.37
Cargojet	-21.14	1.18	-0.27
Seabridge Gold	-27.88	0.82	-0.24
Killam Apartment REIT	-17.50	1.14	-0.24
Martinrea International	-20.77	0.94	-0.22

3-YEAR RISK-RETURN ANALYSIS

Indicator	Fund	Index*
Beta	0.92	1.00
Volatility	15.74	16.55
Information ratio	1.41	-
Upside capture	103.04	-
Downside capture	77.21	-

FUND CHARACTERISTICS

Characteristic	Fund	Index*
Number of holdings	291	240
Dividend yield	2.78	3.48
Top 10 holdings weight	18%	-
1-year trailing turnover	48%	-

* Index: S&P/TSX Composite Capped Total Return

PORTFOLIO ACTIVITY

A new risk has emerged in recent months

During the last quarter, the results of the U.S. election added a great deal of uncertainty with the potential imposition of tariffs on Canadian exports to the United States. To mitigate this risk, we adjusted selected positions. For instance, positions in Stella-Jones, Bombardier and Adentra were removed from the portfolio.

To compensate, companies that will not be affected directly by tariffs were added to the portfolio in the last three months. The largest positions were North West Company and Bausch Health.

PORTFOLIO POSITIONING

Proactive positioning

We have identified several economic scenarios that could affect the stock markets in 2025. For example, much uncertainty remains regarding the imposition of tariffs by the Trump administration. China's implementation of fiscal and monetary measures to stimulate its economy is another example. All these measures could affect important sectors, such as materials, in terms of weighting.

In these circumstances, we recently adopted a more prudent approach by reducing the weight of companies potentially exposed to tariffs.

It will be crucial for portfolio positioning to keep an eye on the synchronized easing cycle that is still under way; it should boost global economic growth and support cyclical sectors.

MARKET OUTLOOK

The new U.S. administration creates uncertainty

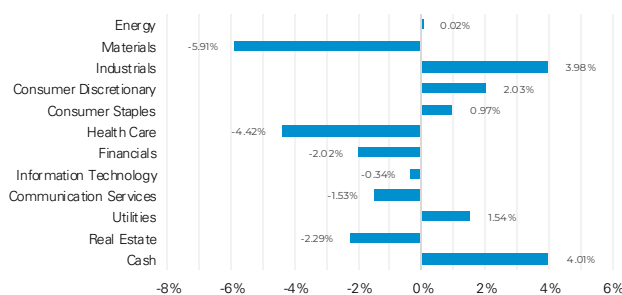
How Canadian stocks perform in the coming months will depend on the degree to which the president-elect applies tariffs to trading partners. An equally important consideration is the inflationary effect that measures such as tax cuts and reduced immigration could have on the economy. In such a context, inflation would persist, limiting the Federal Reserve's ability to cut its policy rate. To counter potential tariffs, the Chinese government will implement significant stimulus measures in the hope of boosting domestic demand.

On the positive side, the Canadian market's current valuation is very appealing. If tariffs are lower than expected, the market could continue its momentum into 2025. One theme that could continue to favour small caps is mergers and acquisitions. With gold trading at historically high levels, the industry could see further consolidation in 2025.

SIGNIFICANT TRANSACTIONS (Q4 2024)

Positions initiated	Sector
AGF Management Ltd	Financials
Bausch Health Inc	Health Care
Definity Financial Corp	Financials
North West Company Inc	Consumer Staples
Quisitive Technology Solutions Inc	Information Technology
Positions exited	Sector
Adentra Inc	Industrials
ATS Corp	Industrials
Bombardier Inc	Industrials
Ivanhoe Mines Ltd	Materials
Stella Jones Inc	Materials

SECTOR DEVIATIONS VS. INDEX



TOP 5 HOLDINGS

Holding	Sector	Weight (%)
iShares S&P/TSX Small Cap Index	ETF	3.94
EQB	Financials	2.01
Torex Gold Resources	Materials	1.70
MDA Space	Industrials	1.57
Government of Canada treasury bill	Cash	1.47

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