2024 Annual Report

Master of Management in Finance

DESAUTELS Capital Management
Gestion de capitaux


QUÉBEC


McGill DESAUTELS

TABLE OF CONTENTS

STRATEGIST MESSAGE

Dear Investors,

On behalf of the Master of Management in Finance cohort, we extend our sincere gratitude for your unwavering support and dedication to our program. Your commitment has enabled us to engage in one of the most immersive and rewarding learning experiences as we manage the Desautels Capital Management funds. The experiential learning offered through our program is truly unparalleled, equipping us with skills and insights that set us apart in the world of finance.

Just like the previous cohorts, we approached this year with determination and a relentless drive to learn and excel. Our dedication to investment management has translated into another great recruitment season, with our students securing full-time positions and summer internships in investment banking, sales & trading, private equity, and consulting. The growing network of mentors and industry professionals associated with the MMF program has been instrumental in facilitating these opportunities. To our esteemed alumni, we extend our deepest appreciation for your continued support, which has played a pivotal role in our placement success.

We would also like to congratulate our classmates—Florentin Belfio, David Poussard, Rick Yabuki-Soh, Yiwen Yang and Julius Alessandro Xanthoudakis—who proudly represented the MMF program as finalists in the McGill-FIAM Asset Management Hackathon, together with our classmates—Philippe Benjamin-Duranceau, Owen Chung, Nicolas Dansereau, Malo Marin, Charlie McLernon, Christopher Neibert, Rick Yabuki-Soh, and Yiwen Yang—who proudly represented the MMF program as finalists in the National Investment Banking Competition. Their achievement, placing among the top 5% out of over 400 competing teams globally, is a testament to the program's excellence and our cohort's dedication.

As we reflect on this year's achievements, we extend our deepest gratitude to Professors Vadim di Pietro and Jiro Kondo for their invaluable guidance throughout our journey at Desautels Capital Management. Our success would not have been possible without the unwavering support and encouragement of our professors, along with Joy Bennett (Philanthropy), Lynn Marks (Alumni Programs), and, most importantly, our esteemed investors. Your continuous support has been invaluable, and we are deeply grateful for your trust in our potential.

Yours truly,

Malo Marin,
Alpha-Squared Fund Strategist

Thomas Besse,
SRI Fund Strategist

Asad Alam,
Alpha-Squared Fund Strategist

Julius Alessandro Xanthoudakis,
SRI Fund Strategist

Executive Team

Morty Yalovsky, *President*

Professor Morty Yalovsky is the President of Desautels Capital Management. He joined the faculty in 1974, and in addition to his academic responsibilities, he has assumed several senior administrative roles, including Vice-Principal (Administration and Finance) at the University level. Professor Yalovsky's research interests include Statistical Methodology, Forecasting Methods, and Modeling. He has also consulted in the areas of Applied Statistics and Information Technology for several leading Canadian corporations.

Vadim di Pietro, *Chief Investment Officer*

Professor di Pietro is Chief Investment Officer, Chief Compliance Officer, and registered Advising Representative for Desautels Capital Management. He joined the Faculty of Management in 2009. Prior to Desautels, Vadim was an investment strategist at J.P. Morgan in London from 2007 to 2009. He holds a B.Eng. from McGill University, a Masters in Mathematical Finance from the University of Toronto, and a PhD in Finance from the Kellogg School of Management. Vadim is also a CFA charterholder.

Jiro Kondo, *HIM Program Director, Chief Talent Officer*

Professor Kondo joined the Finance group at the Desautels Faculty of Management in 2012 after having served on the faculty at Northwestern University's Kellogg School of Management. While at Desautels, he was Founding Advisor, the Head of Portfolio Construction (2017-2022), and the Head of Investment Committee (2023-2024) at Sarwa - the Middle East's leading digital investing and trading platform. He also served as Area Coordinator of the Finance Group at Desautels from 2022-2024. He holds an undergraduate degree in Economics from Princeton University and a PhD in Financial Economics from MIT's Sloan School of Management.

Jan Ericsson, *MMF Program Director*

Professor Ericsson joined the Desautels Faculty of Management in 1999 with a PhD from the Stockholm School of Economics. Professor Ericsson's current research focuses on risk premia in corporate bond and credit derivative markets, and has been published in, among others, the Journal of Business and the Journal of Finance. He is a frequent guest speaker at industry conferences and has carried out consulting projects for a Nordic real estate investment firm, the Swedish National Debt Office, as well as for a hedge fund startup in Scandinavia.

Board of Directors

Richard Pan | Group Chief Financial Officer

American Iron & Metal

Mr. Pan is currently Group Chief Financial Officer at American Iron & Metal. Previously, he was Vice-President and Head of Corporate Finance at Power Corporation and Power Financial. Before joining Power Corporation, Mr. Pan was an Executive Director in Investment Banking with Goldman Sachs International based in London, England.

Sharon Stern | President

Metro Investment

Ms. Stern is a Canadian entrepreneur and real estate investor. Ms. Stern is the President of Metro Investments and President of Eastmore Management. Ms. Stern also serves on the Board of Directors of Cedar Realty Trust (NYSE: CDR), a Real Estate Income Trust specializing in grocery-anchored retail properties. At Cedar, Ms. Stern serves on both the Audit and Compensation committees.

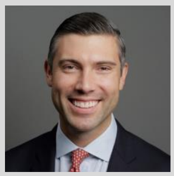
Neil Murdoch | Former President

Aston Hill Asset Management

Mr. Murdoch is an active investor and has served on the boards of many private and public companies, including his current portfolio of businesses. He is the former President of Aston Hill Asset Management, having retired in December 2015. Mr. Murdoch has a strong track record of leadership and execution in the retail investment world.

DCM Industry Advisory Council

The DCM Industry Advisory Council is composed of financial sector industry leaders who are passionate about helping DCM reach new heights. Council members assist the program in a number of ways, including strategic vision, bootcamp training sessions, guest lectures, student mentorship, fundraising efforts, and industry networking. We thank Council members for their generous support.



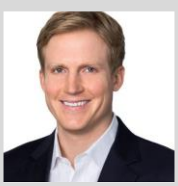
David Klug (Chair) (BCom’04)
Portfolio Manager
Allspring Global

Chritine Decarie (BCom’86)
Former Senior VP
Portfolio Manager
Mackenzie Investments

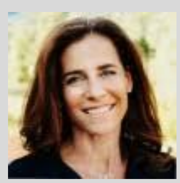
Aaron Stern (BCom’06)
Managing Partner and CIO
Converium Capital Management

Avinash Sarwal (BA’99)
President
Bikaner Advisors

Ryan Oldham (MBA’07)
Portfolio Manager
Fidelity Investments



Erik Groot (BS’05)
Partner
TPG Public Equity Partners



Sandy Haas
Founder
SMH Management

HIM Alumni Council

The HIM Alumni Council is composed of HIM graduates who are passionate about helping DCM reach new heights. Council members assist the program in a number of ways, including strategic vision, bootcamp training sessions, guest lectures, student mentorship, fundraising efforts, and industry networking. The Alumni Council's dedication to the program is a testament to the sense of community established at DCM, and we would like to thank our alumni for their generous support.

Max Adelson (HIM'12)
Portfolio Manager
Fidelity Investments

Antonino Piazza (HIM'13)
Partner
McKinsey & Company

Colton Dick (HIM'15)
Principal
Oak Hill Advisors, L.P.

Meagan Prins (HIM'17)
Head of Strategy
Addi

Thomas Boucher-Charest (HIM'19)
Associate, Alternative Investments
PSP Investment

Victoire Gekas (HIM'19)
Manager of Strategy
Dialogue Technologies

Jordan Rindler (HIM'24)
Business Analyst
McKinsey & Company

2024-2025 Class Profile

3.70
Average GPA

712
Average GMAT*

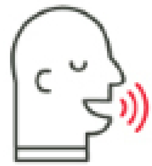
for international students only

* * * * *

18
Canadian Students

25
International Students

3
PR of Canada Students



Languages

English, French, Arabic, Italian, Spanish, Hindi, Mandarin, Marathi, Punjabi, Persian, Urdu, Azerbaijani, Cantonese, Turkish, Dutch, Japanese

14
MMF students speak at least 3 languages

5
MMF students speak at least 4 languages

* * * * *

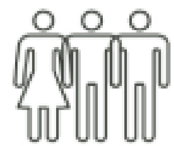
Previous Education

Accounting, Economics, Engineering, Finance, Mathematics, Environmental Sciences, Health Sciences, General Management and Social Sciences

23
Average Age

* * * * *

Exclusive Cohort



46
Students

* * * * *

Job Placements

Class of 2024 and MMF Alumni Employer Placements

Ontario Teachers' Pension Plan

JPMorgan Chase & Co.

TD

Scotiabank

CIBC

Deloitte.

KPMG

Merrill
A Bank of America Company

National Bank of Canada

BCI

McKinsey & Company

CDPQ

Morgan Stanley

EY

Goldman Sachs

citi

BNP Paribas

RBC

BMO

Invesco

Amundi
Asset Management

StepStone

PSP
Investissements
Investments

Executives

Julius Xanthoudakis

Strategist - SRI Fund
Special Team: Quantitative Strategies
Employment Experience: Financial Technology Startup, Project Manager (2022-2023)

Thomas Besse

Strategist - SRI Fund
Employment Experience: TP ICAP, Credit Research Intern (Jan – Jul 2025)

Malo Marin

Strategist - A2 Fund
Employment Experience: TD Securities, Incoming Investment Banking Summer Analyst (2025)

Asad Alam

Strategist – A2 Fund
Employment Experience: Arowana, Financial Analyst (Sep 2023 – Oct 2024)

Yiwen Yang

Co-President
Special Team: Quantitative Strategies
Employment Experience: Audi AG – Product & Price Planning Intern (2023)

Arthur Deng

Co-President
Employment Experience: McKinsey & Company, Incoming Business Analyst Intern (Jun-Aug 2025)

Sep Azizi

Chief Marketing Officer
Special Team: Economics
Employment Experience: UBC, Research Assistant (May-Aug 2024)

Rick Yabuki-Soh

Head of Risk Management - SRI
Special Team: Risk Management
Employment Experience: TD Direct Investing – Licensed Investment Representative (2022-2024)

David Poussard

Head of Risk Management - A2
Special Team: Risk Management
Employment Experience: Corporate Development, FLO EV Charging (2023)

Nicolas Dansereau

Co-Head of Quantitative Strategies
Special Team: Quantitative Strategies
Employment Experience: CDPQ,
Private Equity Intern (2025)

Florentin Belfio

Co-Head of Quantitative Strategies
Special Team: Quantitative Strategies

Owen Chung

Co-Chief Economist
Special Team: Economics
Employment Experience: Mercer,
Investment Consulting Intern (2022)

Jason Yiu

Co-Chief Economist
Special Team: Economics

Rifat Basade

Equity Analyst, Healthcare sector
Head of Accounting Team
Special Team: Accounting and Risk Management
Employment Experience: Nuvama Wealth Finance,
Fixed Income Advisory Intern (2023)

Arushi Sood

Co-Chief Sustainability Officer
Special Team: Sustainability
Employment Experience: EY, Tax Analyst (2022)

Nicole Miehm

Co-Chief Sustainability Officer
Special Team: Sustainability
Employment Experience: RBC Capital Markets, Analyst, Repo Trading Desk (May-Aug 2023)

Philippe Benjamin-Duranceau

Market Strategist
Special Team: Fund Accounting
Employment Experience: Manulife Securities Wealth Management Intern (Summer 2023)

Chris Neibert

Head of Compliance
Special Team: Compliance
Employment Experience: Onward Aviation Office Administration (Winter/Spring 2024)

Analysts

Alfonso Marin-Aponte

Equity Analyst, Energy (Oil and Gas)
Special Team: Economics
Employment Experience: Global Affairs Canada, Lead Analyst (2020-2024)

Alix Chilla

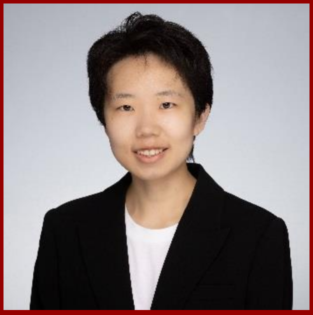
Equity Analyst, Consumer Sector
Special Team: Economics

Ann Zhang

Equity Analyst, Consumer Sector
Special Team: Quant Team
Employment Experience: Oklahoma State University, Math Tutor, (2022-2023)

Anubhav Singh

Equity Analyst, Metals and Mining Sector
Special Team: Risk management and Quantitative Finance
Employment Experience: Project Assistant at Research Institute in metals and mining (2019-2020)



Chang Liu

Equity Analyst, Information Technology Sector
Special Team: Quant Team

Charlie McLernon

Equity Analyst, Materials
Special Team: Economics

Employment Experience: Natixis Partners (Summer M&A Analyst 2023)

Cyrus Mans

Equity Analyst, Healthcare
Special Team: Economics

Gianni Mahut

Equity Analyst, Communication Services
Special Team: Economics
Employment Experience: National Bank,
Incoming Sales & Trading Summer Analyst (2025)

Jianyu Niu

Equity Analyst, Information Technology Sector
Special Team: Quant Team
Employment Experience: IG Wealth
Management, Financial Advisor (2023)

Jules Lamarre

Equity Analyst, Renewables & Utilities
Special Team: Sustainability

Laurana Gahou

Equity Analyst, Financial Sector

Special Team: Accounting, Economics, and Risk Management

Employment Experience: Western Union,
Financial Services Representative (2023-2024)

Manya Benvidi

Equity Analyst, Material Sector
Special Team: Accounting and Risk Management
Employment Experience: Al Zahra University,
Scientific Association of Accounting, Head of
research committee (2021-2022)

Marc Kassis

Equity Analyst, Communications Services Sector
Special Team: Sustainability
Employment Experience: WSP Canada,
Engineering Intern in mining waste
management (Summer 2023)

Marie-Soleil Moulot

Equity Analyst, Consumer Discretionary Sector

Special Team: Accounting and Sustainability

Employment Experience: SEPHIS Fondation

Intern in Finance Department (Summer 2023)

Rutwik Hebalkar

Equity Analyst, Communications Services Sector

Special Team: Sustainability
Employment Experience: Accenture,
Associate (July 2022- May 2024)

Salim Kaddouri

Equity Analyst, Industrials

Employment Experience Concentric Associates,
Structural Engineer in Training (2023-2024)

Samuel Lachance

Equity Analyst, Industrials
Special Team: Quantitative
Employment Experience: Investissement Québec,
Incoming Private Equity Intern (2025)

Samuel Hazan Mea

Equity Analyst, Renewable Energy & Utilities
Special Team: Economics
Employment Experience: National Bank Financial Markets
Sustainable Finance, Corporate & Investment Banking Analyst (Winter 2025)

Sara Eddaki

Equity Analyst, Consumer Discretionary

Employment Experience : CDPQ, Private Equity
Fall Analyst (2023)

Sehajpreet Lubana

Equity Analyst, Renewable Energy & Utilities
Special Team: Risk Management
Employment Experience: Questrade,
DevOps Engineer Intern (Fall 2022)

Jingyi Chen

Financials Sector Analyst
Special Team: Quant Team
Employment Experience: CICC Wealth Management, Financial Planner (2023)

Sidaq Bhan Singh

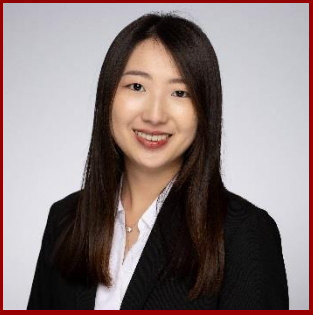
Equity Analyst, Consumer Discretionary
Special Team: Economics and Sustainability

Xinyue Li

Equity Analyst, Financials Sector
Special Team: Risk management and Economics
Employment Experience: Citic Securities, Wealth Management Intern (2023)

Yahya Ed-dari

Equity Analyst, Healthcare Sector
Special Team: Risk Management



Yiching Peng

Equity Analyst, Communication Sector
Special Team: Quant Team

Yu Cao

Equity Analyst, Information Technology Sector
Special Team: Quant Team
Employment Experience: Mingsheng Bank
Financial Analyst Intern (June-Sep 2023)

Zhengchao Wang

Equity Analyst, Information Technology Sector
Special Team: Quantitative Team
Employment Experience: Zhongtai Securities Co,
Quantitative Analysis Intern (Jan-Aug 2023)

Maxime Benita

Equity Analyst, Energy Sector
Special Team: Economics
Employment Experience: Morgan Stanley,
Sales & Trading intern (July 2024 – Dec 2024)

Malorie Otton

Equity Analyst, Materials Sector
Special Team: Sustainability
Employment Experience: StepStone Group,
Infrastructure & Real Assets Investments Intern (Jan – Aug 2024)

Bianca Iacobacci

Equity Analyst, Materials Sector
Special Team: Sustainability
Employment Experience: Rio Tinto,
Business Analysis (Sept – Dec 2024)

ALPHA SQUARED FUND

2024 REVIEW & 2025 OUTLOOK

Malo Marin
Strategist

Asad Alam
Strategist

ALPHA SQUARED FUND

2024 Review & Outlook

Fund Performance and Outlook

Dear Investors,

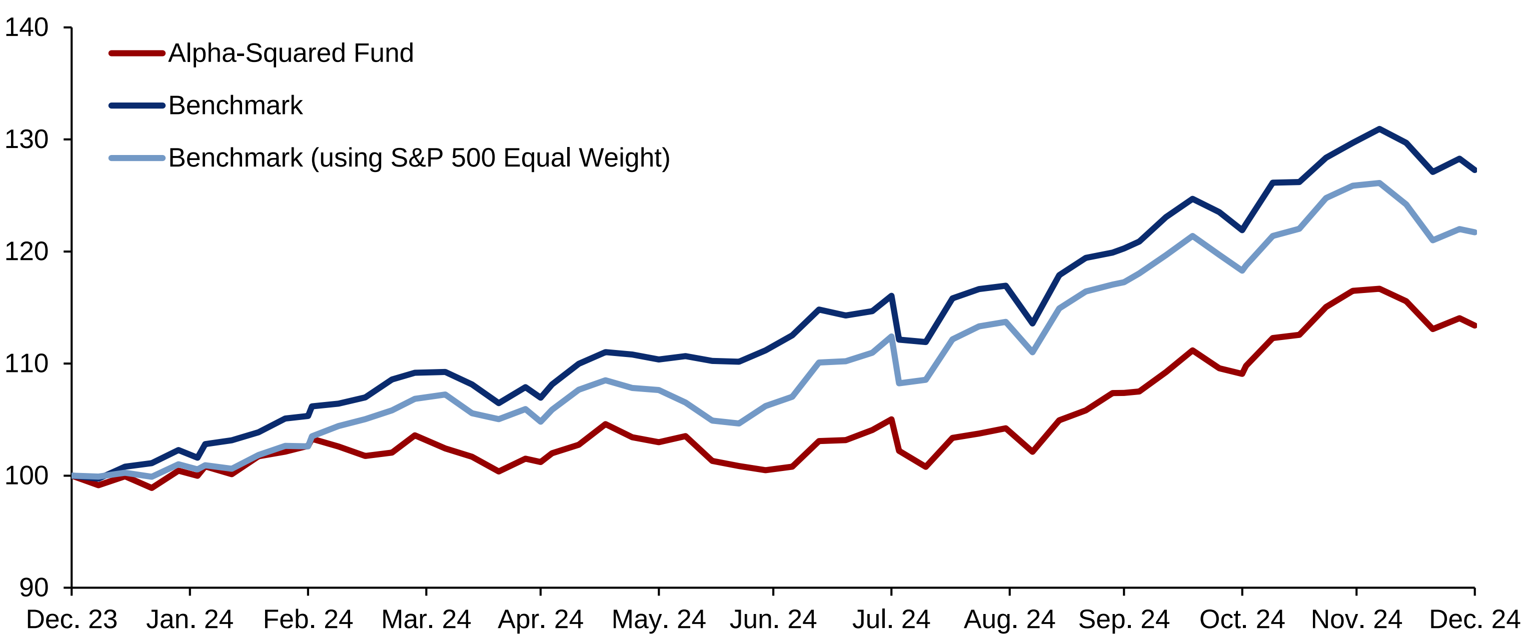
The Alpha Squared Fund delivered a 13.4% return, gross of fees, in 2024. This past year was undoubtedly strong for equities, as the economy remained resilient despite elevated interest rates. Market sentiment was buoyed by the Federal Reserve's decision to initiate the long-anticipated rate cut cycle. By comparison, our benchmark a 60% S&P/TSX and 40% S&P 500 blend, measured in CAD, returned 27.3%.

Our relative underperformance was in part driven by underexposure to the so-called Magnificent 7 (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) during the first half of the year. These companies, collectively accounting for nearly 35% of the S&P 500, were responsible for more than half of the index's total gains in 2024. Additionally, our defensive portfolio positioning for most of the year also contributed to the performance gap. Finally, a few of our holdings saw steep losses in 2024, including Nike (-30%), EPAM (-25%), and ATS (-24%).

On the positive side, we also had some great winners, including : Delta (+57%), TC Energy (+42%), and Energy Transfer (+42%).

Recently, we added eight new positions to the portfolio: Spotify Technology, Apache Corporation, Deere, American Express, Vertex Pharmaceuticals, TopGolf Callaway, Eagle Materials, and Dominion Energy. We are optimistic about the investment theses underlying these investment decisions and are hopeful they will generate alpha in 2025. Indeed, several of them are already off to a strong start this year. A detailed overview of these and other holdings, along with our sector outlooks, can be found in the sections that follow.

Figure 1: Alpha-Squared Fund Performance in 2024



*Note: Performance is calculated gross of fees. Management fee is 1.5% per annum. Benchmark is 60% S&P TSX, and 40% S&P 500 (measured in CAD).

ALPHA SQUARED FUND

2024 Review & Outlook

Best and Worst Performers

This year, our bottom-up stock selection process yielded a handful of great wins and some losses. Table 1 highlights our best and worst holding period returns (HPR) for 2024.

Table 1: Best and Worst Performing Holdings of 2024

Sector	Company	2024 HPR
Industrials	DELTA	57%
Energy	TC Energy	42%
Energy	ENERGY TRANSFER	42%
Industrials	ATS	(23%)
Information Technology	epam	(24%)
Consumer Discretionary	NIKE	(30%)

Delta Air Lines (NYSE: DAL) was our best performer in 2024, delivering a 57% return. It benefited from a strong rebound in both leisure and business travel, alongside strategic initiatives that drove record-high revenue and improved margins.

Additionally, TC Energy (TSX: TRP) and Energy Transfer (NYSE: ET), two midstream energy companies, returned 42% in 2024, supported by strong tailwinds from rising natural gas demand. This demand was driven by the rapid expansion of AI, data centers, and electrification, as well as expectations of deregulation under the Trump administration.

On the flip side, ATS Corporation (TSX: ATS), acquired in late 2019, delivered a disappointing performance, ending the year down 23%. A leader in automation solutions for automotive electrification, ATS faced a sharp revenue decline following the loss of several major contracts, particularly in the electric vehicle segment. Given the company's significant exposure to this sector and concerns about a potentially less favorable policy environment under the Trump administration, we took a proactive approach, reducing our position in ATS by 45%.

EPAM Systems (NYSE: EPAM) was also a significant detractor from the Fund's performance in 2024, declining 24% despite the strong rally in the Information Technology (IT) sector, largely driven by AI. However, the IT services industry lagged behind the broader IT sector, as demand for AI-driven solutions primarily benefited hardware and software companies. EPAM faced weaker-than-expected client demand, leading to project delays and a heightened focus on cost-cutting measures among its customers, which weighed on revenue growth.

Finally, Nike (NYSE: NKE) was the largest detractor from the Fund's performance in 2024, finishing the year down 30%. The company faced a sharp revenue decline, primarily driven by weakening sales in Asian markets and intensifying competition from fast-growing brands like Hoka and On. Additionally, excess inventory challenges forced Nike to rely on discounted strategies to clear stock, which weighed on margins. While the company has initiated efforts to recalibrate its supply chain and optimize inventory management, these adjustments remain a work in progress.

ALPHA SQUARED FUND

2024 Review & Outlook

Figure 2: Alpha-Squared Fund Metrics

Performance Metrics in 2024		As of Dec. 31, 2024
	Alpha-Squared	**Benchmark**
Annualized Return	13.4%	27.3%
Annualized Standard Deviation	8.8%	9.2%
Annualized Sharpe Ratio	1.20	2.67
Beta	0.90	
Annualized Gross Alpha	(11.5%)	
Annualized Tracking Error	4.9%	

**Note: Performance metrics are calculated gross of fees.*

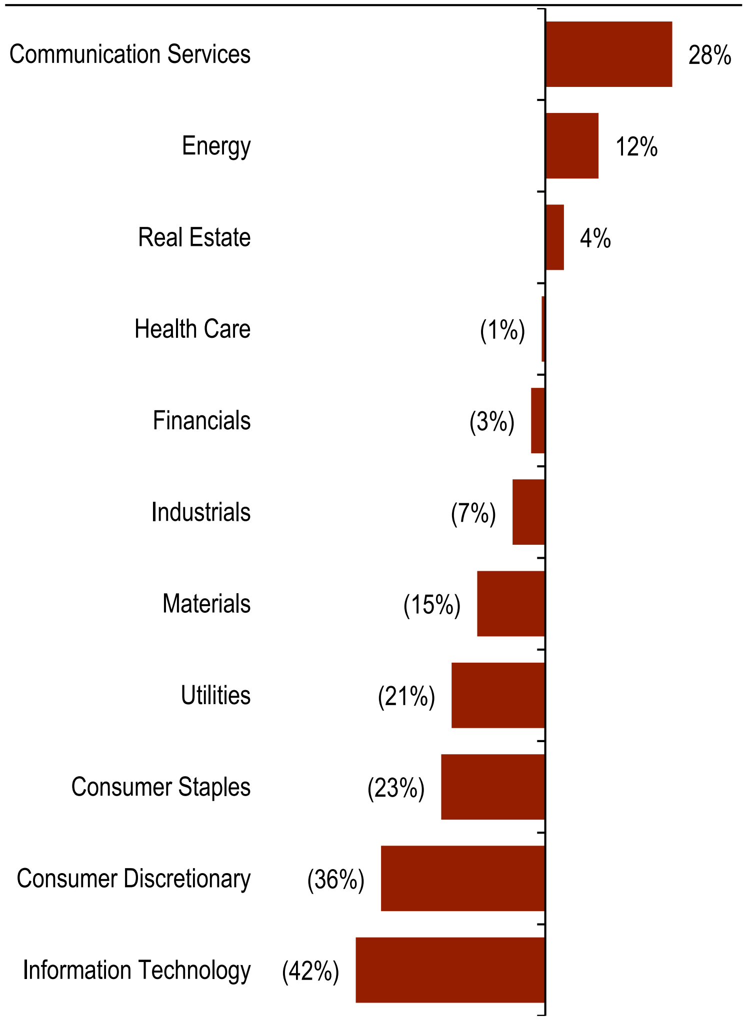
Performance Metrics since Inception		As of Dec. 31, 2024
	Alpha-Squared	**Benchmark**
Annualized Return	7.4%	11.2%
Annualized Standard Deviation	14.9%	13.6%
Annualized Sharpe Ratio	0.31	0.61
Beta	1.00	
Annualized Gross Alpha	(3.8%)	
Annualized Tracking Error	6.4%	

**Note: Performance metrics are calculated gross of fees.*

Figure 3: Current Sector Allocation

Sector	DCM	Benchmark	(+/-)
Communication Services	7.9%	5.2%	2.7%
Healthcare	6.4%	4.2%	2.2%
Energy	12.8%	11.5%	1.3%
Cash	1.0%	–	1.0%
Real Estate	2.4%	2.0%	0.4%
Consumer Staples	4.6%	4.6%	–
Materials	7.4%	7.6%	(0.2%)
Consumer Discretionary	6.3%	6.5%	(0.2%)
Financials	25.0%	25.3%	(0.3%)
Utilities	2.3%	3.2%	(0.9%)
Industrials	8.8%	10.8%	(2.0%)
Information Technology	15.1%	19.1%	(4.0%)
Total	**100.0%**	**100.0%**	**–**

Figure 4: Sector Excess Return vs Benchmark



ALPHA SQUARED FUND

2024 Review & Outlook

Figure 5: Current Currency Exposure

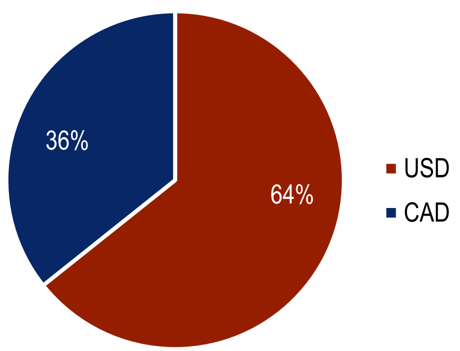
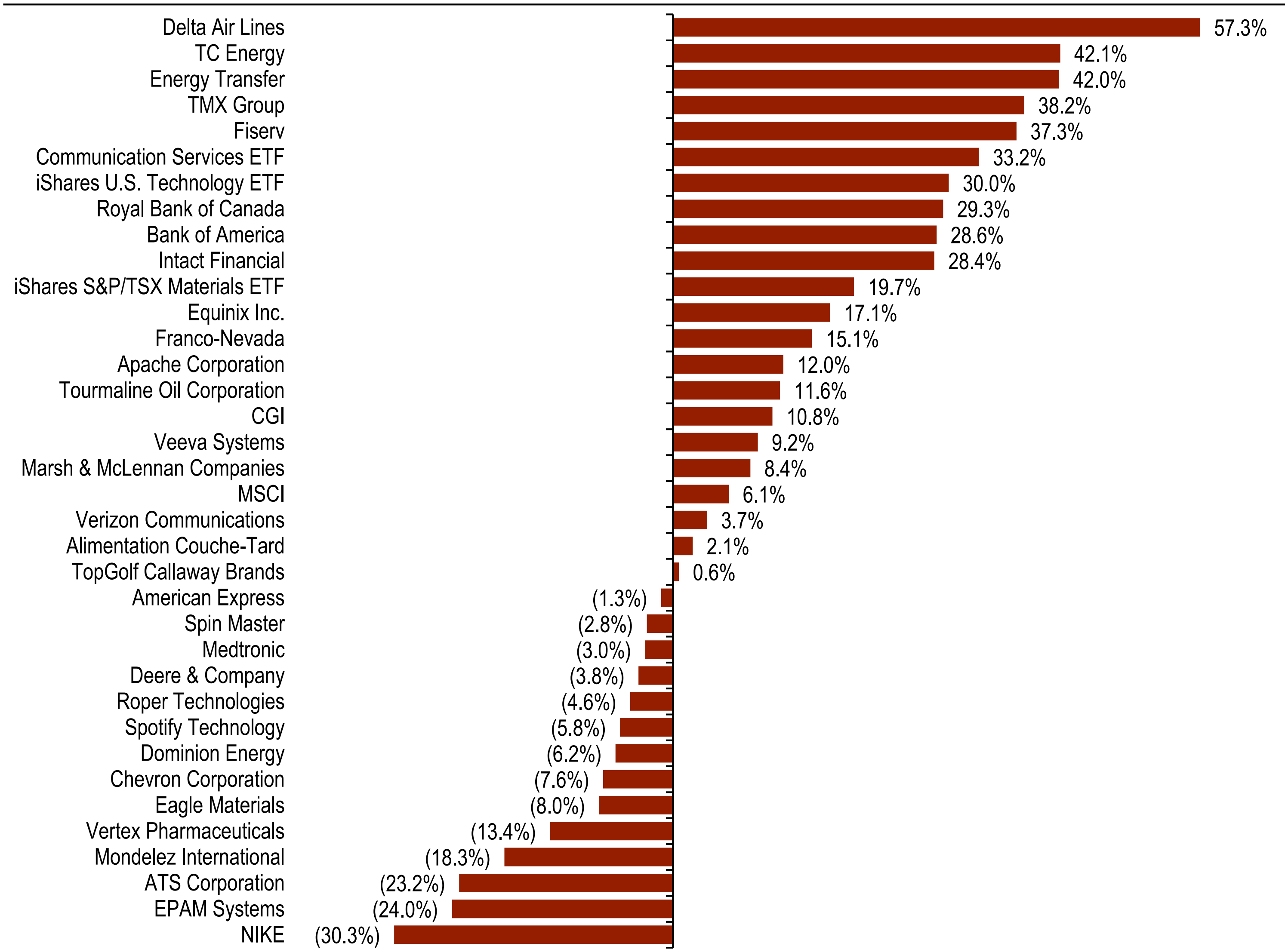


Figure 6: Holding Period Returns in 2024



ALPHA SQUARED FUND

2024 Review & Outlook

Figure 7: Current Holdings as of December 31st, 2024

Security Name	Sector	Currency	Units	Average Cost	Local Price	CAD Value	Weight
iShares U.S. Technology ETF	Information Technology	USD	954	$134.37	$159.52	$218,868	7.4%
Intact Financial	Financials	CAD	550	$197.88	$261.73	$143,952	4.9%
Delta Air Lines	Industrials	USD	1,436	$39.29	$60.50	$124,948	4.2%
iShares S&P/TSX Capped Materials Index ETF	Materials	CAD	5,475	$18.65	$21.06	$115,304	3.9%
MSCI	Financials	USD	129	$294.01	$600.01	$111,319	3.8%
TMX Group	Financials	CAD	2,450	$19.63	$44.28	$108,486	3.7%
Tourmaline Oil Corporation	Energy	CAD	1,535	$51.20	$66.52	$102,108	3.5%
CGI	Information Technology	CAD	600	$117.14	$157.28	$94,368	3.2%
Verizon Communications	Communication Services	USD	1,582	$38.73	$39.99	$90,987	3.1%
Royal Bank of Canada	Financials	CAD	520	$107.05	$173.32	$90,126	3.0%
Bank of America	Financials	CAD	3,800	$20.66	$22.79	$86,602	2.9%
Chevron Corporation	Energy	USD	400	$157.59	$144.84	$83,324	2.8%
Alimentation Couche-Tard	Consumer Staples	CAD	1,000	$61.41	$79.93	$79,925	2.7%
Apache Corporation	Energy	USD	2,370	$20.62	$23.09	$78,703	2.7%
Veeva Systems	Healthcare	USD	257	$138.71	$210.25	$77,712	2.6%
American Express	Financials	USD	180	$300.66	$296.79	$76,832	2.6%
TopGolf Callaway Brands	Consumer Discretionnary	USD	6,780	$7.95	$7.86	$76,643	2.6%
Deere & Company	Industrials	USD	123	$440.21	$423.70	$74,952	2.5%
Spotify Technology	Communication Services	USD	113	$474.77	$447.38	$72,707	2.5%
Equinix	Real Estate	USD	52	$670.89	$942.89	$70,515	2.4%
Communication Services Select Sector SPDR Fund	Communication Services	USD	504	$58.05	$96.81	$70,173	2.4%
Eagle Materials	Materials	USD	194	$268.32	$246.76	$68,849	2.3%
Dominion Energy	Utilities	USD	883	$57.46	$53.86	$68,398	2.3%
Roper Technologies	Information Technology	USD	90	$439.55	$518.63	$67,130	2.3%
Marsh & McLennan Companies	Financials	USD	219	$195.23	$212.41	$66,902	2.3%
EPAM Systems	Information Technology	USD	198	$307.97	$233.82	$66,583	2.3%
Energy Transfer	Energy	USD	2,300	$11.68	$19.59	$64,801	2.2%
Spin Master	Consumer Discretionnary	CAD	1,779	$49.03	$33.87	$60,255	2.0%
ATS Corporation	Industrials	CAD	1,346	$21.26	$43.87	$59,054	2.0%
Medtronic	Healthcare	USD	500	$76.90	$79.88	$57,442	1.9%
Fiserv	Financials	USD	190	$149.00	$205.42	$56,133	1.9%
Mondelez International	Consumer Staples	USD	637	$73.04	$59.73	$54,721	1.9%
Vertex Pharmaceuticals	Healthcare	USD	91	$464.83	$402.70	$52,704	1.8%
TC Energy	Energy	CAD	759	$68.90	$66.99	$50,845	1.7%
NIKE	Consumer Discretionnary	USD	455	$134.99	$75.67	$49,517	1.7%
Franco-Nevada	Materials	CAD	201	$172.46	$168.92	$33,953	1.1%
Cash	Cash	CAD	30,665			$30,665	1.0%
				Total		**$2,956,504**	**100.0%**

SOCIALLY RESPONSIBLE INVESTING FUND

2024 REVIEW & 2025 OUTLOOK

Thomas Besse
Strategist

Julius Alessandro Xanthoudakis
Strategist

SRI FUND

2024 Review & Outlook

Fund Performance and Outlook

Dear Investors,

The SRI Fund delivered a 15.3% gross return in 2024. Equities rallied strongly throughout the year, driven primarily by continued optimism on AI's potential to enhance productivity and profit margins, as well as dissipating recession fears. Our benchmark (20% S&P/TSX Fossil Fuel Free, 80% S&P 500 Fossil Fuel Free in CAD) returned 33.3%.

Our inability to match our benchmark's performance was partially due to our overexposure to clean energy stocks versus the benchmark. As a socially responsible fund, we are dedicated to investing in companies that prioritize the development of clean, sustainable energy solutions to benefit the planet. Unfortunately, this sector underperformed in 2024 due to a combination of supply chain concerns and policy uncertainty given the Trump administration's clear preference for traditional oil and gas. For example, the S&P Global Clean Energy Index was down 19.4% in 2024, while the SUN index declined sharply by 31.3%.

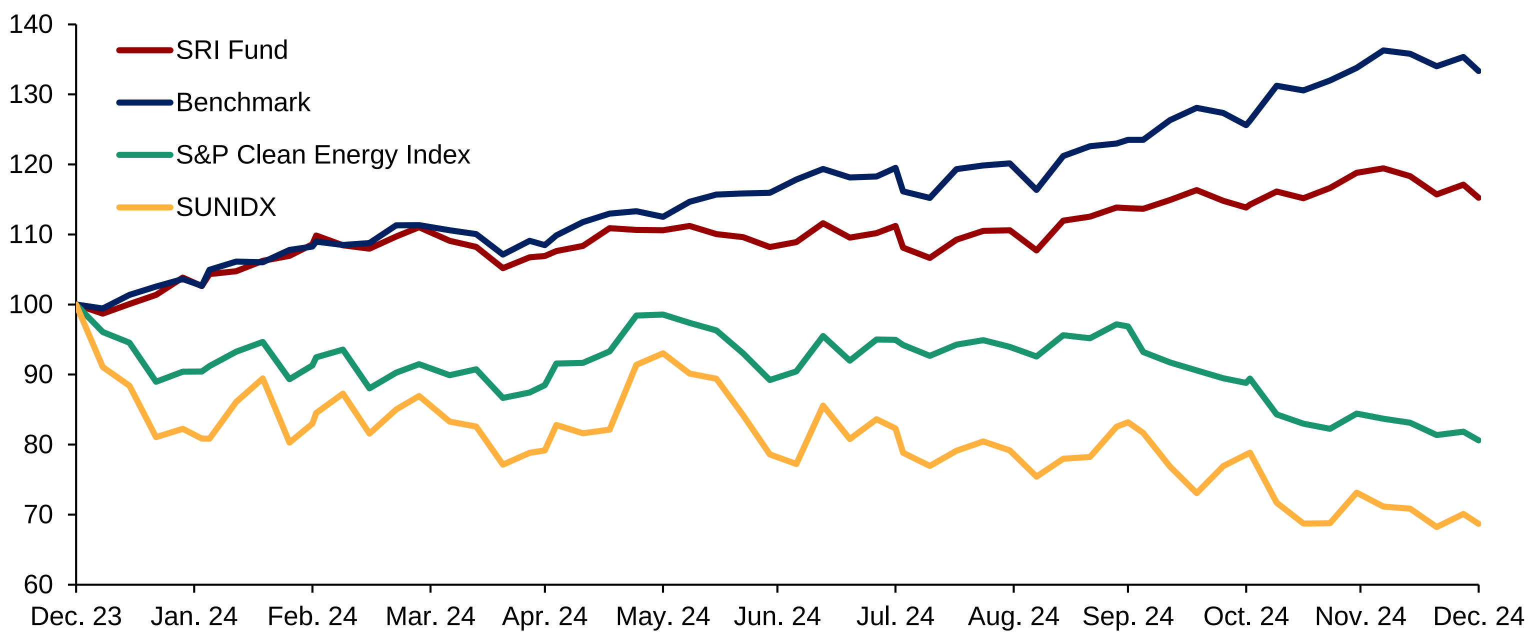
Another source of our underperformance was our underexposure to the high flying Magnificent-7, with a 5.7% position in Alphabet being the fund's only holding from this group.

The top three performing sectors in the SRI Fund for 2024 were Communications, Consumer Discretionary, and Financials. Given our positive outlook for these sectors in 2025, we have chosen to maintain our overweight exposure.

In the final quarter of 2024, we added three stocksto the fund: American Express, Topgolf Callaway, and Vertex Pharmaceuticals. At the same time, we partially divested from Axsome Therapeutics, Mastercard, and Royal Bank of Canada,.

A detailed overview of all our holdings, along with our sector outlooks, can be found in the sections that follow.

Figure 1: SRI Fund Performance in 2024



*Note: Performance is calculated gross of fees. Management fee is 1.5% per annum. Benchmark is 20% S&P/TSX FFF, and 80% S&P 500 FFF (measured in CAD).

SRI FUND

2024 Review & Outlook

Best and Worst Performers

Table 1 highlights our best and worst holding period returns (HPR) for 2024.

Table 1: Best and Worst Performing Holdings of 2024

Sector	Company	2024 HPR
Communications Services	NETFLIX	83%
Consumer Discretionary	tapestry	78%
Communications Services	Alphabet	35%
Industrials	nextracker	(38%)
Renewables	ENPHASE	(48%)
Industrials	chargepoint	(54%)

Netflix Inc. (NASDAQ: NFLX) was the fund's best-performing stock in 2024, delivering an 83% gain. The company's strong performance was driven by its continued investment in original content, including NFL games, and the launch of an ad-supported subscription tier, which attracted new subscribers and boosted its stock price.

The second-best performer was Tapestry (NYSE: TPR), which owns three major fashion brands: Coach New York, Kate Spade New York, and Stuart Weitzman. The company exceeded earnings expectations in all four quarters of 2024, largely due to increased customer engagement and strong international revenue growth. As a result, the stock posted a substantial 78% gain for the year.

Another strong performer in the Communications sector was Alphabet (NASDAQ: GOOG), which returned 35% in 2024. The stock continued to benefit from advancements in AI, digital advertising, and Google Cloud. In December, Alphabet launched Gemini 2.0, an advanced AI platform that resonated well with investors, boosting the stock by 7%.

On the other hand, NEXTracker (NASDAQ: NXT) had a disappointing year, with a holding period loss of 38%. Despite delivering six consecutive quarters of double-digit earnings growth, developing its first 100% domestic solar tracker, and completing strategic acquisitions of solar foundation manufacturers Ojjo and Solar Pile, investor concerns weighed on the stock. Shareholders were particularly worried about the company's ability to manage its $4 billion order backlog, and skepticism intensified after a lawsuit was filed in early 2025, alleging false or misleading statements by management. However, as of February 21, 2025, the stock is already up over 25% YTD, signaling a potential rebound.

Similarly, Enphase Energy (NASDAQ: ENPH) posted a 48% loss for the year, largely due to significant headwinds in the solar industry, which declined sharply in 2024. The company faced decreasing revenue and net income as demand softened in both Europe and the U.S., exacerbated by high interest rates and challenging market conditions. However, 2025 could present a turnaround opportunity, as Enphase's EBITDA margins are projected to surpass peers, driven by strong growth in its battery division.

Finally, ChargePoint (NYSE: CHPT) was the fund's largest detractor, finishing the year down 54%. A leading provider of electric vehicle charging networks and solutions, ChargePoint faced challenges after Tesla opened its charging infrastructure to all EVs, significantly eroding its competitive advantage. Additionally, the company's strategic shift toward software subscriptions negatively impacted hardware device sales, which struggled to compete with industry peers. As a result, ChargePoint was fully divested from the SRI Fund in early 2025.

SRI FUND

2024 Review & Outlook

Figure 2: SRI Fund Metrics

Performance Metrics in 2024		As of Dec. 31, 2024
	SRI Fund	Benchmark
Annualized Return	15.3%	33.3%
Annualized Standard Deviation	10.4%	10.4%
Annualized Sharpe Ratio	1.04	2.22
Beta	0.84	
Annualized Gross Alpha	(13.7%)	
Annualized Tracking Error	5.9%	

**Note: Performance metrics are calculated gross of fees.*

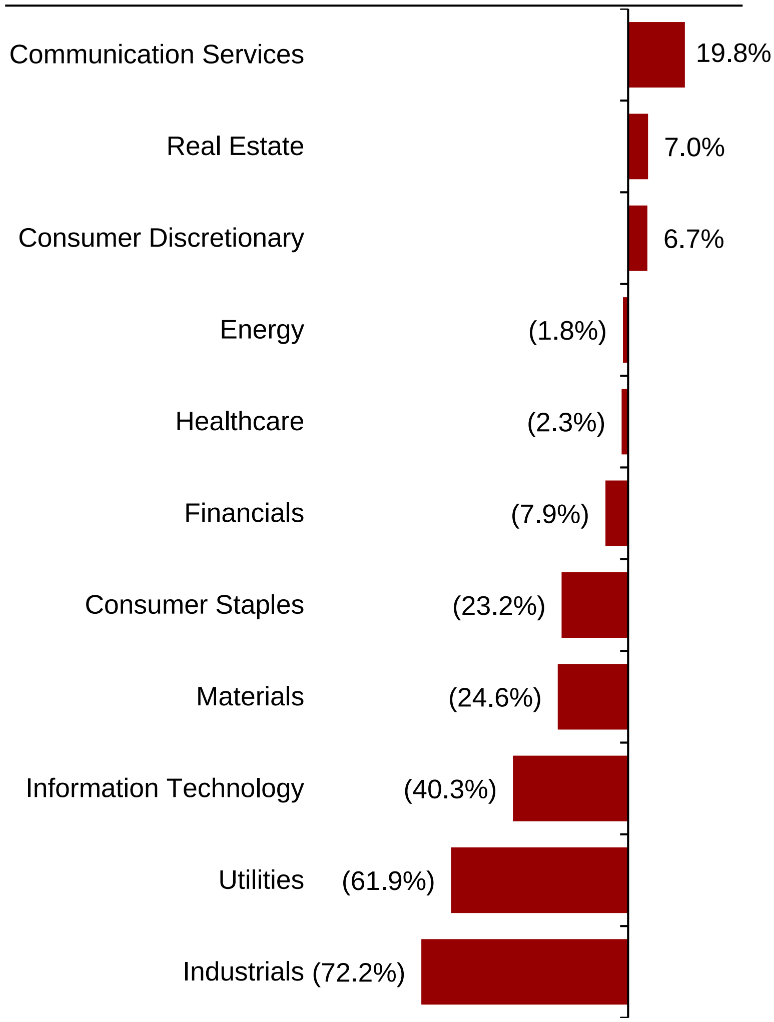
Performance Metrics since Inception		As of Dec. 31, 2024
	SRI Fund	Benchmark
Annualized Return	8.0%	13.3%
Annualized Standard Deviation	17.2%	14.5%
Annualized Sharpe Ratio	0.32	0.73
Beta	1.08	
Annualized Gross Alpha	(6.1%)	
Annualized Tracking Error	7.2%	

**Note: Performance metrics are calculated gross of fees.*

Figure 3: Current Sector Allocation

Sector	SRI	Benchmark	(+/-)
Communication Services	15.4%	8.0%	7.4%
Financials	21.4%	17.5%	3.9%
Consumer Discretionary	12.0%	9.7%	2.3%
Cash	1.1%	–	1.1%
Materials	4.8%	3.8%	1.0%
Real Estate	2.9%	2.1%	0.9%
Healthcare	8.2%	8.1%	0.1%
Utilities	2.4%	2.6%	(0.2%)
Consumer Staples	4.2%	5.2%	(1.0%)
Information Technology	23.1%	28.0%	(4.9%)
Industrials	4.2%	9.1%	(4.9%)
Energy	0.2%	6.0%	(5.7%)
Total	**100.0%**	**100.0%**	**–**

Figure 4: Sector Excess Return vs Benchmark



SRI FUND

2024 Review & Outlook

Figure 5: Current Currency Exposure

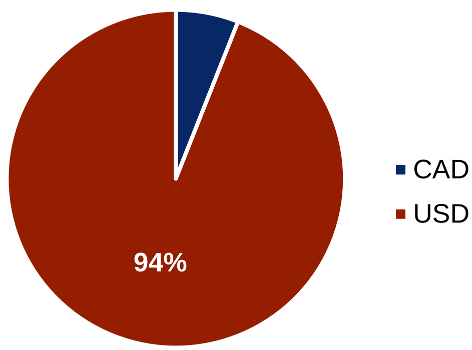


Figure 6: Current Market Cap Exposure

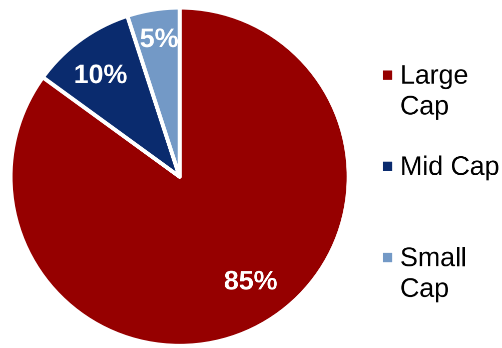
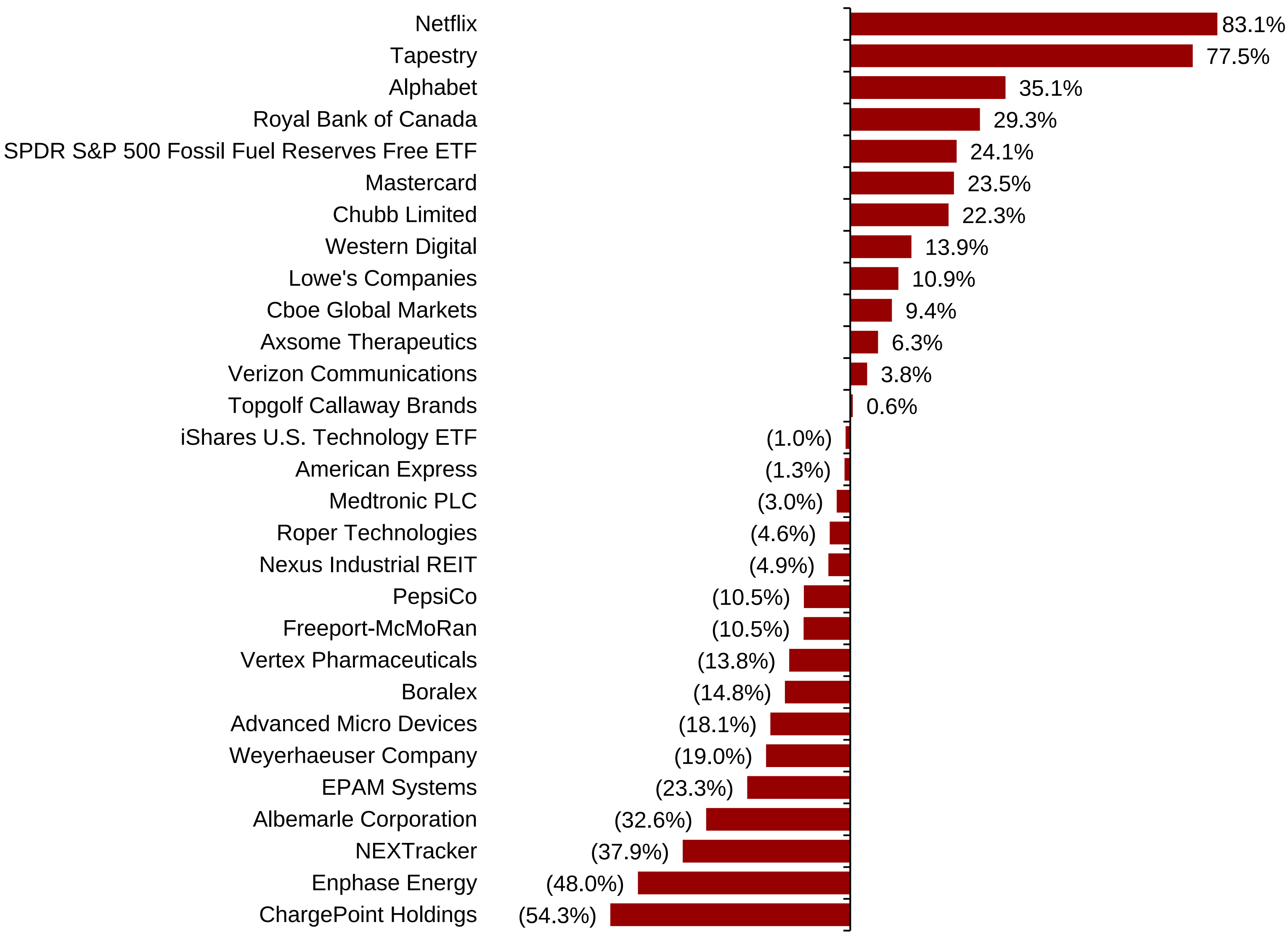


Figure 7: Holding Period Returns in 2024



SRI FUND

2024 Review & Outlook

Figure 8: Current Holdings as of December 31st, 2024

Security Name	Sector	Currency	Units	Average Cost	Local Price	CAD Value	Weight
iShares U.S. Technology ETF	Information Technology	USD	858	$161.18	$159.52	$196,871	6.9%
SPDR S&P 500 Fossil Fuel Reserves Free ETF	ETF	USD	2,790	$36.35	$48.15	$193,232	6.7%
Chubb Limited	Financials	USD	450	$141.85	$276.30	$178,843	6.2%
Netflix	Communication Services	USD	139	$613.90	$891.32	$178,208	6.2%
Alphabet	Communication Services	USD	596	$89.93	$190.44	$163,262	5.7%
Lowe's Companies	Consumer Discretionary	USD	420	$106.20	$246.80	$149,099	5.2%
Western Digital Corporation	Information Technology	USD	1,504	$59.68	$59.63	$129,001	4.5%
Cboe Global Markets	Financials	USD	432	$123.79	$195.40	$121,419	4.2%
Mastercard	Financials	USD	155	$297.36	$526.57	$117,400	4.1%
PepsiCo	Consumer Staples	USD	497	$145.90	$152.06	$108,705	3.8%
Advanced Micro Devices	Information Technology	USD	589	$92.93	$120.79	$102,335	3.6%
NEXTracker	Industrials	USD	1,800	$58.81	$36.53	$94,581	3.3%
TopGolf Callaway Brands	Consumer Discretionary	USD	7,820	$7.81	$7.86	$88,412	3.1%
American Express	Financials	USD	205	$300.66	$296.79	$87,515	3.1%
Medtronic PLC	Health Care	USD	740	$77.01	$79.88	$85,026	3.0%
Tapestry	Consumer Discretionary	USD	890	$34.54	$65.33	$83,634	2.9%
Royal Bank of Canada	Financials	CAD	476	$103.63	$173.32	$82,500	2.9%
Freeport-McMoRan	Materials	USD	1,500	$37.49	$38.08	$82,161	2.9%
Verizon Communications	Communication Services	USD	1,425	$38.51	$39.99	$81,968	2.9%
Vertex Pharmaceuticals	Health Care	USD	137	$467.13	$402.70	$79,356	2.8%
Roper Technologies	Information Technology	USD	90	$355.23	$519.85	$67,298	2.3%
Boralex	Utilities	CAD	2,287	$24.76	$28.71	$65,660	2.3%
EPAM Systems	Information Technology	USD	181	$304.88	$233.82	$60,875	2.1%
Albermarle Corporation	Materials	USD	420	$127.70	$86.08	$52,003	1.8%
Axsome Therapeutics	Health Care	USD	425	$56.91	$84.61	$51,724	1.8%
Nexus Industrial REIT	Real Estate	CAD	5,976	$7.45	$7.69	$45,955	1.6%
Enphase Energy	Information Technology	USD	450	$163.15	$68.68	$44,455	1.6%
Weyerhaeuser Company	Real Estate	USD	847	$38.91	$28.15	$34,296	1.2%
Cash	Cash	CAD	32,129			$32,129	1.1%
ChargePoint Holdings	Industrials	USD	5,800	$9.56	$1.07	$8,927	0.3%
				Total		**$2,834,723**	**100%**

STRATEGIST REVIEW

2023 MARKET REVIEW & 2024 OUTLOOK

Thomas Besse
Strategist

Malo Marin
Strategist

Julius Alessandro Xanthoudakis
Strategist

Asad Alam
Strategist

STRATEGIST REVIEW

2024 Market Recap

Mag-7 (especially Nvidia) continue to dominate

The S&P 500 delivered another stellar year in 2024, gaining 25% in price terms, marking its second consecutive year of 20%+ returns. This performance was again fueled by the "Magnificent Seven," which returned an impressive 67% collectively in 2024. Nvidia led the way with a staggering 171% return – 22% of the S&P500's annual gains! In contrast, the S&P/TSX posted a more modest gain of 9.7%, hindered by its limited exposure to mega-cap technology companies. Volatility remained subdued in 2024 with the VIX averaging 15.5 points in 2024, more in line with quiet periods that preceded the Covid pandemic than with the tumultuous last few years.

Trailing P/E	
28.02x S&P 500	**19.36x** S&P/TSX

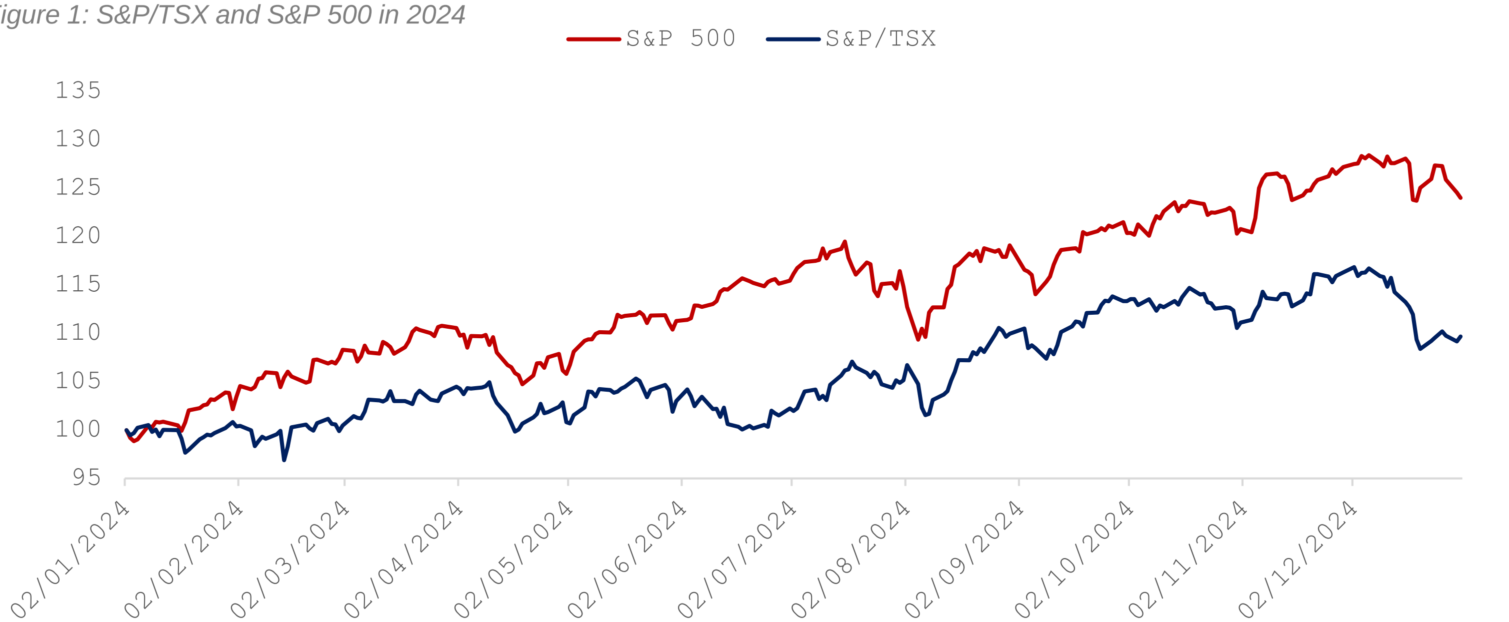
1YR Forward P/E	
23.40x S&P 500	**15.28x** S&P/TSX

2024 Returns

S&P 500	**25.0%**
Communication Services	40.2%
Information Technology	36.6%
Financials	30.6%
Consumer Discretionary	30.1%
Utilities	23.4%
Industrials	17.5%
Consumer Staples	14.9%
Energy	5.7%
Real Estate	5.2%
Health Care	2.6%
Materials	0.0%

S&P/TSX	**9.7%**
Information Technology	37.8%
Financials	30.1%
Energy	23.8%
Materials	21.4%
Consumer Staples	19.1%
Utilities	13.8%
Consumer Discretionary	11.9%
Industrials	9.7%
Real Estate	5.6%
Communication Services	(21.1%)

Figure 1: S&P/TSX and S&P 500 in 2024



Source: Bloomberg

Strategist Review

2024 Market Recap

2024 In Review

January(↑)

Positive sentiment surged as the Fed hinted at pausing rate hikes, coupled with stronger-than-expected earnings from tech and financial sectors. Investors also priced-in resilient economic data, including stable unemployment figures.

February (↑)

Tech giants like NVIDIA and Microsoft rallied on AI optimism, while softer PCE inflation data reinforced bets on a dovish Fed pivot, driving broad market gains.

March(↑)

The Fed confirmed plans for three 2024 rate cuts during its March meeting, easing borrowing cost fears, while manufacturing PMI rebounds lifted cyclical stocks.

April(↓)

Escalating Iran-Israel tensions spooked markets, paired with a surprise jump in March CPI (3.5% YoY), which dashed hopes for near-term rate cuts.

May(↑)

Blowout Q1 earnings from mega-caps (Apple, Amazon) and a cooler April jobs report revived rate-cut optimism, sparking a risk-on rally.

June(↑)

AI euphoria peaked as chip stocks soared, while robust retail sales (+0.7% MoM) and falling Treasury yields supported growth sectors.

July(↑)

Mixed Q2 earnings (weak industrials, strong healthcare) and Fed Chair Powell's "wait-and-see" stance led to cautious trading, limiting gains.

August(↑)

August payrolls beat expectations (+187k jobs), and slowing wage growth (4.3% YoY) eased inflation fears, boosting cyclical equities.

September(↑)

The index climbed as housing market fears eased, and consumer spending data indicated steady economic activity.

October(↓)

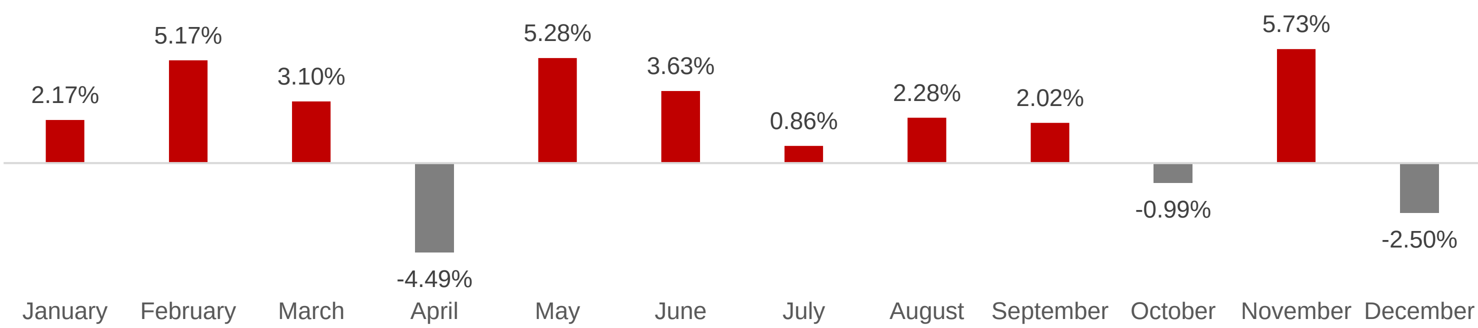
Declines occurred due to weaker-than-expected corporate earnings and lingering inflation concerns weighing on investor sentiment.

November(↑)

Post-U.S. presidential election policy clarity ignited a rally, particularly in small caps and tech.

December(↓)

Investors locked in gains amid tax-loss harvesting, while contracting PMI data and renewed Fed hawkishness ("higher for longer") triggered profit-taking.



Strategist Review

2025 Outlook

Key Themes for 2025

Trade Uncertainty & Trump Policies

With the potential return of Trump-era trade policies, markets are bracing for heightened uncertainty. Proposed tariff hikes—60% on Chinese imports and 10–20% on others—raise concerns over inflationary pressures, forcing the Fed to reconsider its rate-cut trajectory. Canada's economy appears particularly vulnerable, as increased trade frictions could dampen GDP growth, elevate unemployment, and exacerbate stagflation risks. Historically, escalating U.S.-China trade tensions have resulted in market volatility, with the S&P 500 responding in a mixed fashion but consistently exhibiting high levels of uncertainty.

AI Revolution & Market Shifts

The acceleration of AI infrastructure in the U.S. through Project Stargate ($500B) underscores both innovation and geopolitical tensions, as efficiency concerns and regulatory oversight take center stage. Meanwhile, China's DeepSeek is reshaping the AI landscape, training models at unprecedented speed and cost efficiency, further intensifying competition. Nvidia's $600B market cap decline signals a shift in chip strategies, forcing firms to reassess supply chain dependencies.

Energy Transition: Political Risk vs. Market Momentum

The re-election of President Trump has introduced potential shifts in U.S. energy policy, particularly concerning the Inflation Reduction Act (IRA). While the administration has expressed intentions to repeal or amend aspects of the IRA, a complete rollback appears unlikely due to substantial investments—over $130 billion—in energy projects within Republican-led constituencies. This situation underscores a complex dynamic: federal policy may pivot towards traditional energy sources, yet market momentum and state-level initiatives continue to drive renewable energy adoption. The prevailing view suggests that despite federal policy changes, the economic and environmental benefits of clean energy will sustain the transition towards renewables.

Portfolio Positions to Monitor in 2025

As we navigate 2025, several stocks stand out due to shifting macroeconomic policies, trade uncertainties, AI disruptions, and evolving energy dynamics. Companies with significant exposure to tariffs, AI-driven market shifts, or regulatory energy policies are particularly vulnerable to volatility.

	Stock	Impact
(↓)	Mondelez International	Mondelez faces risks from proposed 25% tariffs on Mexican and Canadian imports and its reliance on China for 30-35% of its goods. Despite mitigation efforts, these factors could pressure margins and profitability.
(↓)	Nike	Nike is highly exposed to potential tariffs on Vietnam-sourced apparel, which accounts for over 60% of its production. Limited options for near-term diversification make it vulnerable to margin compression.
(↓)	Dominion Energy	Dominion's AI-focused data center investments face uncertainty as enterprises reevaluate strategies post-launch of disruptive AI models like DeepSeek's R1 model, potentially impacting growth.
(↑)	Chevron/Energy Transfer	Both stand to benefit from policy shifts favoring fossil fuel infrastructure, such as eased drilling permits and tax incentives, which could enhance profitability in the near term.
(↓)	Boralex/Enphase	Renewable power producers and battery manufacturers like Boralex and Enphase are at risk due to reduced clean-energy incentives that may hinder near-term growth.

Sources: Bloomberg

STRATEGIST REVIEW

2025 Outlook

Recessionary Fears Have Cooled

September 2024 marked the first interest rate cut by the Federal Reserve after a series of hikes that began in early 2022. The Fed decided to cut rates by 50 bps, as they believed inflation was on a downward trajectory toward their 2% target. Additionally, they aimed to prevent further pressure on the labour market.

Surprisingly, since this initial cut, 10-year Treasury yields have risen by approximately 100 basis points due to expectations of sustained above-target inflation and increased government spending. The market is currently pricing in two cuts for the latter half of 2025, while the long-run median projection (post-2027) is expected to reach 3%. In its first meeting of 2025, the Fed opted to keep rates at 4.25-4.5%.

Figure 2 compares the federal funds rate to the S&P 500. The chart highlights an important distinction: while rate cuts are often viewed as positive for equities, their impact depends heavily on the speed at which they occur. Historically, steep rate-cutting cycles have signaled economic distress, often preceding recessions and market downturns. Conversely, a gradual cutting process, like the one currently expected, can be supportive for the market. This was the case in 1995 and 1998 when measured rate cuts coincided with a supported market.

As labour market conditions have improved and recessionary fears have diminished, expectations for rate cuts have shifted significantly since September 2024.

Figure 2 also includes the September 2024 forecast in yellow (dotted) and the February 1, 2025 forecast in red (dotted).

Additionally, the yield curve has finally un-inverted after experiencing the longest inversion in history (793 days). Crucially, this un-inversion has occurred because the 10-year yield has risen faster than the 2-year yield. This movement, known as a bear steepener, is important because historically, such shifts have not typically preceded recessions. In contrast, a bull steepener (where the 2-year yield declines faster than the 10-year) can indicate economic weakness and a potential recession.

Figure 3: 10-year vs 2-year Treasury yields (with Spread)

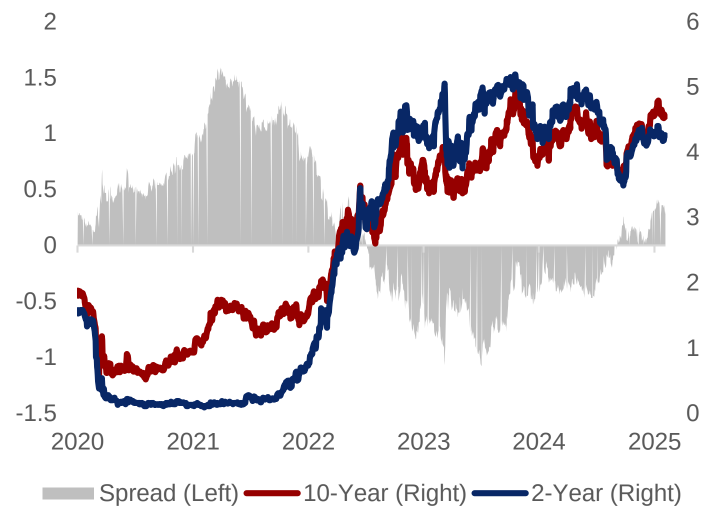
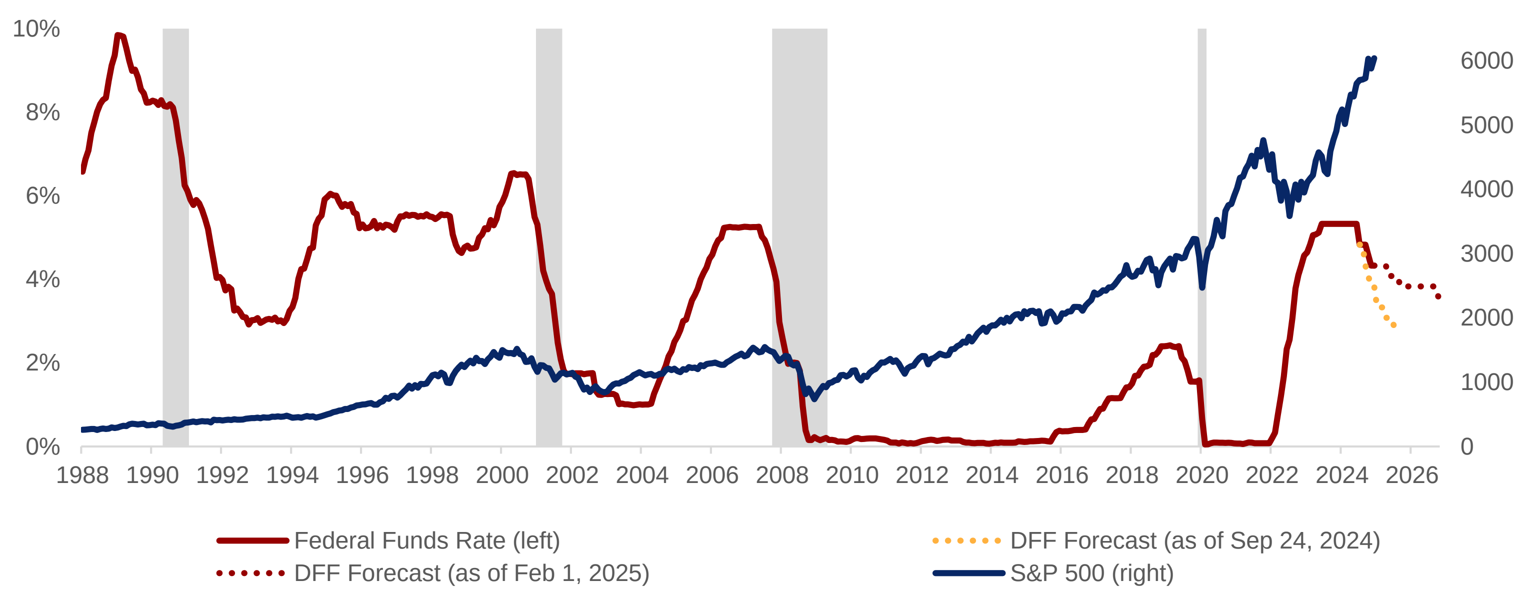


Figure 2: Federal Funds Rate vs. S&P 500



Sources: Bloomberg, FRED

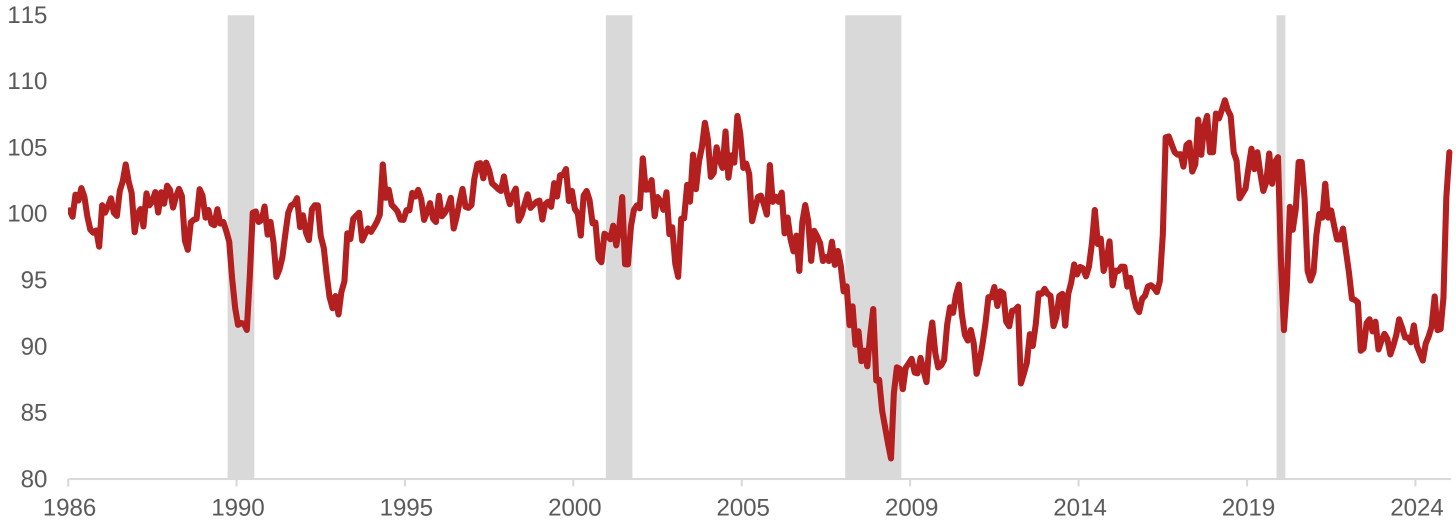
Strategist Review

2025 Outlook

A Market Fueled by Optimism

2025 is expected to be a year largely driven by sentiment. Following the U.S. presidential election in November, optimism among CEOs and small businesses increased significantly. In fact, the NFIB Small Business Optimism Index spiked to 105 post-election. Since small businesses employ approximately 45% of American workers and contribute nearly 44% of GDP, their optimism suggests strong hiring and investment intentions, reducing the likelihood of a significant economic contraction.

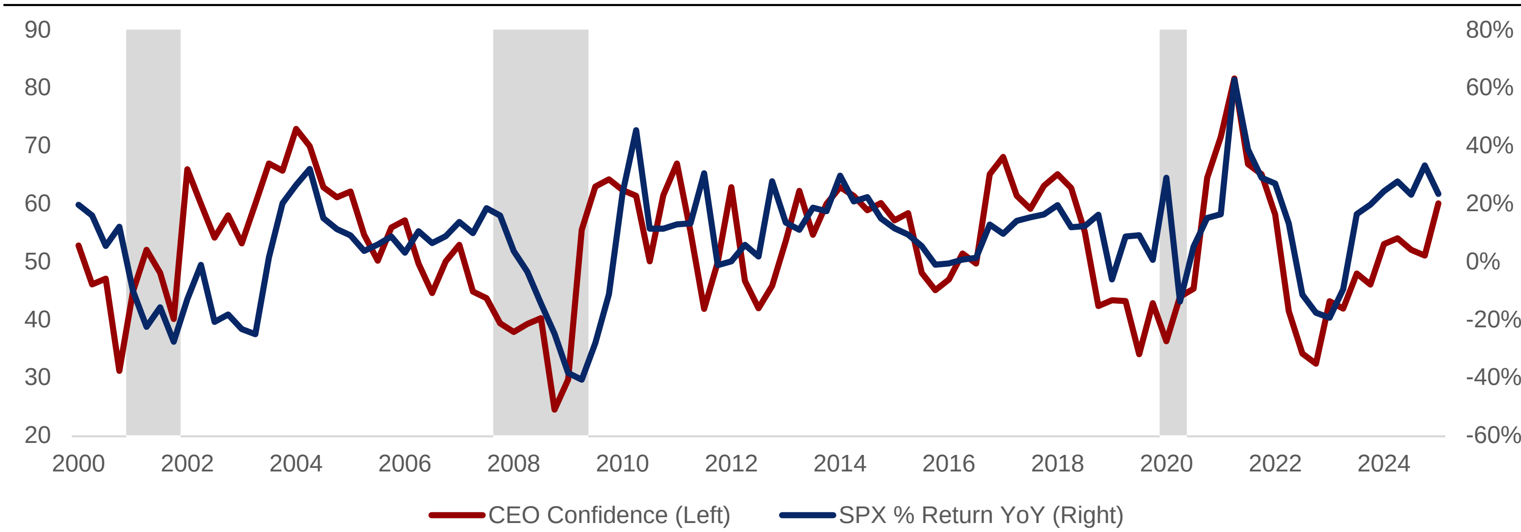
Figure 4: NFIB Small Business Optimism



Corporate leadership sentiment remains a crucial factor in economic and market forecasting. The CEO Confidence Index, which has historically exhibited a close correlation with S&P 500 performance, surged to 60 for Q1 2025 – the highest reading in three years. This suggests that corporate leaders have become more optimistic about business conditions. In fact, more than half of CEOs surveyed expect economic conditions to improve over the next six months.

As Figure 5 reveals, there is a close relationship between year-over-year growth in the S&P 500 and CEO confidence levels. Therefore, as long as confidence remains stable or improves, equity markets should continue their upward trajectory.

Figure 5: CEO Confidence vs YoY Growth in the S&P 500



Sources: Bloomberg, FRED, The Conference Board, Lance Roberts (Real Investment Advice)

STRATEGIST REVIEW

2025 Outlook

Stock Buybacks Should Continue to be Supportive for Equites

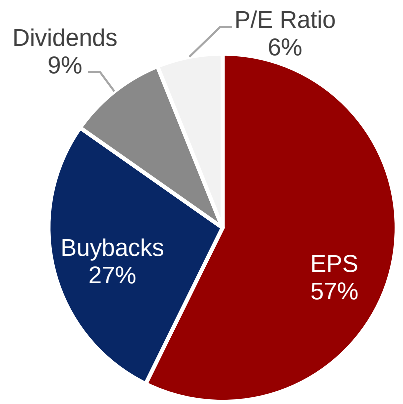
Corporate share repurchases have historically been a significant driver of equity market appreciation. For 2025, Goldman Sachs projects approximately $1.1 trillion in buybacks, marking a 16% increase from 2024. As Figure 8 highlights, there is a strong correlation (85%) between monthly changes in buybacks and corresponding returns in the S&P 500.

One possible explanation is that when companies repurchase shares, they reduce the number of outstanding shares, thereby increasing earnings per share (EPS) and in turn, supporting higher valuations. Additionally, the announcement of buybacks can boost share prices, as it signals the presence of a large, committed buyer in the market.

However, it is also important to consider the possibility of reverse causality. For instance, companies may reduce or delay buybacks during periods of declining share prices to preserve cash, which could contribute to the observed correlation between buybacks and market performance.

Given the expectations for strong buyback activity in 2025, along with the strong balance sheets of S&P 500 companies, particularly among the Magnificent Seven, we believe these repurchases will continue to provide support for the equity market.

*Figure 6: S&P 500 Return Decomposition (2011-2022)**



**Note: EPS & P/E categories are buyback-adjusted*

Figure 7: S&P 500 Annual Buybacks ($ Billions)

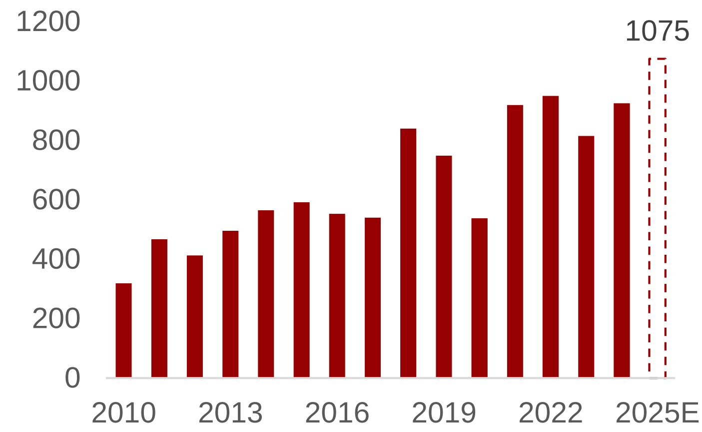
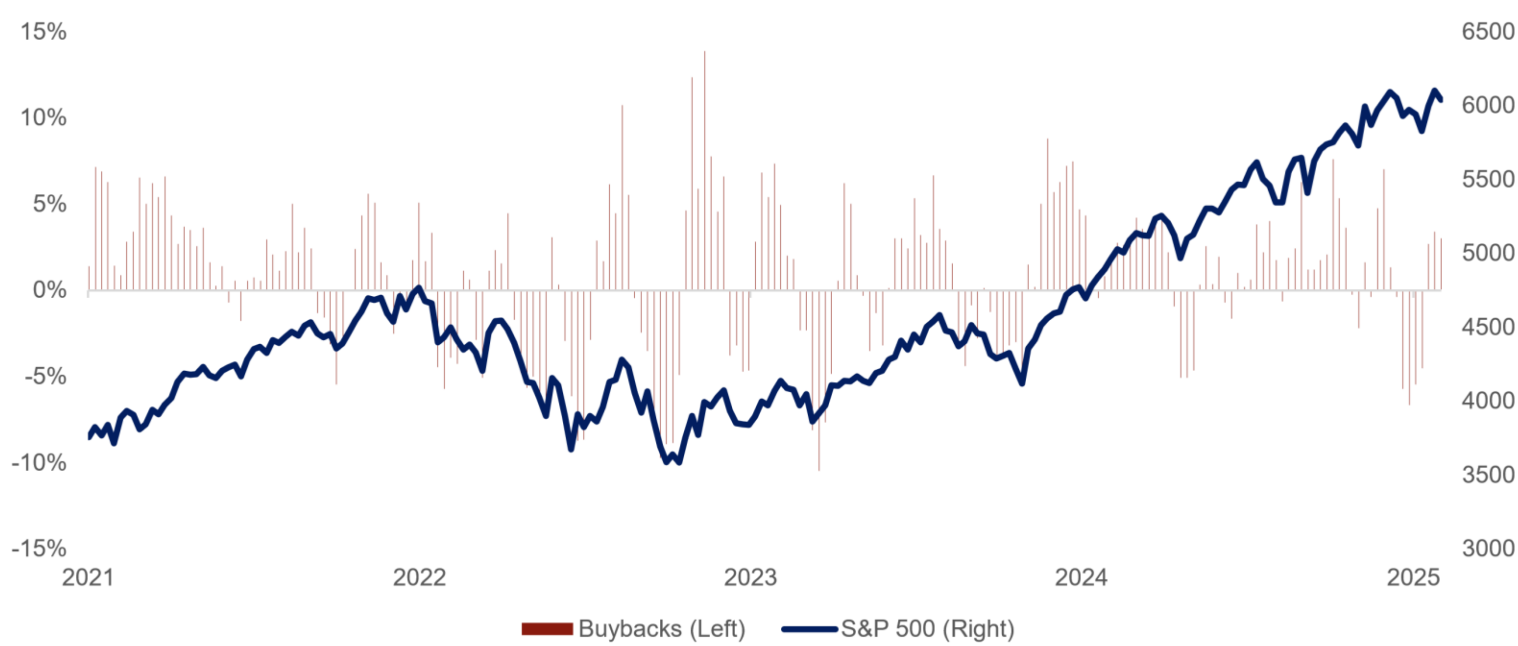


Figure 8: 4-Week Changes in Buybacks vs. S&P 500



Sources: Bloomberg, FRED, Lance Roberts, Goldman Sachs Research, Pavilion Global Markets

STRATEGIST REVIEW

2025 Outlook

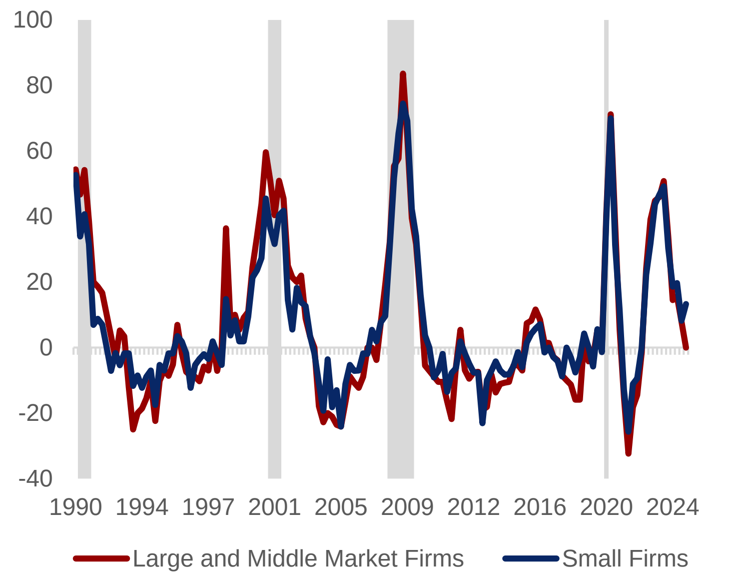
Availability of Credit Should Support Firms

An encouraging sign for businesses is the downward trend in the net percentage of U.S. banks tightening lending standards. For large and middle-market firms, the metric approached zero in Q4 2024, signaling that credit availability is stabilizing rather than deteriorating. Historically, periods of tightening lending standards have preceded economic slowdowns and recessions, as restricted credit access can hamper corporate investment and expansion. The fact that conditions are not tightening further reinforces the case for sustained economic expansion rather than contraction. This trend is particularly relevant for small firms, which are often the most vulnerable to credit contractions due to their reliance on external financing.

The easing of credit standards suggests that firms will continue to have access to capital, allowing them to invest in expansion, hiring, and innovation. This is crucial given that small and mid-sized businesses account for a substantial portion of employment and GDP. If lending conditions remain accommodative, these firms should be able to sustain their operations and growth without the fear of a sudden credit crunch.

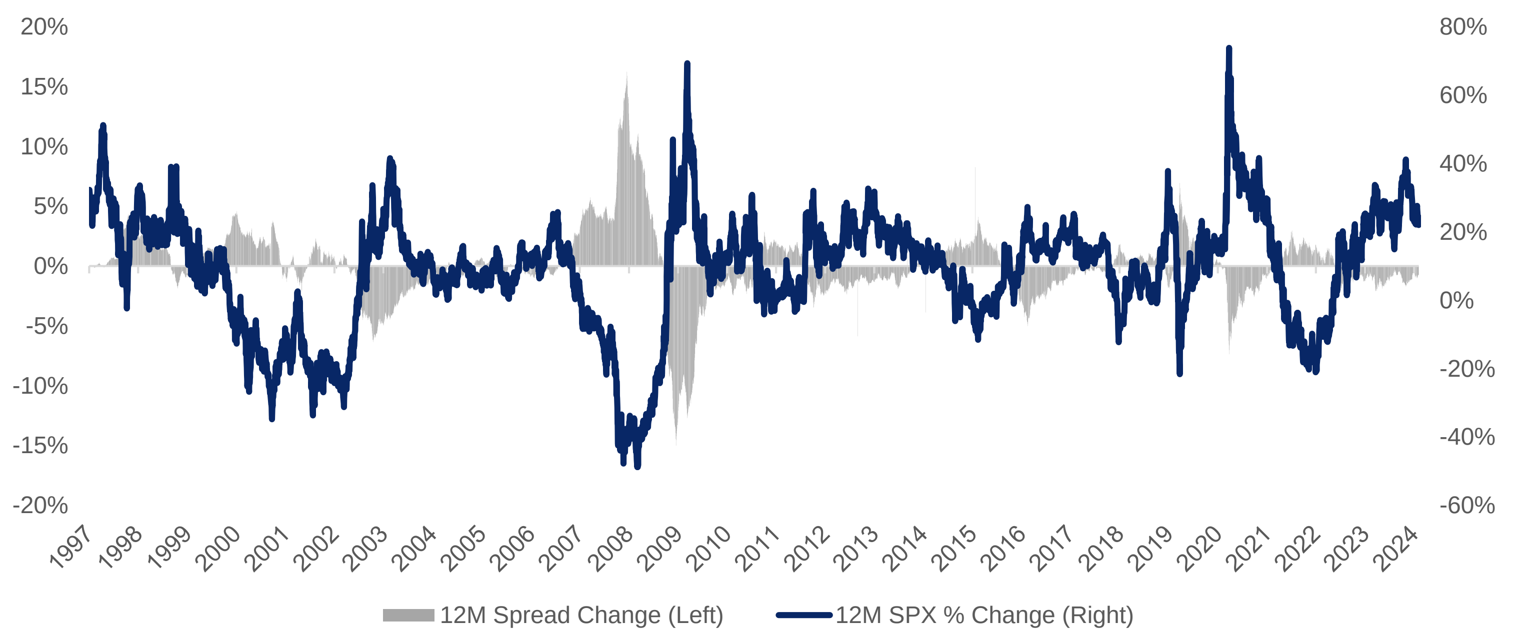
Beyond lending standards, another important indicator of financial conditions is the relationship between high-yield credit spreads and equity performance. Currently, credit spreads on high-yield corporate debt remain well below historical averages, reflecting strong risk appetite and investor confidence.

Figure 9: Net Percentage of US Banks Tightening Standards



As Figure 10 demonstrates, historical patterns suggest a strong inverse relationship between changes in high-yield spreads and stock market performance. When the 12-month change in high-yield spreads is negative, meaning credit conditions are easing, the S&P 500 tends to post positive year-over-year returns. Therefore, as long as credit spreads remain tight, the equity market should grow year-over-year.

Figure 10: High Yield Spread Change (YoY) vs. S&P 500 Return (YoY)



Sources: Bloomberg, FRED

Strategist Review

2025 Outlook

Magnificent-7 are Relatively Cheaper Compared to their 2000's Dot-com Bubble Counterparts

Over the past few years, the Magnificent Seven stocks have gained a larger share of the S&P 500's total market cap, reaching 34% as of December 31. At the same time, their valuations have risen substantially. However, compared to the market leaders of the dot-com bubble in the early 2000s, the Mag-7 remain relatively cheaper.

The average profit margin for the Mag-7 stands at 28%, significantly higher than the 16% recorded by the leading dot-com companies. Their ROE is also stronger, averaging 46% compared to 28% during the early 2000s. Additionally, their balance sheets are much healthier. The Mag-7 have an average net debt to equity ratio of -30% (meaning they hold more cash than debt), whereas their dot-com counterparts averaged just -4%. Moreover, cash as a percentage of market cap is 4.2% (Q3 2024) for today's leaders, compared to just 1.7% for the dot-com giants. From a valuation standpoint, the Mag-7 trade at an average 24-month forward P/E ratio of 34.9x, significantly lower than the 61.3x average for dot-com leaders at the peak of the bubble in March 2000.

Examining the macroeconomic environment during the dot-com era reveals similarities to today's conditions, particularly in inflation levels and U.S. Treasury yields (see Figure 12, next page). Between early 1998 and March 2000, the S&P 500 returned approximately 57% before experiencing an 11% correction in a short period. However, it rebounded until early September 2000 before entering a major 49% sell-off that culminated in late 2002. Meanwhile, the Nasdaq-100, which had significant exposure to dot-com stocks, suffered a more than 80% decline.

This historical comparison is relevant because, by the second year of the dot-com rally (1998-2000), the cyclically-adjusted P/E (CAPE) ratio had reached 44.7x. In comparison, two years into the current bull market (since 2023), the CAPE stands at 37.0x. It is important to note that while this ratio was extremely high in early 2000, the major downturn only began six months after the March peak.

Similarly, while today's CAPE ratio is elevated, it does not necessarily signal an imminent sell-off. This ratio has historically been a poor short-term timing tool, as high valuations can persist for extended periods during strong bull markets. Instead, CAPE is more effective in forecasting long-term returns, where a higher reading has historically corresponded with lower 10-year forward real returns.

To summarize, the combination of stronger fundamentals and lower valuations relative to the dot-com leaders suggests that the Mag-7 could continue to be supported in 2025 (see Figure 14, next page for a direct comparison of the dot-com bull run versus today).

Figure 11: Magnificent-7 (Left) vs. 2000s Dot-com Bubble Leaders (Right)

Company	Cash % of Market Cap	Net Debt / Equity	ROE	Profit Margin	24m Fwd P/E
Microsoft	3.0%	-20%	27%	35%	25.6x
Apple	1.8%	-32%	146%	27%	30.0x
NVIDIA	3.7%	-61%	65%	53%	25.0x
amazon	8.6%	-21%	17%	9%	26.1x
Alphabet	4.0%	-29%	27%	28%	18.0x
Meta	4.2%	-23%	27%	34%	19.4x
TESLA	4.3%	-25%	12%	9%	100.1x
Aggregate	**4.2%**	**-30%**	**46%**	**28%**	**34.9x**

Company	Cash % of Market Cap	Net Debt / Equity	ROE	Profit Margin	24m Fwd P/E
Microsoft	3.0%	-63%	35%	39%	53.2x
CISCO	0.4%	-17%	22%	17%	101.7x
intel	2.5%	-33%	26%	25%	42.1x
ORACLE	1.0%	-61%	39%	15%	84.6x
IBM	2.7%	111%	39%	9%	23.5x
Lucent Technologies Bell Labs Innovations	0.9%	38%	36%	9%	37.9x
NORTEL	1.1%	-3%	-1%	-1%	86.4x
Aggregate	**1.7%**	**-4%**	**28%**	**16%**	**61.3x**

Sources: Bloomberg, FRED, Goldman Sachs Research, Robert Shiller

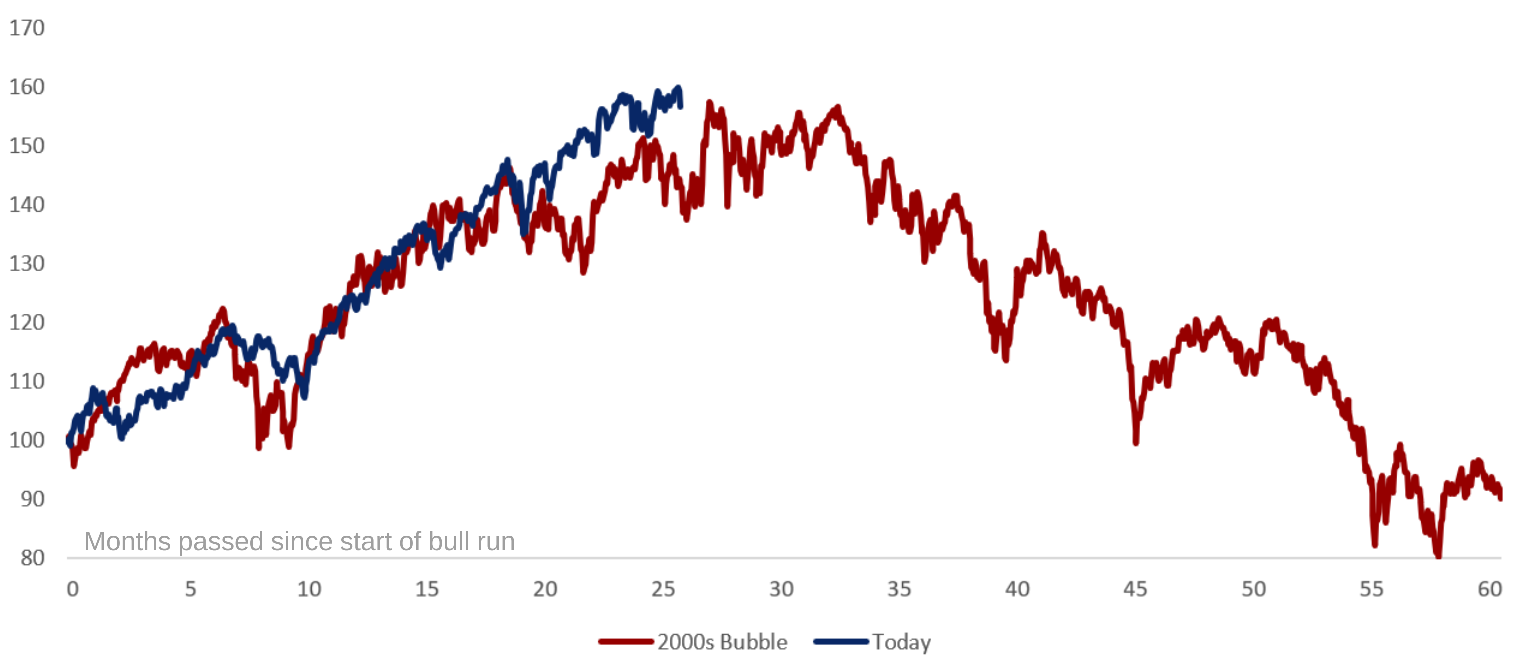
Strategist Review

2025 Outlook

Figure 12:10-year US T-yield and Inflation during Dot-com Bubble

Figure 13: CAPE ratio and Forward Returns during Dot-com Bubble

Figure 14: S&P 500 Bull-market Performance Dot-com Bubble vs. Today



Sources: Bloomberg, FRED, Robert Shiller

Strategist Review

2025 Outlook

Risks to the Market Outlook

While optimism continues to drive market sentiment heading into 2025, several risks could challenge the current bullish narrative.

Tariff Uncertainty and its Economic Impact

One of the biggest near-term risks stems from potential tariff increases under Trump's presidency. According to the Tax Foundation, the average tariff rate on all imports could rise to 17.7%, a level not seen since the Great Depression (see Figure 15). Such a dramatic shift in trade policy would introduce significant uncertainty, particularly in the short term. Initially, these tariffs could contribute to higher inflation as import costs rise and businesses pass these expenses on to consumers. However, over the longer term, higher prices may force consumers to cut back on spending, potentially leading to deflation. Given that consumer spending accounts for nearly 70% of U.S. GDP, a slowdown in consumption would have significant ripple effects, reducing corporate revenue growth and squeezing profit margins. In turn, this could lead to downward pressure on market valuations.

Additionally, the uncertainty surrounding trade policies is expected to fuel greater market volatility in 2025. In contrast to the relatively low volatility seen in 2024, markets could experience more pronounced swings as investors react to potential changes in trade agreements.

Concentration Risk

Another key risk to equity markets is the high concentration of the S&P 500 in the Magnificent Seven stocks (accounting for over 30% of the index's total market cap). This creates a vulnerability in the index: if one of these firms experiences a downturn, it could have an outsized effect on overall market performance.

Moreover, these companies are heavily reliant on a common growth driver – the advancement of AI. A slowdown in AI adoption or a revision of overly optimistic productivity expectations could lead to significant contractions in trading multiples across these stocks. Right now, their valuations are built on above-average earnings growth assumptions and historically high profit margins. If these expectations are not met, even small earnings disappointments could trigger a sharp correction.

Long-Term Return Expectations

Beyond immediate risks, the long-term valuation landscape raises concerns about future returns. Currently, the cyclically-adjusted P/E ratio (CAPE) stands at 37.0x. Historically, elevated CAPE levels have been associated with lower 10-year forward real returns in the S&P 500. While sentiment remains strong for 2025, the outlook for long-term equity returns appear very mediocre, as highlighted in Figure 16. Although this does not imply an imminent market downturn, it does suggest that investors should temper their return expectations for the next decade.

Figure 15: U.S. Tariff Rates (%) since early 19th century

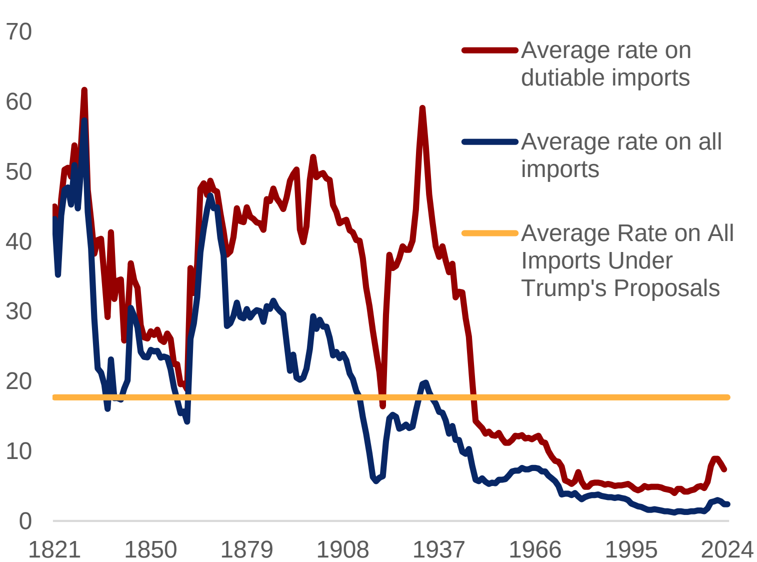
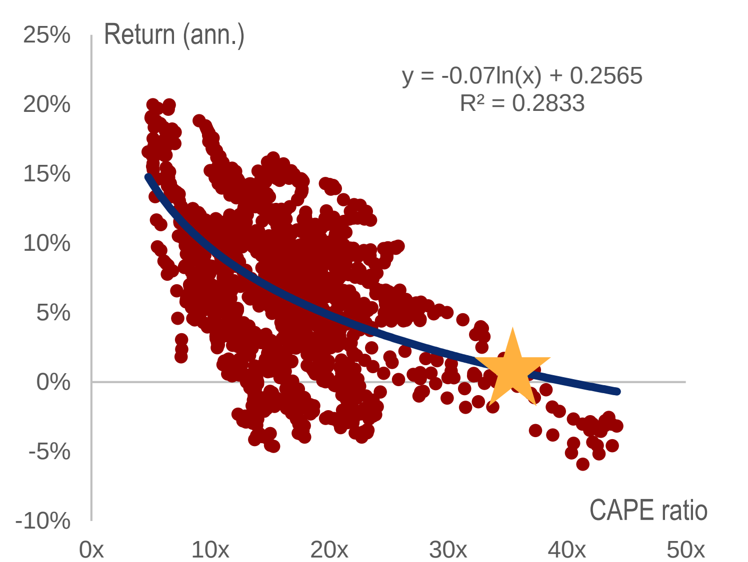


Figure 16: CAPE Ratio vs. 10-year Forward Real Returns S&P 500 (ann.)



Sources: Bloomberg, Robert Shiller, Tax Foundation

MACROECONOMIC THEMES

2024 REVIEW & 2025 OUTLOOK

Owen Chung
Co-Chief Economist

Jason Yiu
Co-Chief Economist

Macroeconomic Themes

2024 – 2025 Themes

Inflation 2024

United States

In January 2024, the Consumer Price Index (CPI) inflation rate in the United States was 3.1%. By the end of 2024, it had fallen to 2.9%.

Shelter inflation, which accounts for over a third of the CPI, eased gradually in 2024 but remained elevated compared to pre-pandemic levels due to chronic housing shortages and strong demand for newly constructed homes. A key component of shelter inflation is Owners' Equivalent Rent (OER), a lagging indicator that estimates the rent homeowners would pay for their homes, with a 6-12 months delay. Early in 2024, OER significantly contributed to high shelter inflation, as rising mortgage rates had driven more people into the rental market. By late 2024, OER growth began to slow as high mortgage rates dampered housing demand and rents stabilized in some regions. However, structural housing shortages kept OER and overall shelter inflation above historical averages.

Canada

The CPI in Canada rose 2.4% on an annual average basis in 2024, down from 3.9% in 2023. By the end of 2024, it had fallen to 1.8%, following a similar but more aggressive trend as the United States.

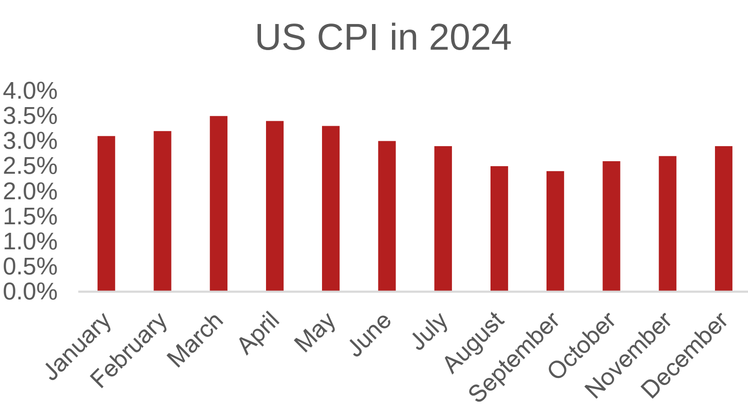
This substantial decrease in inflation reflects the lagged effects of the Bank of Canada's aggressive monetary tightening that began in 2022. After peaking at 8.1% in June 2022, the highest inflation rate in decades, consistent interest rate hikes until mid-year 2024 curbed consumer demand and moderated price pressures, bringing inflation down to its target range. Additionally, lower energy prices, particularly natural gas prices, were a key driver of disinflation in 2024. Indeed, reduced demand due to a warmer winter, coupled with sustained high production, led to near-capacity storage levels, exerting downward pressure on prices.

2025 Outlook

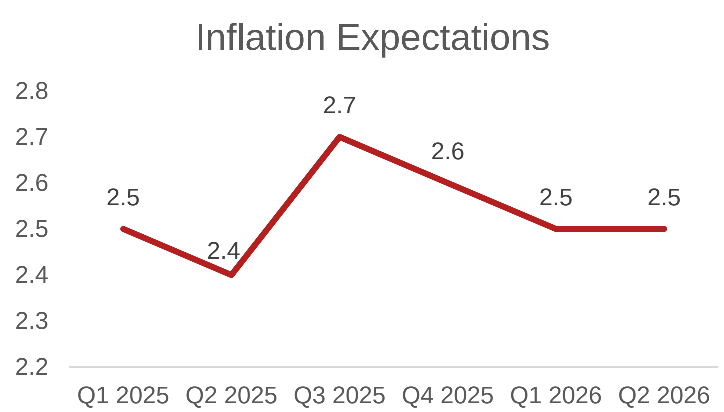
Inflation in the United States is projected to decline to 2.5% by late 2025, supported by slower shelter inflation and moderating wage growth. Core PCE inflation may remain slightly above the Federal Reserve's 2% target due to persistent pressure from services inflation, especially in non-shelter categories like healthcare and leisure. Newly elected President Trump's potential tariffs represent the greatest uncertainty to the inflation outlook over the next year. Perhaps these tariffs pose some near-term upside inflation even though they may not be fully passed through to the final consumer.

The Los Angeles wildfires in late 2024 raised concerns about potential inflationary pressures on U.S. shelter costs, particularly rents and OER. With over 12,300 residential structures affected and 150,000+ residents displaced, localized rent increases and reports of price gouging by landlords could elevate regional rent inflation. However, the impact on national inflation metrics is expected to be minimal. The BLS housing survey captures only a small portion of new rental agreements, and rent increases take time to affect existing leases due to long-term contracts and delayed sampling. Additionally, historical events such as hurricanes and the 2024 solar eclipse have shown that localized price spikes often fail to significantly influence national CPI data.

Canadian inflation is expected to align with the Bank of Canada's 2% target by the end of 2025, supported by lower energy and commodity prices and weaker domestic demand. While anticipated rate cuts may create mild upward pressure on inflation later in the year, the subdued economic environment is likely to limit this effect. Additionally, record immigration is driving housing demand, which could add to inflationary pressures in the shelter sector unless supply constraints are addressed. Potential U.S. tariffs on Canadian imports could further disrupt supply chains and raise consumer prices, particularly for essential goods like energy and auto parts. The overall inflation outlook will depend on the scale of tariffs, the response of Canadian businesses and policymakers, and measures to manage housing challenges.



Bureau of Labour Statistics (BLS), Bloomberg



Macroeconomic Themes

2024 – 2025 Themes

Economic Activity

Inflation globally cooled down in 2024, but the recovery has been uneven. While many developed economies faced slower growth due to tighter monetary policy, the U.S. economy stood out by maintaining strong growth and low unemployment. Real GDP grew by 2.8%, which was above the estimates. We believe this resilience comes from factors like higher productivity and immigration. However, risks such as new trade tariffs and reduced immigration policies could weigh on growth in 2025.

The economy has shown a mix of strength and challenges across sectors in 2024. Manufacturing continued to struggle, as seen in the December PMI drop to 48.3. Stagnant light vehicle sales are one reason behind the weakness in manufacturing. Poor affordability due to high vehicle finance interest rates is likely holding back demand for vehicles. However, vehicle loan delinquency rates are expected to peak soon, which could bring about lower risk spreads for vehicle finance and improve affordability. In contrast, the services sector remained robust, with its activity index climbing to 58.5, the highest since 2021. Our view is that the divergence between these sectors will persist, with services leading growth while manufacturing adjusts to slower demand.

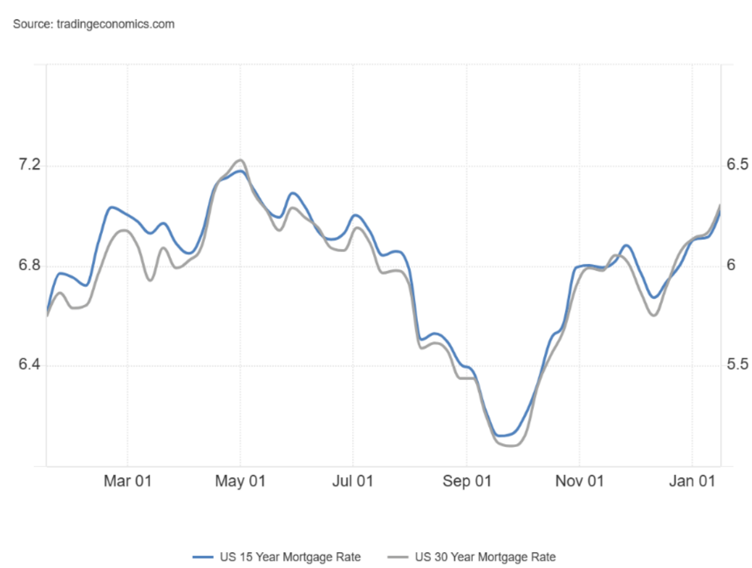
Looking ahead, housing starts face several challenges. While the Fed is expected to cut interest rates by 75 basis points in 2025, long-term Treasury rates are only expected to decline slightly by about 15 basis points in 2025. This leaves little room for significant reductions in mortgage rates. Additionally, lower immigration levels could slow household growth and reduce the availability of construction workers, a significant portion of whom are immigrants. Tighter policy may lower net immigration to 750,000 per year, moderately below the pre-pandemic average of 1 million per year. Rising housing inventories might also impact new construction. Currently, the stock of single-family homes for sale is at its highest since 2008. Home prices are still high in most parts of the country, and recent climate events, like hurricanes in the Southeast and wildfires in California, will likely keep housing costs up. However, the rebuilding efforts after these disasters could help support residential construction and counter some of the negative trends in the housing market.

We expect business investment growth to slow down as the year goes on due to ongoing uncertainty. While some businesses might invest in anticipation of deregulation, tax cuts, and a focus on sectors like AI and fossil fuels, others may delay investment until they have more clarity on trade, government spending, and immigration policies. The temporary boost from stockpiling for potential tariffs will also fade early in the year.

.

While expected tariffs and reduced immigration by Trump administration could act as drags, tax incentives and planned interest rate cuts of about 75 basis points may provide some relief. However, we believe the overall impact of rate cuts will be limited, as long-term rates are not expected to fall significantly. Consumer spending is expected to remain a key driver of GDP growth in 2025. A strong labor market should support steady growth in real income, around 2.5% across different income levels. Concerns about consumer health seem exaggerated. Lower-income households are not struggling significantly, and rising delinquency rates are more linked to risky lending practices than to weak finances. The savings rate is also roughly in line with its fundamental drivers and is expected to increase only slightly.

Overall, we believe the U.S. economy is on track for slower but steady growth. Long-term interest rates have increased in recent months, which will limit potential consumption growth in the near term by making financing for big ticket purchases less affordable. The risks from policy changes and financial conditions remain, but strong consumer spending and a stable labor market provide a solid foundation. In our view, a soft landing remains achievable if policymakers navigate these challenges carefully.



MACROECONOMIC THEMES

2024 – 2025 Themes

Labour Markets

Canada

Canada's labour market in 2024 experienced modest growth with mixed trends. The year began with 75,800 jobs created (a 37.6% year-over-year increase), but the unemployment rate rose to 5.9%, and job vacancies fell by 24,300 to 648,600.

Despite challenges in Q2, 115,700 jobs were added, nearing the total of the previous two quarters, while job vacancies dropped by 59,000 to 582,600 amid rapid population growth, intensifying competition for employment.

In Q3, we saw only 66,000 jobs added, though youth employment rose by 0.4 percentage points. December brought a strong finish with 91,000 jobs added, primarily full-time, lowering unemployment to 6.7% and keeping labour participation at 65.1%. Total hours worked rose by 0.5% month-on-month, and wages increased by 3.8% year-on-year, signaling positive labour market growth.

United States

In 2024, the U.S. labor market demonstrated resilience amid global uncertainties. The economy added an average of 186,000 jobs monthly. This marks a slight deceleration from the previous year's average of 251,000 but went back pre-pandemic levels, as the average in 2018/2019 was 185,000, showcasing the market's stability.

The unemployment rate concluded the year at 4.1% in December, reflecting a robust job market. The labor force participation rate remained stable, standing at 62.5% in December, consistent with figures since December 2023.

Initial jobless claims varied throughout the year, with 217,000 claims for the week ending January 11, indicating a healthy labor market. By November, claims decreased to 213,000, a seven-month low, underscoring employers' reluctance to reduce their workforce in a context of labor shortages.

Overall, The U.S. labor market in 2024 maintained steady growth while showing early signs of moderation, reflecting a resilient yet evolving economic landscape. Despite labor shortages, declining jobless claims and stable participation rates indicate continued employer confidence and workforce stability

2025 Outlook

Canada

The health and the growth of labour markets in the upcoming year will depend on several factors, the most important and sophisticated of which is without a doubt the political climate of North America.

With the threat of a weakened economic relationship, it is only reasonable to expect more challenges in terms of creating new employment opportunities in the Canadian economy, especially in sectors such as energy and manufacturing.

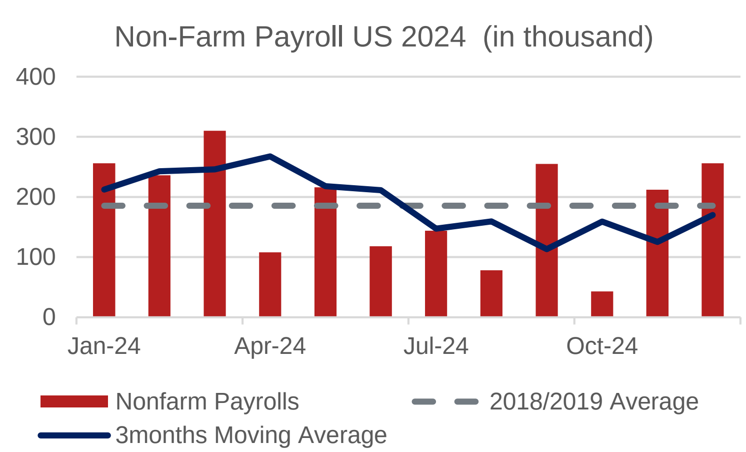
Moreover, with a continued move towards heightened automation driven by the AI boom, it seems to be the case that a lower growth rate should be expected for the service-focused sectors as well.

United States

In 2025, the U.S. labor market is projected to experience moderate growth, with an unemployment rate expected to stabilize at 4.4/4.5% for most of 2025. Goldman Sachs Research anticipates a 2.5% GDP growth, indicating a resilient economy.

However, an aging population and declining immigration are expected to constrain labor supply, potentially leading to worker shortages and increased wage pressures.

Additionally, proposed tariffs and immigration policies under the Trump administration may elevate inflation to 2.7% by December 2025, impacting both labor costs and consumer prices. Despite these challenges, sectors such as healthcare and technology are likely to continue driving employment growth.



Bureau of Labour Statistics, TD Economics, Goldman Sachs, WSJ, Statistics Canada

MACROECONOMIC THEMES

2024 – 2025 Themes

Fiscal Policy: 2025 Outlook

United States: For the coming year of 2025, Trump's election and inauguration signal a sharp redirect for the conduct US fiscal policy compared to under the Biden Administration, amid changing priorities and the issue of ballooning interest on the national debt. Looking over the 2025 horizon, the US is likely to continue the trend of an increasing deficit, absent aggressive cost-cutting measures. The implementation of tariffs could catalyze spending to bolster disaffected sectors. The clout and implications of the new Department of Government Efficiency – the scope of its powers and whether it will successfully cut its promised $2T – remains a point of uncertainty. Pundits suggest the Trump administration will attempt to amalgamate all of its policy goals – including tax cuts and larger military spending – into one large bill before May 2025. However, the degree to which the conventional established Republican opposition to unfettering the debt ceiling and fiscal expansionary policy will restrain President Elect Donald Trump's heavy spending remains unknown.

Canada: Canadian Finance Minister Chrysta Freeland's surprise resignation in mid-December amid US threats of tariff and the $6B GST holiday payment, combined with both Prime Minister Trudeau's subsequent resignation in early January and the prorogation of Parliament, signal a status quo for the short-term until the conduct of new elections between March-October, at which time we anticipate clarity on a new fiscal direction: continuity under the umbrage of a new Liberal Leader – Carney or Freeland as popular contenders – or under the mantle of a Conservative victory. The implementation of US tariffs could catalyze a fiscal net of spending to bolster affected sectors of the economy.

The election of a Liberal Government under Carney or Freeland would likely signal more of a status-quo or the implementation of a new social net or a sharpened focus on the economy amid the threat of tariffs, rather than abrupt fiscal redirect. A Conservative majority would use new savings from halted spending – on bureaucracy, foreign aid, and corporate welfare – to reduce the deficit and taxes. As a result of the prorogation of Parliament, it remains unclear if newly announced tax measures in the 2024 Fall Statement will be enacted. Separately, related to energy, a Conservative electoral victory would likely lead to reversing the carbon tax and the repeal Bill of C-69 that imposes stricter pipeline regulations. The implementation of US tariffs could catalyze a fiscal net of spending to bolster affected sectors of the economy.

Fiscal Policy: 2024 in Review

United States: In 2024, the US ran an average $150B monthly deficit, with increases in net interest payments in the past years now exceeding defence spending ($659B in 2023, and $1.16T in 2024). Outlays increased 10% ($617B). Social security benefits increased 8% due to higher benefit payments and Medicare increased 3.1% due to higher enrolment. The Department of Education registered a $268B outlay as a result of the Supreme Court prohibiting the cancellation of loans for borrowers. The Department of Defence expense increased 8% due to funds allocated for research and development. The FDIC registered a 59.5% decrease because of solving bank failures from March 2023, and net interest increased 33% from $710B to $949B due to higher interest rates.

In early November 2024, Republican Candidate Donald Trump won the elections. A Democrat victory was understood to signal controlled fiscal deficit growth with increases in heavy social spending and increase in tax hikes, whereas a Republican victory was to suggest either a deficit increase or fiscal austerity. In his early days in office, Trump has focused on dismantling Biden era legislation, pausing climate initiatives (2021 infrastructure law, health and his 2022 climate statute), towards loosening of regulation to enable business and energy production, and AI data centre investments. We anticipate further allocations to defence and border security spending.

Canada: Expansionary fiscal policy weakened Canada's financial anchors. In mid-December 2024, Canada released its 2024 Fall Economic Statement, which painted a bleak deficit picture with the country breaching some of its three financial anchors unveiled in 2023. These included a pledge to maintain the deficit under $40B; pursue a smaller ratio of debt-to-GDP; and, continue to keep a decreasing deficit-to-GDP ratio. The 2023-2024 deficit will surpass the 2024 Budget's $40B by a $22B because of one-time Indigenous-related litigation claims and unrecovered loans (16.4B) from during the COVID pandemic. This said, while the debt-to-GDP remains forecasted to decrease from 41.9% in 2024-25, to 38.6% in 2029-30, it is only 1% below its 2026 projections. Some significant spending items include: the Accelerated Investment Incentive for businesses ($17.4B over six years) and the earmarking of $15B for green data centres. In November 2024, the Liberal government proposed C$6.3 billion in new spending to assist consumers facing high prices. This includes a C$250 rebate for approximately 18.7 million Canadians and a temporary sales tax freeze on essential goods from December 14, 2024, to February 15, 2025.

Source: Bloomberg, USA Today, The Hill ,

MACROECONOMIC THEMES

2024 – 2025 Themes

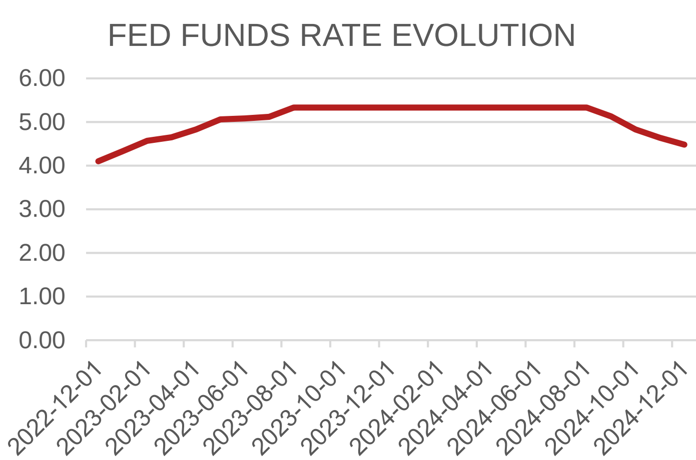
Review of 2024 Monetary Policy

In 2024, the Federal Reserve's monetary policy underwent a notable transition as it responded to evolving economic conditions. In contrast to 2023, when the Fed maintained its aggressive tightening cycle, keeping the federal funds rate at a restrictive range of 5.25% to 5.50% after 11 rate hikes since 2022, 2024 saw a shift towards monetary easing.

The Federal Open Market Committee (FOMC) implemented a series of rate cuts in the latter half of the year. On September 18, 2024, it reduced the target range by 50 basis points to 4.75%–5.00%, marking the first rate cut since 2020.

This decision was influenced by signs of a slowing labor market and moderated inflation, prompting the Fed to adopt a more accommodative stance to support economic growth. Subsequently, the FOMC continued its easing policy with a 25 basis point cut on November 7, 2024, bringing the target range to 4.50%–4.75%. The December 18, 2024 meeting saw an additional 25 basis point reduction, setting the target range at 4.25%–4.50%.

Throughout these adjustments, the Federal Reserve emphasized its commitment to data-dependent decision-making, closely monitoring indicators such as inflation and employment. As 2024 concluded, the Federal Reserve signaled a cautious approach for 2025, indicating that future policy actions would be guided by economic data and developments.



Federal Reserve Bank St Louis

2025 Outlook

In general, the consensus among economists and policymakers for 2024 is that two rate cuts will occur. Inflation is expected to stabilize at 2.5%, allowing for a gradual shift towards measures that promote economic growth. However, concerns about inflationary pressures persist, particularly due to pledges made by President Trump, including cross-border tariffs and extended tax cuts.

We anticipate that Treasury yields will continue to decline in 2025, with the Federal Reserve expected to cut the policy rate twice. Regarding interest rate cuts, we align with the market's expectations, anticipating two cuts in the second half of 2025. Should Trump follow through on his tariff promises, we foresee a halt to the current disinflationary period, which could prevent the Federal Reserve from proceeding with rate cuts. Consequently, we expect these rate reductions to occur in the latter half of the year, after the tariff situation becomes clearer.

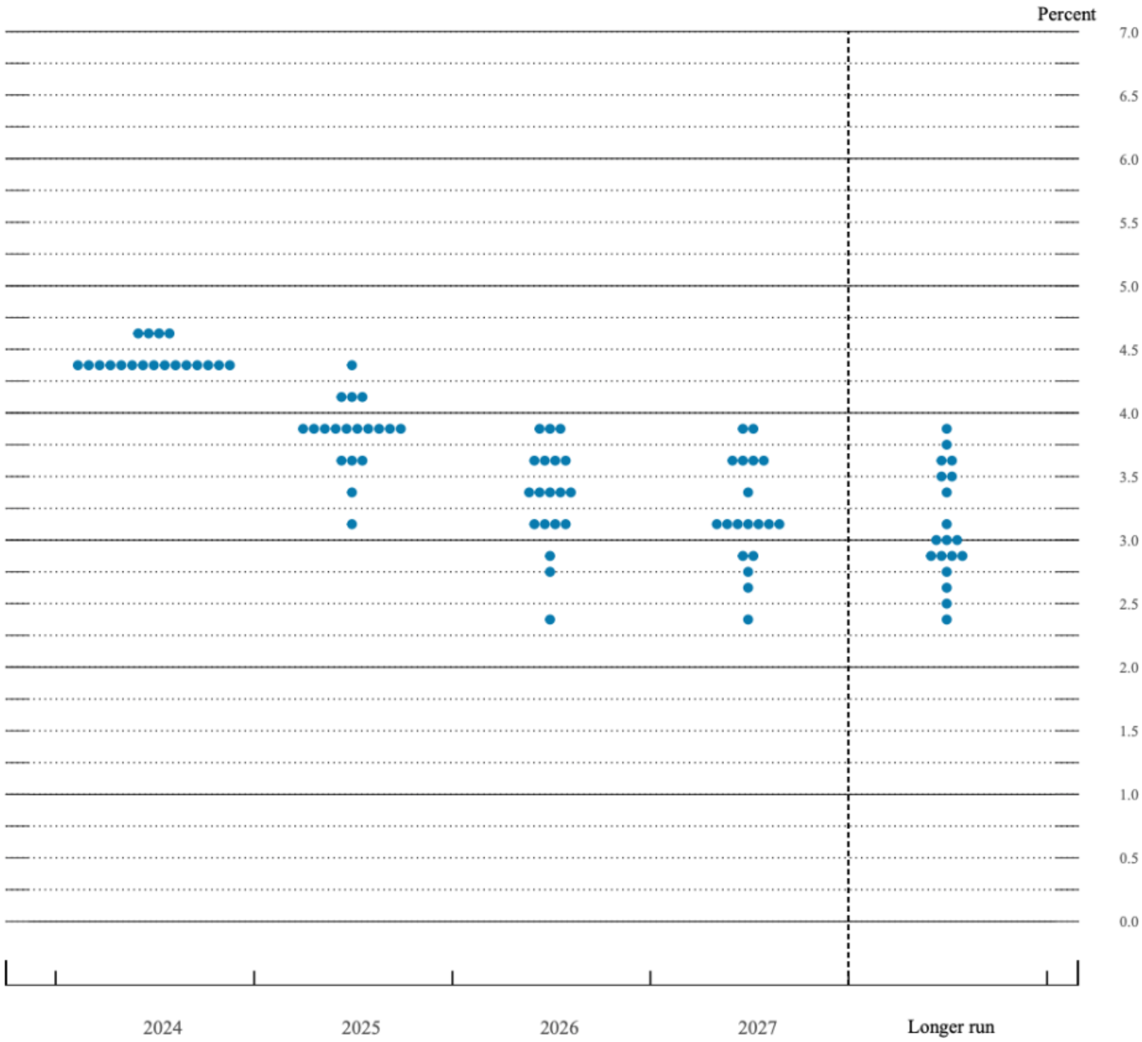
Many Federal Reserve officials, including Jerome Powell, have expressed the need for caution in implementing rate cuts. Persistent inflation is preventing the Fed from acting aggressively. While Trump has pushed for additional cuts, we believe the Fed will stick to its plan. They can justify this stance given ongoing inflation, as further cuts could exacerbate price pressures.

In Canada, we expect the Bank of Canada to continue cutting rates, ultimately reaching 2.25%. This is based on the expectation that Canadian inflation will fall to or below 2% by the end of the year and remain stable. The terminal rate of 2.25% will be reached through cuts in 2025. We expect financing costs in Canada to remain higher than pre-pandemic levels. That being said, we believe Canada will be more aggressive with rate cuts compared to the US, driven by rapid declines in inflation and weak economic conditions. Given these factors, the government is likely to implement rate cuts to stimulate the economy. Canada is known to be a nation which is aggressive with their rate cuts, and we expect that reputation to continue through 2025.

MACROECONOMIC THEMES

2024 – 2025 Themes

Dot Plot



In 2022, the Federal Reserve aggressively raised interest rates in response to surging inflation, which had reached its highest level in over four decades. Entering 2023, the Fed maintained its tightening approach to combat inflation, implementing three additional rate hikes before holding rates steady at 5.25%–5.50% toward the end of the year. These measures successfully cooled the economy and contributed to a decline in inflation.

For our 2024 outlook, we anticipated a shift toward monetary easing, expecting more than three rate cuts, as indicated in our previous year's report and the 2023 FOMC dot plot. In the end, our projections were accurate, as the Fed implemented three rate cuts throughout the year: the first by 50 basis points, followed by two additional 25 basis point reductions.

Looking ahead to 2025, we expect the Federal Reserve to continue cutting rates, adjusting its policy further in response to economic conditions. With the expectation of 50 basis points cuts by the end of 2025, expectations are that these cuts will come in the second half of 2025. The Federal Reserve will wait until they see inflation trending towards the 2.5% expected level.

Bloomberg, Federal Reserve

RISK MANAGEMENT

2024 REVIEW & 2025 OUTLOOK

Rifat Basade
Analyst

Laurana Gahou
Analyst

Yahya Ed-Dari
Analyst

Manya Benvidi
Analyst

David Poussard
A2 Head of Risk Management

Anubhav Singh
Analyst

Rick Yabuki-Soh
SRI Head of Risk Management

Risk Management

2024 SECTOR OVERVIEW

SRI PERFORMANCE

The Risk Management team is charged with monitoring the absolute and relative risk of our funds. We track standard risk metrics, as shown in the table below, measure individual holdings' contributions to portfolio risk, and estimate sensitivities to various systematic risk factors. If risk exposures become too concentrated, or tracking error too high, we may recommend a portfolio rebalancing to mitigate those risks.

Figure 1： SRI Risk Metrics

Portfolio Metrics 2024	Portfolio	Benchmark
2024 Return	15.25%	33.34%
Standard Deviation	10.35%	10.36%
Beta	0.84	1.00
Tracking Error	5.88%	--
Downside Deviation	6.62%	5.58%
Max Drawdown	-5.28%	-3.77%

In terms of currency risk, the SRI fund is 14.4% overweight USD vs. our benchmark, which we view as acceptable given that a two-standard deviation decline in the USD would translate to a 1.9% underperformance. In terms of market-cap exposure, we are largely inline with our benchmark with only a slight 5% overweight to small cap stocks.

Figure 2: SRI FX

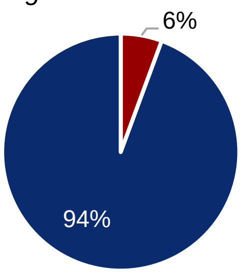
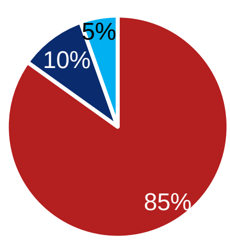


Figure 3: SRI Market Cap



SRI SECTOR RISK OVERVIEW

We also monitor our growth/value tilt versus benchmark. Overall, at 26 the SRI Fund's P/E ratio is in line with that of our benchmark. But the table below shows that we do have value tilts in some sectors and growth tilts in others. This is a risk we are willing to accept, and recognize that we are vulnerable to downward revisions in growth expectations in certain sectors, particularly IT and Communications.

Figure 4: SRI Sector P/E

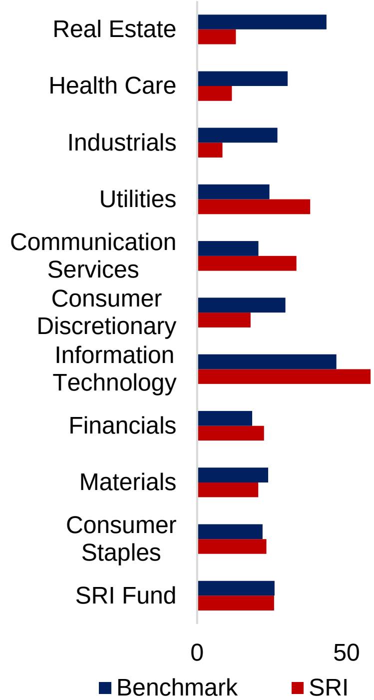
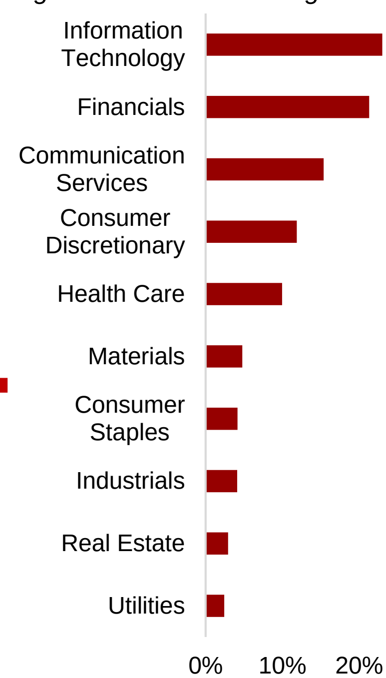


Figure 5: SRI Sector Weights



In terms of contribution to portfolio risk, Industrials, Materials, and IT are the top 3 sectors, but the metrics are not out of the ordinary.

Risk Management

2024 SECTOR OVERVIEW

A2 PERFORMANCE

The table below summarizes risk metrics for the Alpha Squared Fund in 2024.

Figure 6：SRI Risk Metrics

Portfolio Metrics 2024	Portfolio	Benchmark
2024 Return	13.40%	27.28%
Standard Deviation	8.84%	9.17%
Beta	0.9	1.00
Tracking Error	4.93%	--
Downside Deviation	5.50%	5.36%
Max Drawdown	-3.93%	-2.54%

In terms of FX risk, our current portfolio is overweight USD by 24.8%, which would lead to a 3.3% underperformance for a USD two standard deviation depreciation. Going forward, we will look to divest from certain US positions and reallocate to Canadian stocks to reduce our tracking error. In terms of market cap exposure, we have a slight overweight of 6.5% in Large cap stocks.

Figure 7: Alpha Squared FX

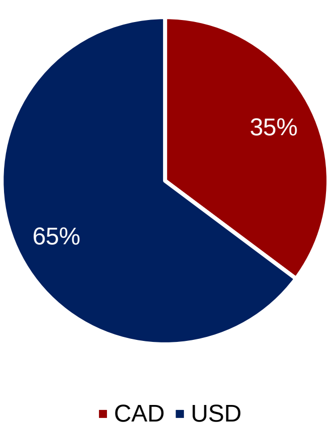
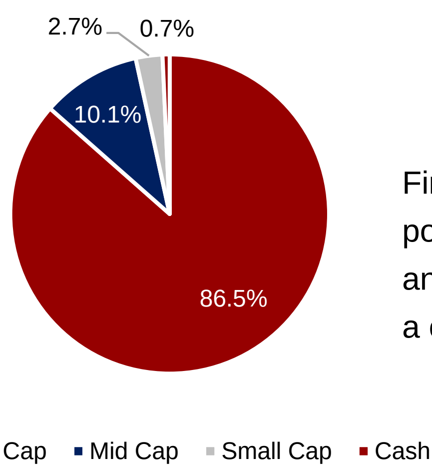


Figure 8: Alpha Squared Market Cap



A2 SECTOR RISK OVERVIEW

Looking at the Alpha Squared Fund's valuation, our total P/E ratio is in line with our benchmark (30.7 vs 29.8). On a sector basis, our real estate, communications and consumer discretionary stocks are relatively expensive due to our focus on data centers, Spotify, biotech and pharma, which all cary higher P/Es than their industry average.

Figure 9: Alpha Squared Sector P/E

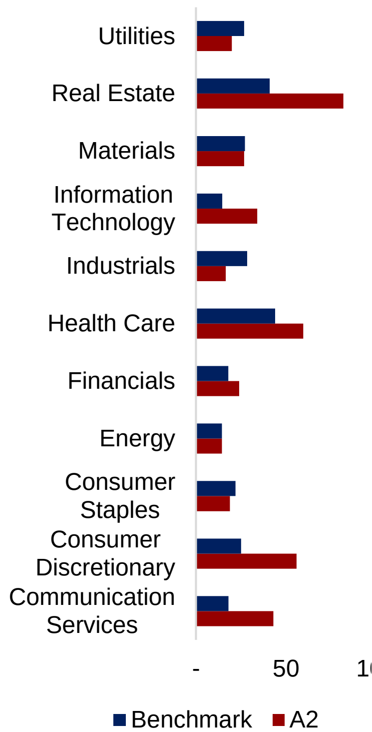
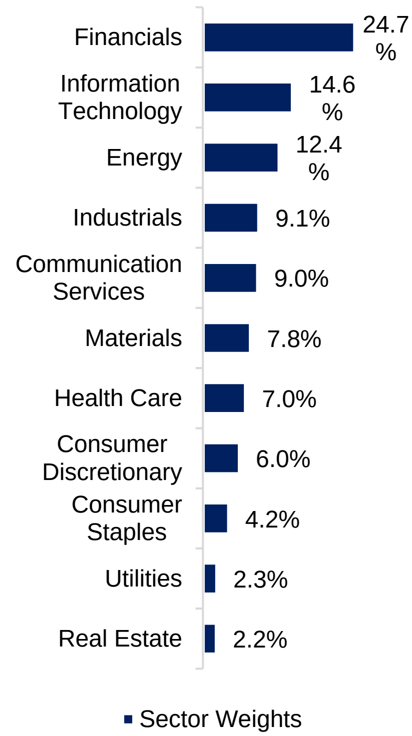


Figure 10: Alpha Squared Sector Weights



Finally, the sectors with the highest contribution to portfolio risk are Technology, Healthcare, Materials and Financials, in line with our convictions, and not a cause for concern.

RISK MANAGEMENT

SCENARIO ANALYSIS

FACTOR SENSITIVTIES

Figures 11 and 12 summarize how our exposure to various systematic risk factors would affect our relative performance to our benchmarks. Based on a regression analysis, we estimate our funds' factor exposures (Betas) to six factors: S&P 500, Gold, Inflation Rates, USDCAD, Oil, and an AI ETF factor. Next, we do the same for our benchmarks. We then compute the difference in fund vs. benchmark exposure to each factor (Beta Differential). Finally we multiply that Beta Differential by a one standard deviation annual move for each respective factor.

For example, we see that the Alpha Squared fund has a slightly positive Beta differential with respect to the AI factor. A one standard deviation increase in the AI factor over the year results in the fund outperforming the benchmark by 1.61%, all else equal. Conversely, if the factor decreases by one standard deviation, the fund would underperform the benchmark by the same 1.61%, all else equal. Overall, we note that our funds' Beta Differentials are all close to zero, indicating that we don't have any particular differential exposure to the six risk factors.

Figure 11：Alpha Squared Fund Relative Factor Exposure

Factors	BETA Differential	STD - Annualized	Deviation
SPX	0.15	12.62%	1.86%
GOLD	-0.03	14.36%	-0.49%
IR	0.00	11.40%	-0.03%
Crude Oil	-0.06	27.25%	-1.69%
AI	0.10	16.78%	1.61%
USD/CAD	-0.14	4.37%	-0.61%

Figure 12：SRI Fund Relative Factor Exposure

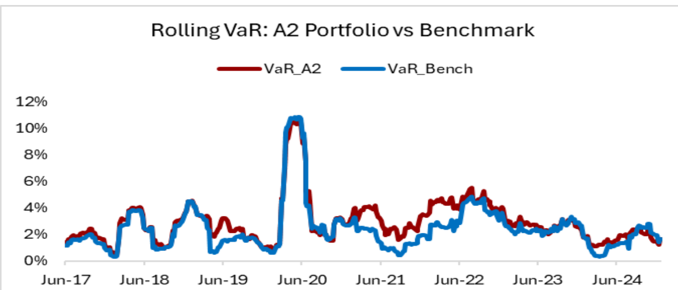
Factors	BETA Differential	STD - Annualized	Deviation
SPX	0.05	12.62%	0.59%
GOLD	-0.02	14.36%	-0.29%
IR	0.05	11.40%	0.55%
Crude Oil	-0.01	27.25%	-0.17%
AI	0.04	16.78%	0.72%
USD/CAD	-0.05	4.37%	-0.21%

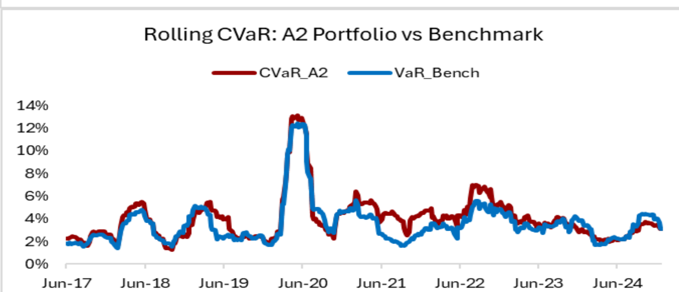
Risk Management

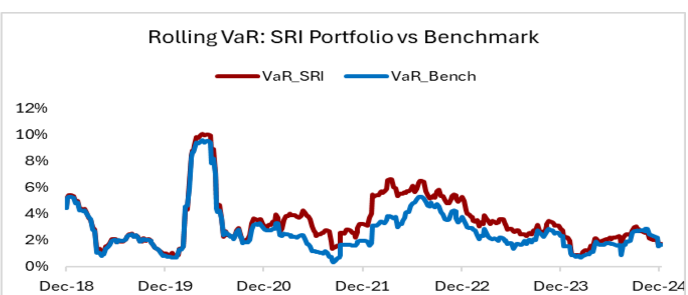
2025 SECTOR KEY DRIVERS & OUTLOOK

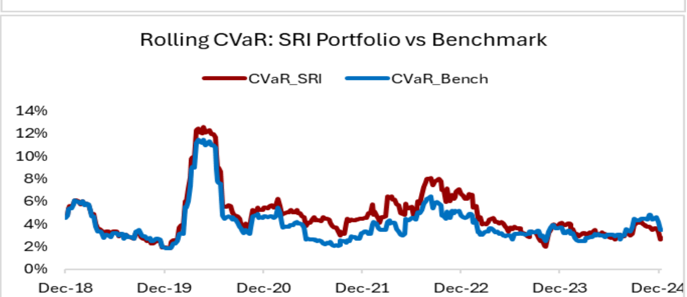
Rolling VaR and Expected Shortfall

Two key risk metrics that we follow closely are Value-at-Risk and Expected Shortfall. Here, we computed a rolling version of both metrics since inception with a window of 16 weeks. In both cases, we observe that we have been following the market closely, except for 2020-2021 and the gap has been narrowing since. Finally, we observe that our SRI portfolio is slightly more exposed to tail risk than A2, having a higher VaR and CVaR.









GLOBAL GEOPOLITICAL RISK

Global instability is rising as alliances shift, trade tensions grow, and political uncertainty disrupts multinational operations. Geopolitical conflicts, trade policy shifts, and civil unrest are key drivers, with 99 countries experiencing increased political risk. Election irregularities in 2024 have further heightened instability in markets like Mexico and Sri Lanka. U.S. tariffs—25% on Mexican and Canadian imports, 10% on Chinese goods—are fragmenting global trade, impacting countries such as China, Germany, and India. Companies seeking supply chain alternatives in Mexico and Vietnam face new political risks, requiring reassessment of diversification strategies

The impact of these geopolitical and economic shifts varies across industries. In the consumer discretionary sector, companies like Nike and Lowe's are facing rising costs due to their reliance on supply chains in China, Mexico, and Canada. Similarly, consumer staples companies such as PepsiCo and Mondelez International are experiencing increased raw material costs due to tariffs. The energy and industrial sectors, including firms like Chevron and Delta Airlines, are also seeing higher operational and input costs. Meanwhile, financial institutions such as the Royal Bank of Canada, as well as real estate firms like Equinix, are experiencing indirect effects from economic and trade disruptions. However, some sectors remain more resilient. Utilities companies like Boralex and IT firms such as EPAM Systems are relatively insulated from international trade dynamics, allowing them to weather the risks more effectively.

As global geopolitical risks continue to evolve, businesses must adapt their strategies to navigate growing instability, economic fragmentation, and trade disruptions.

Monitoring our portfolios' exposure to trade risk, relative to that of our benchmarks, will be an important risk management task in the year ahead.

SUSTAINABILITY

2024 REVIEW & 2025 OUTLOOK

Arushi Sood
Co-Chief Sustainability Officer

Nicole Miehm
Co-Chief Sustainability Officer

SUSTAINABILITY

2024 Review

Overview

In 2024, sustainable finance in the United States navigated a complex landscape shaped by political shifts, regulatory uncertainty, and evolving market dynamics. With Donald Trump's return to the presidency, concerns over the future of climate policies, including the Inflation Reduction Act, led many financial institutions to reassess their sustainability commitments. Some banks and asset managers scaled back their net-zero pledges, reflecting broader market apprehensions about regulatory rollbacks and shifting investor sentiment. Despite these challenges, green banks experienced notable growth, with organizations working to allocate billions in federal grants toward sustainability initiatives, particularly in underserved communities. However, the credibility of sustainability-linked financial instruments came under scrutiny, as concerns over weak accountability mechanisms and potential greenwashing surfaced, raising broader questions about the integrity of ESG financing frameworks. Policymakers also focused on developing a standardized taxonomy for sustainable investments to enhance transparency and align financial flows with long-term climate objectives. While both US & Canada faced distinct challenges, the broader trend underscored the growing importance of regulatory clarity, investor confidence, and institutional accountability in shaping the future of sustainable finance.

Anti-ESG Movements and Politicization

The re-election of President Donald Trump in 2024 has intensified the politicization of Environmental, Social, and Governance (ESG) principles, leading to a significant shift in corporate and regulatory landscapes. Trump's administration has expressed plans to modify or dismantle key components of President Joe Biden's Inflation Reduction Act (IRA), particularly those related to clean energy incentives. Despite this, major oil companies such as Exxon Mobil, Phillips 66, and Occidental Petroleum have urged the administration to retain certain provisions of the IRA that provide tax credits for low-carbon energy projects essential to their renewable fuels and carbon capture investments. While some bipartisan-supported elements of the IRA may survive, crucial aspects such as electric vehicle tax credits and clean energy financing programs face potential reductions or elimination. Corporations are bracing for a Republican-controlled Washington by reassessing their ESG and diversity initiatives. For instance, Goldman Sachs has withdrawn from the Net-Zero Banking Alliance, and Walmart has scaled back its diversity policies under pressure from conservative activists. Additionally, states like Ohio have passed anti-ESG legislation, such as Senate Bill 6 (SB6), which prohibits state-managed funds from considering ESG factors in investment decisions.

Supporters argue that these measures prioritize financial returns, while critics warn they could overlook long-term material risks. The backlash against ESG has prompted companies to adjust their strategies, often downplaying or rebranding their ESG efforts to align with the shifting political climate. Sustainability professionals remain committed despite growing challenges, emphasizing the need for resilience and strategic adaptation. Trump's opposition to ESG is rooted in his broader philosophy of deregulation, prioritization of traditional energy sectors, and skepticism toward climate change initiatives. As businesses navigate this evolving environment, the future of corporate sustainability efforts will depend on their ability to balance regulatory pressures with long-term environmental and social objectives.

Record-Breaking Year for Climate Reporting

Despite growing anti-ESG rhetoric from conservative politicians, a record number of companies voluntarily reported on social and climate metrics in 2024. As of September 1, 2024, 86% of S&P 500 companies disclosed workforce and race data, while 85% of US large-cap firms disclosed greenhouse gas emissions data, representing respective increases of 5% and 31% from 2019. Over 95% of the world's largest 250 companies had published a carbon reduction target by the end of 2024. Moreover, nearly 75% of reporting companies' disclosures comply with either the Global Reporting Initiative or Task Force on Climate-Related Financial Disclosures and adoption of the Sustainability Accounting Standard Board framework continues to grow. These figures substantiate that ESG target-setting and reporting have become normal business practices for most large companies.

This trend in voluntary disclosure highlights the increasing importance of ESG issues to investors and regulators and comes alongside mounting evidence around the costs of climate inaction. The majority of ESG problems are inherently business problems so it is in the best interest of companies to address them. Boston Consulting Group (BCG) has estimated the net cost of climate inaction to be a 10 to 15% loss in global GDP by 2100. However, financial and operational losses can be mitigated if sufficient precautionary action is taken, with BCG estimating that each $1 invested in climate risk mitigation can produce up to $19 in return.

The increase in ESG reporting observed in 2024 reflects a growing recognition among businesses that transparency on social and environmental issues is essential for maintaining investor confidence, meeting regulatory expectations, and driving long-term value creation.

Sources:

SUSTAINABILITY

2024 Review

Most Emissions and the hottest Year Ever

The year 2024 stands as a stark reminder of the worsening climate crisis, with global average temperatures consistently exceeding 1.5°C above pre-industrial levels for 16 of the past 17 months, marking it as the hottest year on record. November alone saw temperatures 1.62°C above pre-industrial levels, according to the Copernicus Climate Change Service (C3S). While the El Niño phenomenon temporarily amplified global temperatures, the primary driver remains the relentless rise in greenhouse gas emissions. Fossil fuel-related carbon emissions reached an unprecedented 41.6 billion tonnes in 2024, with no signs of peaking, as confirmed by the Global Carbon Budget presented at COP29 in Baku. This record-breaking year underscores the urgent need for sweeping and immediate climate action, as rising temperatures lock in devastating long-term impacts on ecosystems, weather patterns, and communities worldwide, with intensifying disasters like Hurricane Milton highlighting the escalating human and economic toll of climate change.

Looking ahead to 2025, a shift toward La Niña is expected to bring slightly cooler conditions, yet the year will still likely rank among the three warmest ever recorded. The persistence of high greenhouse gas concentrations ensures that global temperatures will remain elevated despite short-term climate variations. Reports from the International Energy Agency (IEA) suggest that while energy emissions may peak in 2024 and decline in subsequent years, the pace of reduction remains far too slow to limit warming to the Paris Agreement's 1.5°C target.

A Series of COP Disappointments

The COP29 conference, held in Baku, Azerbaijan, from November 11-22, 2024, highlighted ongoing challenges and frustrations in international climate talks, emphasizing the growing gap between promises and actions. One of the most debated issues was climate finance. Developing nations, particularly vulnerable countries in the Global South, called for $1.3 trillion annually by 2030 to address the urgent need for mitigation and adaptation. However, the final agreement fell far short, committing only $300 billion annually by 2035. This lack of funding drew strong criticism, with the African Group of Negotiators calling it "too little, too late." Many developing countries were left questioning whether wealthier nations are serious about supporting equitable climate solutions.

The conference also failed to make progress on phasing out fossil fuels. Key oil-producing nations, such as Saudi Arabia, blocked any mention of phasing out fossil fuels in the final agreement, stalling efforts to tackle one of the most urgent causes of global warming. This inaction was made worse by the influence of the fossil fuel industry, with over 1,700 representatives attending COP29, showcasing their significant sway over climate policy.

Controversy also arose around efforts to advance carbon markets under Article 6.4 of the Paris Agreement. Rules for global carbon trading were rushed through without proper discussion, prioritizing market-based solutions over fair and sustainable alternatives. Critics argued that these rules would let wealthy nations and corporations avoid cutting their own emissions by offsetting them through projects in developing countries. This raised fears of a "carbon loophole," where big emitters could continue polluting while appearing to meet targets. Concerns were also raised about potential harm to local communities and the environment, as some offset projects could displace people or degrade ecosystems. The lack of clear accountability and transparency in how carbon credits are generated and verified further fueled doubts about whether the system would lead to real climate benefits or simply allow the status quo to continue.

Geopolitical issues made negotiations even more difficult. The election of a climate-skeptic U.S. president created uncertainty, with fears of another withdrawal from the Paris Agreement. Many key leaders from wealthy nations skipped the conference, and some delegations from developing countries walked out during final talks, highlighting the deep divisions in climate diplomacy. Azerbaijan, a fossil fuel-reliant country, was criticized as an unsuitable host, symbolizing the contradictions within the COP process.

Important issues, like the Loss and Damage Fund created at COP27 to help countries hit hardest by climate disasters, saw little progress. A planned review of the fund's structure was delayed until COP30, leaving vulnerable nations in a difficult position. Similarly, discussions on the just transition work program and the link between climate and oceans, including human rights considerations, were postponed, further undermining trust in the process.

These setbacks, combined with the lack of concrete outcomes, led many to view COP29 as a major disappointment. Critics questioned whether the COP framework could still deliver meaningful climate action. Some delegates expressed frustration at the missed chance to keep the 1.5°C global warming target within reach. Overall, the conference has been widely criticized as a step backward in the fight against climate change, raising serious concerns about the future of global climate negotiations.

Clean Tech and Energy Transition

Renewable energy equities soared to new heights in 2024, driven by stronger climate policies, rapid technological innovation, and robust capital inflows. Global investment in renewables reached USD 1.3 trillion, which represents a 18% year-over-year increase, overtaking the USD 1.1 trillion record set in 2023.

Solar and wind power dominated capacity additions, with the International Energy Agency reporting a total of 390 gigawatts of

Sources:

SUSTAINABILITY

2024 Review and 2025 Outlook

new installations worldwide, marking a 15% jump from the previous year. Those developments propelled the S&P Global Clean Energy Index to a 31% annual gain, significantly outpacing the broader S&P 500, which rose by 11% in the same period.

Electric vehicles (EVs) also posted remarkable growth, underscoring a rapidly maturing clean-mobility market. Worldwide EV sales exceeded 15 million units in 2024, an increase of 36% year-over-year, which was fueled in part by a 9% reduction in battery costs and the expansion of charging infrastructure in key markets. Government incentives and emissions regulations played a pivotal role in spurring adoption, prompting major automakers to accelerate their transition toward electric fleets.

Building on that momentum, several macro-level factors emerged as key drivers of those record-breaking trends. Carbon pricing mechanisms significantly enhanced the economics of renewable power projects; in the European Union, the average Emissions Trading System allowance price reached EUR 88 per metric ton by year-end, up 12% from 2023. That uptick encouraged both utilities and heavy industries to shift toward low-carbon solutions. Lastly, investor demand for ESG-aligned assets rose in tandem, with global net inflows to sustainable funds totaling USD 475 billion, which is 23% higher than the previous year.

companies, further reinforcing the move toward unified sustainability reporting frameworks.

In the United States, the Securities and Exchange Commission (SEC) updated Rule 35d-1, commonly known as the "Names Rule." The amendments require funds with ESG-focused names to ensure at least 80% of their assets align with stated sustainability criteria. This update aims to prevent misleading fund names and enhance investor protection. Canada also advanced its ESG agenda with Bill C59, further strengthening its regulatory framework.

Despite these advancements, 2024 also saw challenges in sustaining and implementing ESG regulations. In the EU, the introduction of the “Omnibus” rule aimed to streamline directives like the CSRD and CSDDD but sparked concerns about potentially weakening their standards. German ministers, for instance, called for postponing and reducing the CSRD's scope. Similarly, the EU Deforestation Rule (EUDR), initially intended to block goods linked to deforestation, faced delays, with implementation postponed by two years.

In the United States, the SEC Climate Rule, approved in early 2024, faced immediate legal challenges and was suspended pending a court decision. Political uncertainties, including the possibility of a Trump presidency and the

Regulations and Reporting Requirements

The year 2024 was marked by significant developments in sustainability-related regulations and reporting requirements, showcasing both progress and challenges. Several new laws and standards were introduced globally to promote ESG compliance, while some existing frameworks faced delays and resistance.

California set a major precedent with its Climate Disclosure Law, requiring companies to report on climate emissions and risks starting in 2026. This law survived legal challenges and inspired similar bills in four other U.S. states. The California Air and Resources Board further demonstrated a collaborative approach by initiating consultations to refine policy details, with the comment period open until early 2025.

In Europe, the landscape expanded with the Corporate Sustainability Due Diligence Directive (CSDDD), mandating companies to address social and environmental risks in their supply chains by 2027. Additionally, the Corporate Sustainability Reporting Directive (CSRD) is set to take effect in early 2025, ensuring enhanced corporate transparency. The EU also introduced the ESG Ratings Regulation, which requires providers to disclose methodologies and address conflicts of interest starting mid-2026. The International Sustainability Standards Board (ISSB) gained global momentum, with over 30 jurisdictions, including the UK, aligning with its standards. The UK government announced plans to adopt ISSB climate standards for UK-based

2025 Outlook

As we step into 2025, sustainability in finance will continue to gain momentum as regulatory and market pressures, investor demand and social equity drive greater integration of ESG factors. Financial Institutions are expected to expand and increase their supply of sustainable investment products, continue to align portfolios with the net-zero target and enhance their disclosure frameworks such as those by the ISSD and TCFD. The continuous rise of impact investing and green bonds will also further accelerate funding for projects addressing decarbonization, renewable energy and social equity initiatives. Financial institutions that incorporate sustainability as a key driver of innovation and growth will position themselves best for long-term value creation in addition to further developing their competitive advantage.

The energy transition in 2025 will be defined by a balancing act between policy and market forces. While clean technology remains a cornerstone of decarbonization, geopolitical uncertainty and economic pressures may divert attention toward energy security and affordability, potentially slowing the pace of clean energy targets. Despite these challenges, investments driven by market demand, particularly in data center expansions and renewable energy projects, will continue to shape the global energy landscape. At the same time, we anticipate a more challenging policy environment. Elections held in the United States have set the stage for a dynamic geopolitical landscape in 2025. The incoming

Sources:

SUSTAINABILITY

2024 Review and 2025 Outlook

administration's focus on fossil fuel dominance and deregulatory actions could disrupt progress on climate goals. Such as, Trump's proposed tariffs of 10% - 20% on all goods coming into the US will significantly impact the climate action targets. America is currently the world's leading importer of EVs, however, these tariffs would make many electric vehicles more expensive in the US, potentially resulting in slower adoption rates. Yet, counterbalancing this are the growing commitments at the state, local, and corporate levels, where sustainability efforts continue to drive innovation and resilience.

In addition, a major change in 2025 reporting standards, let by the European Commission's Corporate Sustainability Reporting Directive (CRSD), is set to significantly increase sustainable investment by improving transparency and accountability. This legislation requires large companies and SMEs across the EU to disclose real-world and quantitative impact from their practices, helping to combat greenwashing and align businesses with a lower-carbon future. This enhanced reporting will provide investors with more reliable and comparable data, allowing them to make greater informed decisions and confidently provide capital into real sustainable ventures.

SRI Fund - Carbon to value invested in tons of CO2e/ $M invested

To ensure our SRI Fund continues to align with our thematic investment approach and supports the ongoing transition to net-zero emissions, the sustainability team has decided to retain the carbon efficiency metric introduced last year. This metric evaluates the carbon efficiency of our portfolio by calculating total carbon emissions normalized per million dollars of portfolio value, using the following formula:

$$\sum\left(\frac{\frac{\textit{Current value of investment}}{\textit{EV including cash}} \times \textit{Issuers's scope 1 and 2 GHG emissions}}{\textit{Current portfolio value (\$ in million)}}\right)$$

The DCM SRI Fund has demonstrated strong performance, achieving a metric of 29.77 compared to the S&P 500 at 35.45. The S&P/TSX Composite Index reports a higher metric of 58.22. Notably, the DCM SRI Fund's carbon efficiency remains competitive, closely aligning with the S&P 500 Efficient Index at 27.65, further reinforcing its position as a leader in ESG-driven investment strategies.

Carbon to Value invested in tons of CO2e/$M invested	
S&P 500	35.45
S&P/TSX Composite Index	58.22
S&P 500 Efficient Index	27.65
SRI Fund	**29.77**

Sources:

QUANTITATIVE STRATEGIES

2024 REVIEW & 2025 OUTLOOK

Jianyu Niu
Analyst

Nicolas Dansereau
Co-Head of Quantitative Strategies

Yiching Peng
Analyst

Laurana Gahou
Analyst

Florentin Belfio
Co-Head of Quantitative Strategies

Chang Liu
Analyst

Anubhav Singh
Analyst

Yiwen Yang
Analyst

Jingyi Chen
Analyst

Sehajpreet Lubana
Analyst

Zhengchao Wang
Analyst

Julius Xanthoudakis
Analyst

Ann Zhang
Analyst

Samuel Lachance
Analyst

QUANTITATIVE STRATEGY

Introduction

Quant Screens at DCM

At Desautels Capital Management, we use quantitative strategies as a stock screening tool for our Alpha Squared Fund. The goal is to narrow down a large universe of stocks into a more manageable selection. From this narrowed list, each sector team identifies the most promising stocks and conducts further fundamental and quantitative analysis to find high-potential investments for our funds.

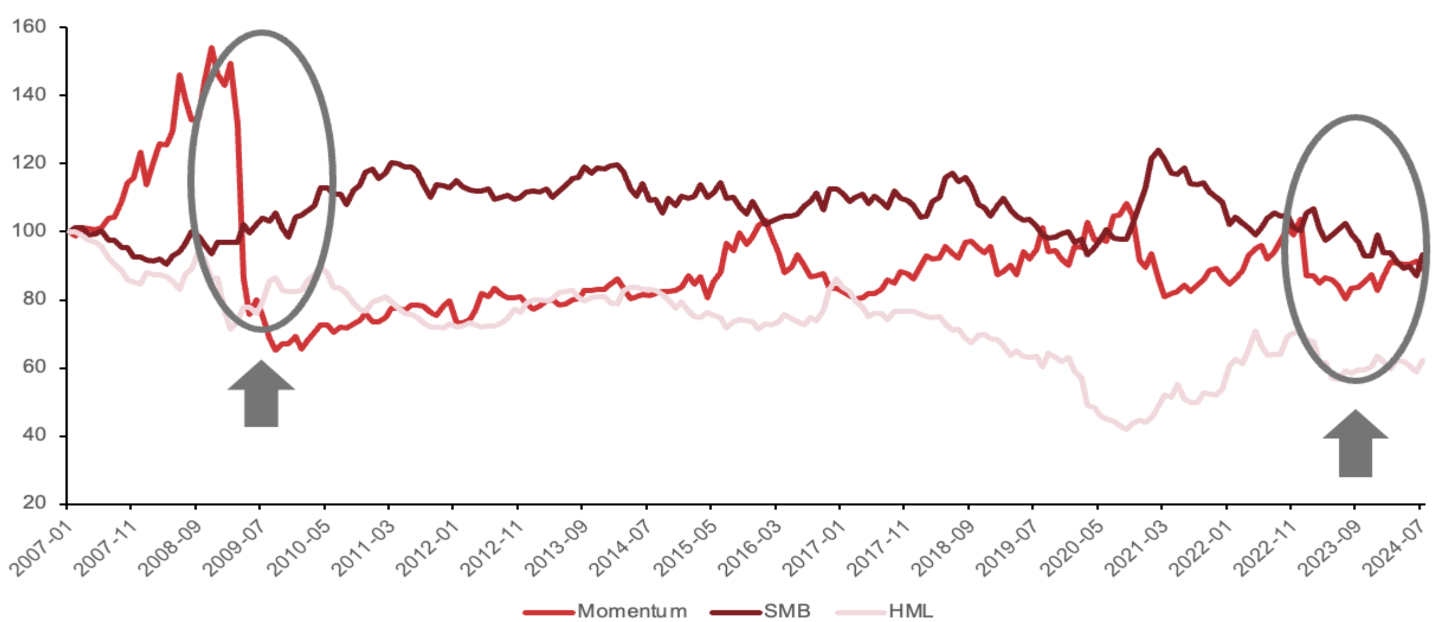
In the past, we've implemented several quantitative strategies. The fund initially adopted a **multi-signal strategy** that ranked stocks according to several financial metrics, focusing on those with the lowest P/E ratios, lowest volatility, and highest profitability (based on ratios such as margins). This approach helped us target undervalued stocks with solid performance potential. Most recently, we implemented a **momentum strategy** based on the principle that stocks with strong past performance tend to continue to outperform, and vice-versa. In our A^2 fund, we focused primarily on relative sector performance, with only the top third of sector performers over the past 12 months passing the screen.

Adapting Strategy to Market Conditions

However, our analysis of historical performance revealed that the momentum strategy tends to perform poorly after major market downturns. This was evident following the 2008 financial crisis and again at the end of 2022, when markets rebounded from a crash. In these periods, the strategy lagged because it was short stocks that had performed poorly during the downturn but rebounded strongly afterward. Recognizing similar market conditions in 2022, we made the decision to exit the momentum strategy—a choice that ultimately proved advantageous.

In the past year, quantitative strategies have evolved, and the ones based on AI and Machine Learning (ML) have become increasingly popular in finance due to their ability to process large volumes of data, uncover complex patterns, and make predictions with higher accuracy than traditional methods. One of our Finance Professors at Desautels, Ruslan Goyenko, developed a Quant Strategy using **Large Language Models** (LLM)[1]. This strategy aims to extract sentiment from a company's Management Discussion & Analysis (MD&A) and other filings to quantify the likelihood of the company beating earnings in the upcoming quarter.

Figure 1: Momentum Historical Performance Compared to Other Classic Strategies



[1] *Article "Can AI Read the Minds of Corporate Executives?"*

QUANTITATIVE STRATEGY

Analysis and Future Work

Current Model & Experimental Results

The first step of the algorithm is to extract the MD&A, the risk factors and the current EPS from the 10-K and 10-Q filings of all U.S. public equities. The model, which utilizes a fine-tuned version of BERT (FtBERT), is then trained to identify patterns linking language in these filings to future earnings surprises. Ultimately, the model assigns a score to each company's filing, indicating the probability of an earnings beat in the next quarter, thereby predicting potential market movements based on historical linguistic data trends.

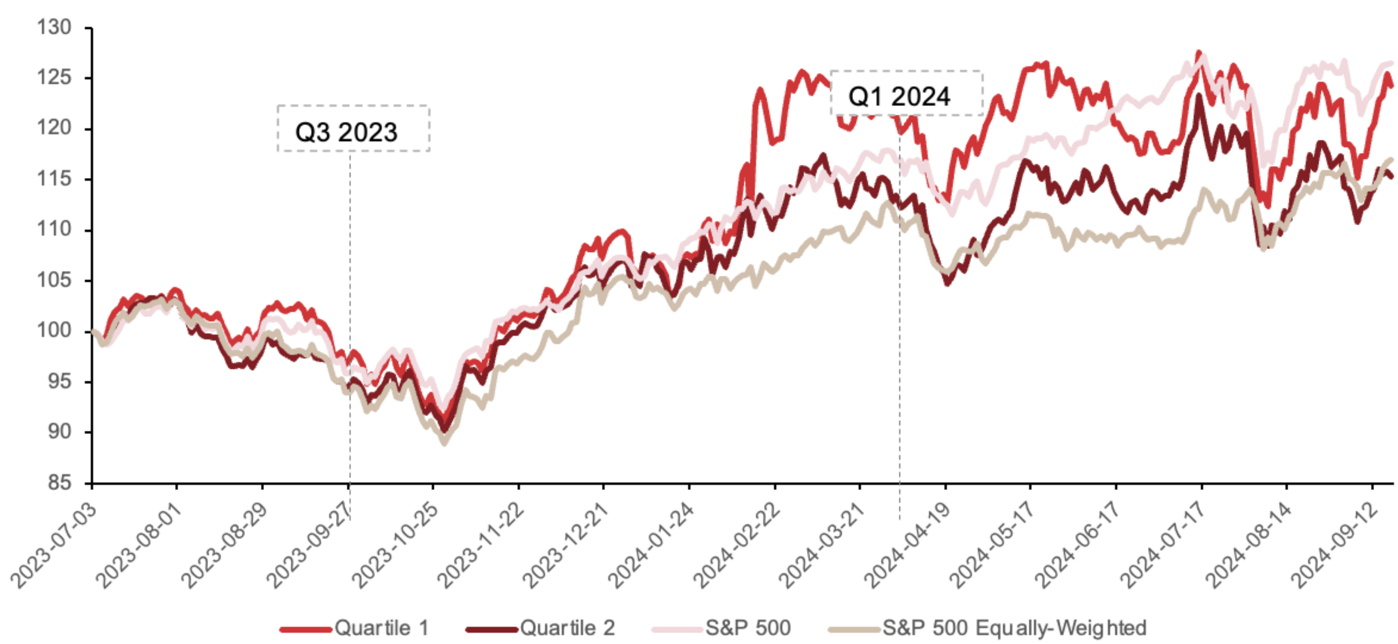
We conducted an out-of-sample backtest of the strategy using the two data sets available: the filtered stocks from the model in Q2 2023 and Q4 2023. We classified the stocks into quartiles based on their probability of beating earnings next quarter. The 1st quartile comprised stocks with the highest probability of earnings surprise and the 4th quartile contained those with the lowest. Based on this limited sample, our findings showed no significant outperformance for the strategy over the S&P 500 over the period of interest, highlighting the importance of continuing to refine the model for improved predictive accuracy.

Continuous Refinement & Future Work

More recently, we've been working on the implementation of a strategy from the article *"Man versus Machine Learning: The Term Structure of Earnings Expectations and Conditional Biases"*. This article explores a Machine Learning approach using random forest regression to forecast firms' earnings more accurately than traditional methods or analysts' estimates. It leverages ML to create an unbiased benchmark for earnings expectations, yielding insights that can help investors avoid overpriced stocks and understand managerial behaviors related to stock issuance.

Our primary focus for 2025 will be to develop a highly effective stock screening tool by combining a Large Language Model (LLM) strategy with the machine learning approach from 'Man versus Machine.' This integration will enable us to process diverse data sources, such as market sentiment, financial reports, and economic indicators, to refine a broad stock universe into a targeted selection. By leveraging the strengths of both strategies, we aim to enhance the precision and efficiency of our stock analysis, setting a strong foundation for better investment decisions.

Figure 2: Backtesting Results of the Current A2 Screening Method



COMMUNICATION SERVICES

2024 REVIEW & 2025 OUTLOOK

David Poussard
Analyst

Marc Kassis
Analyst

Gianni Mahut
Analyst

Sep Azizi
Analyst

Yi Ching Peng
Analyst

Rutwik Hebalkar
Analyst

Arushi Sood
Analyst

COMMUNICATIONS

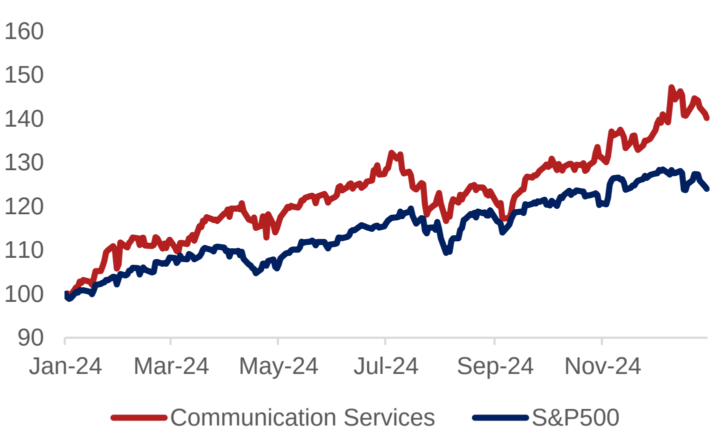
2024 SECTOR OVERVIEW

BENCHMARK PERFORMANCE

The S&P 500 Communication Services sector total returns for the year 2024 amount to **40.16%,** outperforming the S&P500 by 16.15%. The sector was ranked first amongst the other ten CIGS sectors.

Perhaps unsurprisingly, similar to the year before, the sector's performance in 2024 was strongly tied to the excitement surrounding "The AI Revolution". The continuous integration of AI into areas such as digital marketing and advertising, as well as digital content creation fueled the performance of stocks such as META (+65%) and NFLX (+84%). Moreover, the sector experienced yet another wave of cost-cutting efforts backed by the increased productivity generated by the integration of AI tools into the production processes all across the sector.

2024 was also a pleasant year for communications stocks who were not as closely affected by the AI rally as those who stand on the intersection of technology and communications. For instance, American telecom giant AT&T (+36%) was one of the top-performers of the sector as the company continued to expand its fibre optic network. Moreover, the company partnered with Ericson to expand its 5G network. This proved highly beneficial by helping the company achieve one of its most successful years in terms of wireless subscriber figures.

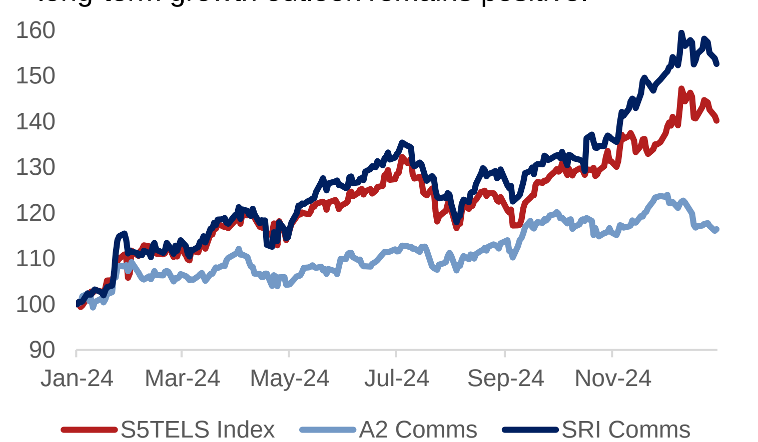


2024 DCM SECTOR PERFORMANCE

The communications sector at DCM experienced mixed performance in 2024. The SRI Fund outperformed the S5TELS Index by 12%, whereas the A2 Fund lagged behind, delivering a return of 16% compared to the S5TELS return of 40%.

The SRI portfolio's strong performance was driven by holdings such as Alphabet and Netflix. Alphabet's stock appreciated significantly, fueled by advancements in AI and a rebound in digital advertising. Netflix benefited from its investment in original content, including NFL games, and the introduction of an ad-supported subscription model, which attracted new subscribers and bolstered the stock's performance.

In contrast, the A2 Fund’s returns were modest, with Verizon as the sole exposure within the communications sector. Verizon underperformed relative to peers due to strong competition, including market share losses driven by aggressive pricing strategies and robust 5G adoption by competitors. Spotify, a recent addition to the A2 Fund, experienced a minor decline in December following a year of impressive gains — up 125% in 2024 — as investors booked profits. Despite the short-term dip, Spotify's long-term growth outlook remains positive.



Source: Bloomberg

COMMUNICATIONS

2024 SECTOR OVERVIEW

SUBSECTOR PERFORMANCE

The Communication Services sector faced a mixed performance in 2024. Despite challenges in Telecommunications and Media, which struggled with heavy capital expenditures, competitive pressures, and the decline of traditional formats like cable TV and publishing, Interactive Media and Services and Entertainment drove overall growth. Interactive Media thrived on AI integration, digital advertising recovery, and innovative product launches, while Entertainment saw strong gains in streaming and sports content, offsetting weaker performance in gaming and traditional cinema. Digital transformation, AI-driven innovation, and cost management emerged as key themes shaping the sector's evolution.

TELECOMMUNICATION

In 2024, the telecommunications subsector underperformed the broader communication services sector, potentially because of the outsized performers such as Meta and Google, with 70% and 37% returns, respectively; heavy capital expenditures required to build network infrastructure; high competition that compressed profit margins; and slower times in digital transformation compared to tech companies in the sector. However, the performance gap narrowed in the latter part of the year as more defensive constituents like AT&T and T-Mobile showed improvement. The late-year resurgence has been driven by increased adoption of premium 5G plans, gains in the postpaid phone segment market share, and renewed investor interest in telecom infrastructure driven by AI-related demand. There were also major mergers and acquisitions in the US telecom industry, with Verizon acquiring Frontier Communications for a deal valued at $20 billion, that further reshaped the competitive landscape.

ENTERTAINMENT

The entertainment subsector in 2024 has seen a strong consolidation phase in the streaming segment where participants are now bundling their offerings with competitors to reduce churn rate and improve ARPU, while trying to diversify their revenue streams with live content, ad-supported plans and even games. Streamers are also getting involved in sports content, driving the distribution rights up 65% on average and hurting cable TV companies even more. This has driven the sector's overperformance in the first half of the year. Meanwhile, traditional cinema has been slowly recovering from the strike's delays of 2023 but has yet to come back to 2019 Box office levels. For the gaming segment, free-to-play mobile gaming is stronger than ever, accounting for 85% of the industry's massive revenue (10x more than movie or music). The second half of the year has been more difficult with several lawsuits in streaming, antitrust issues in music and sports, failed merger attempts of studios, weak release slate for gaming and uncertainty towards subscriber growth and overall impact of industry changes. Still, the sector finished the year strong, thanks to economic tailwinds in favor of the market.

INTERACTIVE MEDIA & SERVICES

The Interactive Media and Services subsector in 2024 saw exceptional growth, driven by advancements in artificial intelligence, a robust recovery in digital advertising, and significant innovation from industry leaders Meta Platforms and Alphabet. These factors propelled the subsector to outperform both the broader Communication Services sector and the S&P 500, solidifying its role as a key driver of digital transformation. Meta Platforms' stock surged by about 69% during the year, reflecting its success in AI and strengthening its leadership in digital advertising.

COMMUNICATIONS

2024 SECTOR OVERVIEW

A key milestone was the launch of Llama 3.2, a multimodal large language model that enhanced ad targeting and content personalization, significantly boosting advertising efficiency and ROI. AI also became central to Meta's product strategy, culminating in the announcement of the Ray-Ban Meta Smart Glasses in September, which showcased real-time object recognition and translation capabilities. This announcement drove a 6% jump in Meta's stock, underlining investor confidence in Meta's innovation. Despite these successes, the Reality Labs division continued to post significant losses, exceeding $16 billion by Q3, as Meta remained committed to long-term investments in AR/VR. Meta also executed workforce reductions as part of its "year of efficiency," improving margins and reinforcing operational discipline. Alphabet delivered steady growth in 2024, driven by its strengths in AI, digital advertising, and the expanding role of Google Cloud. In December, the company launched Gemini 2.0, an advanced generative AI platform with multimodal and agentic capabilities, integrated across Search and Cloud services. This milestone bolstered Alphabet's stock by 7% as investors anticipated its revenue potential. Google Cloud played a pivotal role in Alphabet's diversification strategy, benefiting from enterprise demand for generative AI solutions powered by Gemini 2.0 and the sixth-generation Trillium TPUs. These TPUs delivered a 4.7x performance improvement, enabling the training and deployment of large-scale AI models and reinforcing Google Cloud's position as a leader in AI infrastructure. However, the company faced mounting regulatory pressures, with the U.S. Department of Justice proposing remedies in its antitrust case, including the potential divestiture of Chrome. The subsector faced challenges from regulatory scrutiny, intensifying competition in AI, and slower adoption of AR/VR technologies.

Nonetheless, the Interactive Media and Services subsector ended 2024 as a standout performer, driven by transformative AI integration, innovative product launches, and operational efficiencies, underscoring its pivotal role in the evolution of the digital economy.

MEDIA

The media subsector continued to underperform relative to the broader communication index in 2024, driven by investor pessimism and the decline of traditional media formats. The P/E ratio fell to 10.61, significantly below 17.11 in 2019, as cable TV, publishing, and broadcasting continued to struggle against streaming disruption. U.S. cable TV subscribers dropped below 60 million, with further declines expected to 47.8 million by 2027. In the second half of 2024, wireless and broadband services began to stabilize, aided by 5G adoption and fixed wireless expansion. While cable TV continued to decline, broadband services saw a modest recovery, as consumers still valued their high-speed internet options. Layoffs remained prevalent, though slightly lower than 2023's peak of 20,324, as companies adjusted to revenue pressures. Broadcasting saw a temporary lift from political ad spending, but overall advertising revenues remained weak due to economic challenges. Meanwhile, digital advertising through Connected TV (CTV) and programmatic platforms grew, benefiting from AI-driven targeting. Regulatory pressures also increased, with Canada requiring foreign streamers to contribute 5% of revenues to local content. While digital transformation and AI-driven personalization offer some growth potential, declining legacy revenues and intensifying competition continue to weigh on the subsector's outlook.

COMMUNICATIONS

2025 SECTOR OUTLOOK

GENERAL OUTLOOK

Across all subsectors, we believe that Interactive Media and Services is poised to lead the sector in 2025, driven by AI innovation, digital advertising growth, and immersive consumer engagement. Telecommunications is expected to make strides with 5G expansion and industry consolidation , though high costs remain a challenge. Entertainment will benefit from streaming and sports programming, although headwinds persist in gaming and traditional cinema. Meanwhile, Media continues to face pressure from declining traditional formats, with modest gains in digital adoption providing some relief.

TELECOMMUNICATION

The subsector is anticipated to witness a robust M&A market. Major deals include T-Mobile's $4.4 billion acquisition of US Cellular, aimed at enhancing network coverage in rural areas, and Verizon's ongoing acquisition of Frontier Communications, which will add 2.2 million fiber subscribers to its portfolio. A pro-deregulation policy, likely to be resurfaced under new leadership at the FCC, is expected to accelerate consolidation efforts within the industry as by easing regulatory constraints. The expansion of 5G networks will remain a focal point, driving increased adoption across sectors and enabling advancements in speed, latency, and connectivity. This will support the growth of transformative technologies like IoT, AR, and VR, with applications in industries such as healthcare, automotive, and entertainment. Furthermore, companies are beginning to explore the potential of 6G technology, which is expected to redefine connectivity capabilities and lay the groundwork for the next wave of technological innovation.

INTERACTIVE MEDIA & SERVICES

The Interactive Media and Services subsector in 2025 is expected to advance rapidly as AI transforms advertising, user engagement, and enterprise solutions. Meta Platforms will rely on AI innovations to deepen ad personalization and improve efficiency, capitalizing on its dominant platforms, while exploring new AI applications in content creation and user-driven features to enhance engagement further.

However, its heavy investments in AR/VR will need clearer consumer adoption paths to justify long-term value, particularly as competition for attention in immersive technologies grows. Alphabet will focus on integrating Gemini 2.0 across its ecosystem and using Trillium TPUs to scale generative AI capabilities, solidifying its leadership in enterprise AI and cloud services. Meanwhile, shifts in advertising toward interactive and AI-driven formats, including immersive experiences and predictive analytics, could reshape revenue streams and consumer engagement models. Regulatory pressures, particularly in the form of antitrust rulings, remain a critical risk for Alphabet's Search and advertising business and could constrain operational flexibility.

On January 20, 2025, a Chinese open-source large language model called Deepseek was released, shocking the market with its ability to achieve performance comparable to ChatGPT and Gemini at a fraction of the typical development cost—reportedly requiring only $5.6 million to train an advanced AI chatbot. This announcement led to a 4% decline in Alphabet's stock, as Gemini is seen as a direct competitor, while Meta's stock saw a modest increase.

COMMUNICATIONS

2025 SECTOR OUTLOOK

Deepseek's emergence signaled that companies no longer need to invest billions of dollars to develop competitive AI models, raising concerns over the capital efficiency of large-scale AI spending. This could pressure both Google and Meta to scale back their capital expenditures on AI hardware and redirect investments toward software development or other strategic divisions. Notably, Meta, which had planned to spend $60 billion in 2025 to launch Llama 4.0, may revise its budget downward in response to Deepseek's disruptive entry. However, skepticism remains regarding the validity of Deepseek's claims, and industry analysts continue to assess its true capabilities before drawing definitive conclusions

ENTERTAINMENT

The Media & Entertainment sector has been, and will likely continue to be, roiled by technological disruptions. Business models, distribution channels, and content formats are expected to continue evolving in response to the changes in consumers' preferences. Sector participants' ability to capitalize on shifting distribution and consumption trends will likely dictate clear winners in the space. Advertising will remain healthy, led by sports programming and next-generation streaming, but the secular divide between legacy media and digital platforms will continue to widen. Traditional Pay TV subscribers in the U.S. will drop below 50 million in 2025—less than half of what they were just a decade ago. From a creative perspective, AI has further penetrated the TV and film sectors, where practical, easy-to-implement use cases with measurable outcomes will lead the way in 2025. But we don't expect the technology to replace human talent; it should only enhance creative output.

Finally, we believe consolidation will continue for streaming companies, as they try to become competitive and reach sustainable profitability. This will require a continued effort in cost management, at a moment where big tech rivals are doubling down on content creation.

MEDIA

The media subsector will face major changes in 2025, driven by technological disruptions. Traditional business models remain under pressure, and the ability to adapt to shifting consumer behavior and competition will determine which players thrive. Innovation and digital transformation will be critical for navigating this evolving landscape. Advertising remains a key revenue driver, fueled by Connected TV (CTV) and programmatic advertising, though the gap between linear broadcasting and digital platforms will widen. Regulatory changes, such as Canada's mandate requiring foreign streamers to fund local content, add complexity. In the U.S., Pay TV subscriptions are projected to fall below 50 million, reinforcing the cord-cutting trend. However, broadband services will remain vital for cable providers, offering a competitive edge over fixed wireless solutions. Meanwhile, publishing will continue shifting toward subscription models and multimedia content, though piracy and declining print revenues remain challenges. Broadcasting will struggle, as political ad spending declines post-2024 elections and streaming platforms fragment audiences. To stay competitive, companies must focus on cost management and consolidation. Ultimately, success in 2025 will depend on balancing traditional strengths with forward-looking innovation, seizing opportunities while managing ongoing challenges.

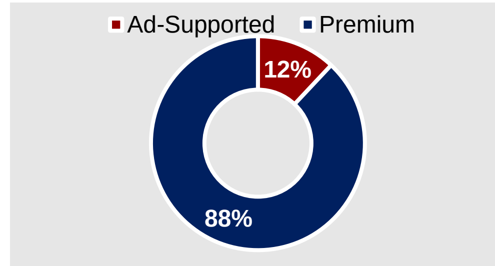
SPOTIFY TECHNOLOGY (SPOT: NYSE)

Media & Entertainment

Company Overview

- Spotify is the world's leading music streaming platform with one-third of the global streaming market and operates in 184 countries, serving a massive user base of 640 million Monthly Active Users. 40% are Premium subscribers, while the rest use Spotify's ad-supported free tier.
- **Ad-Supported Free Tier** – Attracts a large user base with ad-supported content; monetized through ads
- **Premium Subscription Tier** – Ad-free experience, offline downloads, and higher audio quality

Revenue Breakdown



Investment Theses

1. Undervaluation of the Growing User Base

– High user growth potential in untapped markets
– Attracting new users with growing offering (Podcasts and Audiobooks)
– User attraction with more features, more personalized experience

2. Several factors leading to increase in profitability

– Price increase capability based on diversified products, and market position (lowest churn rate and highest market share)
– Increase in Spotify bargaining power with labels due to change in the industry, decreasing royalties to be paid and increasing the importance of data collection
– Increase in ad revenue with Spotify Ad Exchange eliminating third-party suppliers + potential new 1€ plan for developed markets

Financial Ratios

Metrics (LTM)	SPOT	Comps
EV/EBITDA	97.39	14.11
P/E	135.90	23.55
EPS	$3.53	$14.76
P/S	6.02	4.36
EBITDA Margin	9.60%	33.78%

Catalysts & Risks

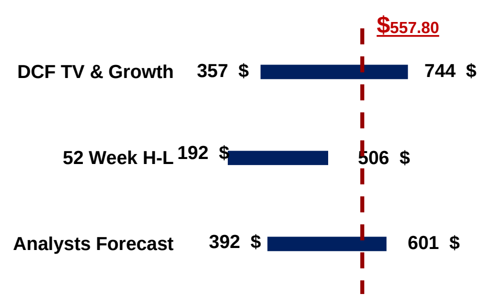
Catalysts

- *New automated Spotify Ad Exchange*
- *Unique & personalized user experience*
- *Recently became financially profitable*

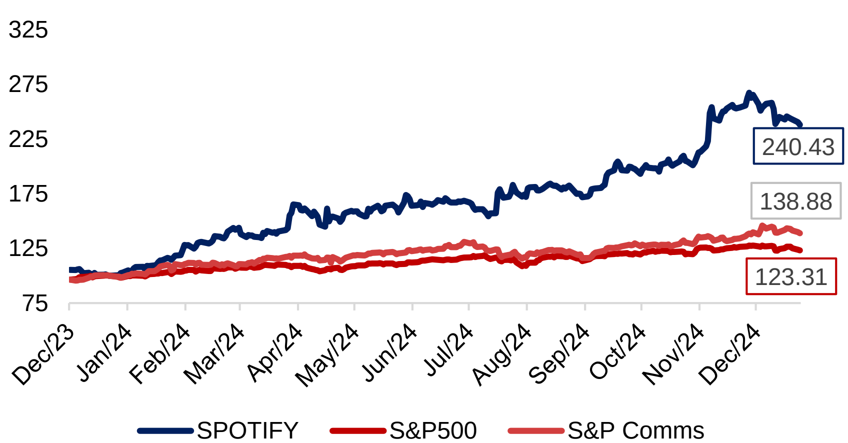
Risks

- Royalty costs still form a significant portion of the operating expenses and artists are concerned about the small payments received
- Ambiguous stance on free speech vs content moderation
- Successfully monetizing streaming data
- Reliance on premium subscribers for revenue

Valuation Summary



1 Year Stock Performance



Source: Bloomberg, Company Filings, Nasdaq

Position Summary

Rating	Buy
Price Target	$ 557.80
Price Dec-31	$447.38
Acquisition Date	2024-12-17
Shares SRI – A²	N/A (SRI) 113 (A²)
Holding Period Return SRI – A²	N/A (SRI) -1.48% (A²)
Excess Return SRI – A²	N/A (SRI) 0.43% (A²)
Portfolio Weight SRI – A²	N/A (SRI) 2.56% (A²)

CONSUMER

2024 REVIEW & 2025 OUTLOOK

Alix Chilla
Analyst

Chris Neibert
Analyst

Arthur Deng
Analyst

Sidaq Bhan Singh
Analyst

Sara Eddaki
Analyst

Marie-Soleil Moulot
Analyst

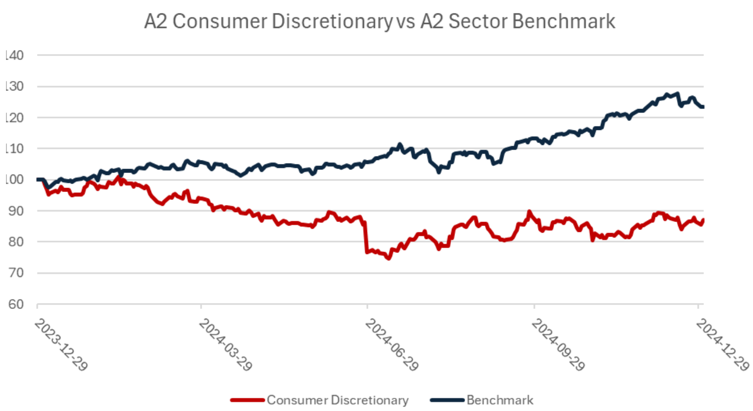
Ann Zhang
Analyst

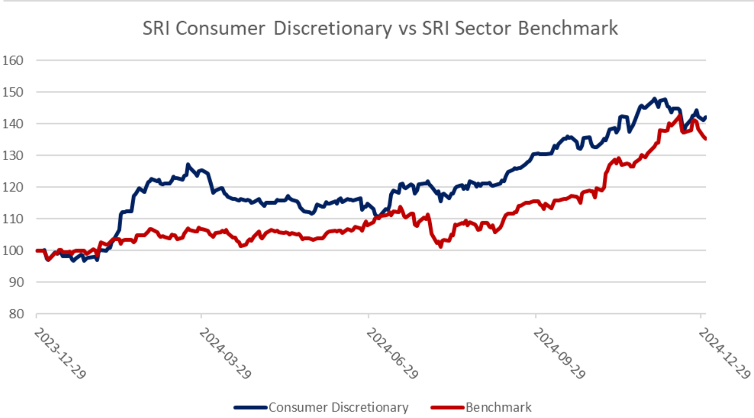
CONSUMER DISCRETIONARY

2024 Review

General Overview

The S&P 500 Consumers Discretionary sector delivered a return of 23.4% in 2024, overperforming the broader S&P 500 index by 6.1%. Meanwhile, the S&P 500 Consumers Staple sector delivered a return of 21.7% in 2024, underperforming the overall S&P index by 10.1%. The Alpha Squared Fund's Consumer Discretionary sector had a return of –13.0%, while the Consumer Staples sector had a return of –1.4%. The SRI Fund's Consumer Discretionary sector had a return of 42.18%, while the SRI Fund's Consumer Staples sector had a return of 0.4%.





2024 DCM Sector Performance

The Alpha Squared Fund's Consumer sector performance was largely driven by Spinmaster (TSE: TOY), as TOY ended the year with an 2.8% decline. Spinmaster unfortunately consistently underperformed throughout the year, with declining revenues and its digital games segments to explain it. Spinmaster's declining revenues came largely from increased competition from alternative platforms. Moreover, the digital games segment had lower in-app purchases than projected, which accounts for Spinmaster's second largest segment. The weaker engagement levels in digital gaming reflected shifts in consumer spending habits and intensified competition from larger mobile gaming companies.

The Alpha Squared Fund's other Consumer holding is Nike (NYSE: NKE) was the primary detractor from sector performance, ending the year with a 30.3% decline. NKE, a leader in American footwear and apparel, experienced a sharp revenue contraction due to the declining sales in Asian markets, with increased competition from fast-growing brands like Hoka and On. Nike also had difficulties with excess inventory, forcing Nile to rely on discounted strategies to clear stock, which weighted on margins. The brand's efforts to recalibrate its supply chain and optimize inventory management are still ongoing.

In the Alpha Squared Fund, Lowe's delivered relatively stable performance in 2024, demonstrating resilience despite a challenging housing market and moderating consumer spending on home improvement. Lowe's benefited from a steady stream of repair and maintenance activity, which provided a buffer against broader industry downturns. Additionally, the company's operational efficiencies and cost-control measures helped support profitability, even as revenue growth remained subdued.

In late 2024, we added Topgolf Callaway (NYSE: MODG) to the Alpha Squared Fund. Topgolf Callaway delivered a modest stock performance of 0.6%, and we initiated our position at 7.95 USD per share.

Source: Bloomberg

CONSUMER DISCRETIONARY

2025 Outlook

Consumer Discretionary

The 2024 outlook for the consumer discretionary sector presents a mixed picture, influenced by macroeconomic trends and policy changes.

Inflation rose slightly to 2.9% in December, but the slowdown in core inflation hints at potential future rate cuts. However, this is counterbalanced by a stronger-than-expected Employment Report for December, suggesting that any rate cuts may be delayed. The interplay of these factors creates uncertainty around consumer spending power and borrowing costs, which are critical for discretionary purchases.

Substantial tariffs on imported goods are expected to drive up prices within the sector, potentially dampening consumer demand. Companies may face pressure to either absorb these costs, reducing margins, or pass them on to consumers, risking lower sales volumes. Firms with diversified supply chains or strong brand loyalty may be better positioned to navigate these challenges.

The average P/E spread between the Consumer Discretionary Index and the S&P 500 Index is 4.5, while the current spread is at 5.6. This wider spread suggests that the sector is relatively undervalued, possibly reflecting investor caution given the mixed economic signals.

Overall, the consumer discretionary sector faces headwinds from tariffs and inflation, but potential rate cuts and strong employment could provide support. Investors should remain cautious, monitoring economic indicators and policy developments closely.

Automobiles & Components

The Automobile & Components subsector, part of the Consumer Discretionary sector, has faced significant challenges due to various macroeconomic factors, including the COVID-19 crisis, high interest rates, inflation, and rising labor costs. The global pandemic in 2020 led to a 16% decline in world auto production, while increasing interest rates caused a 7.7% rise in car loan delinquencies, marking the highest level since 2010. Additionally, labor strikes by the United Auto Workers (UAW) further intensified pressures on the industry.

The subsector has experienced high volatility, with a beta of 1.896 and a standard deviation of 5.712, both significantly higher than the broader Consumer Discretionary sector's beta of 1.234. Currently, it holds a 14.76% weight within the sector but has suffered a year-to-date decline of 15.96%. The price-to-earnings (P/E) spread of 3.88 is notably below the historical average of 5.64, suggesting that the subsector may be undervalued.

Over the past 15 years, the sector has shown significant growth, with the SP500-2510 index increasing by 676.29%, while the SP500-25 index has grown by 121.37%. However, more recent performance has been weaker, with year-to-date losses of 14.47% and a one-year decline of 18.66%. The sector has been weighed down by ongoing supply chain disruptions, rising labor and material costs, continued strike activity, and the impact of high interest rates.

Looking ahead, the outlook for the Automobile & Components subsector is considered underweight. Historically, auto spending tends to increase when mortgage rates decline but remains unchanged when rates rise. A notable factor influencing potential future trends is the COVID-era refinancing boom, during which 14 million homeowners refinanced their mortgages between spring 2020 and late 2021. Of these, 5 million took cash-out refinancing, withdrawing an average of $82,000. This contributed to a $1.5 billion auto spending stimulus between 2015 and 2017, raising the possibility that a similar pattern could emerge again in the coming years.

Distribution & Retail

In 2025, the retail sector is expected to face a complex landscape characterized by both challenges and opportunities. Economic factors, including easing inflation, may provide some relief to consumers; however, overall consumer confidence is projected to remain weak, potentially impacting spending behaviors.

Retailers are anticipated to continue integrating physical and digital channels to enhance customer experiences. The adoption of technologies such as automation and artificial intelligence is likely to accelerate, aiming to improve operational efficiency and meet evolving consumer demands for value and convenience.

Despite these advancements, the industry may encounter significant hurdles. A wave of store closures is projected, with major retailers like Macy's and Walgreens planning to shutter numerous locations in response to shifting consumer preferences and economic pressures.

Additionally, issues such as shoplifting continue to pose challenges, prompting retailers to seek innovative solutions to mitigate losses without compromising customer experience.

Overall, while the retail industry in 2025 is poised to leverage technological innovations and adapt to changing consumer behaviors, it must also navigate economic uncertainties and operational challenges to sustain growth and resilience.

Consumer Durables & Apparel

The outlook for the consumer durables subsector remains pressured by a combination of economic uncertainty, evolving consumer preferences, and strained personal savings. On the outdoors and leisure equipment front, sales of large ticket durables items, like RVs and sporting vehicles, were weak throughout 2024 and will likely continue to struggle into 2025 if discretionary spending remains subdued. The homebuilder industry struggled in the second half of 2024 reversing its strong start to the year, as the outlook for housing became more clouded by interest rate uncertainty. This weakness is anticipated to persist in 2025, as the market is pricing in the likelihood of stickier inflation and slowing rate cuts. In the apparel space, up-start brands are pressuring the market share of incumbents, whose popularity and brand value are under threat. This trend will likely continue into 2025, as the larger brands attempt to rebuild brand loyalty and ramp up product innovation. The shift away from larger dominant brands reflects a subsector-wide trend of evolving consumer preferences and shifting purchasing behaviors. The social media age has provided a more dynamic marketing platform, enabling smaller, more nimbler alternatives to gain popularity and challenge the traditional players. This bifurcation among apparel names highlights the mercurial nature of consumer brand preferences, and brand popularity will continue to be a major theme in 2025. In China, household spending continues to be a headwind that has pressured the luxury and apparel subsectors. However, the Chinese government's announcement of a sizable stimulus program in the Fall of 2024 is a possible catalyst that could spur Chinese consumer spending in 2025. Overall, low to moderate growth in the subsector is plausible, contingent upon easing inflation, rebounding consumer confidence, and a Chinese rebound.

Sources: Bloomberg, S&P Global Intelligence, JP Morgan, Fidelity, McKinsey

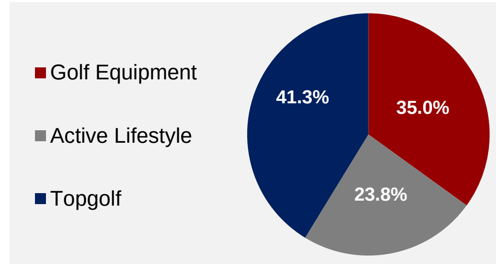
TOPGOLF CALLAWAY (NYSE: MODG)

Consumer Durables & Apparel

Company Overview

Topgolf Callaway is a leading company in the golf and sports entertainment industry. In 2021, Callaway, a prominent golf equipment and apparel brand, merged with Topgolf, a company that operates innovative driving range venues offering entertainment, dining, and social experiences. This merger created a diversified company that now operates across multiple segments: golf equipment, leisure apparel, and Topgolf venues. With a market cap of approximately $1.5B, Topgolf Callaway operates globally, although primarily generates revenue in the well-established North American golf market.

Revenue Breakdown



Investment Theses

1. The Separation of Topgolf and Callaway Will Unlock Value

The separation of Topgolf and Callaway will unlock value by aligning their capital structures, improving resource allocation for each business. This move will allow for more focused management and operational efficiencies. Additionally, the spin-off will clarify the distinct value propositions of each company, enhancing market understanding and investor confidence.

2. Topgolf Is Well Positioned To Capture Growth Through Golf's Changing Demographics And International Rise

Expanding participation globally will broaden Topgolf's addressable market, while the increasing involvement of women, traditionally underrepresented in golf, will drive future growth. Additionally, off-course golf as a leisure activity offers an opportunity to attract new golfers, further expanding Topgolf's customer base

Financial Ratios

Metrics (LTM)	MODG	Comps
EV/EBITDA	8.6x	17.6x
P/E (NFY)	58.4x	25.1x
Rev. Growth	3.1%	4.5%
Div. Yield	0%	0.88%
Profit Margin	-0.29%	3.29%

Catalysts & Risks

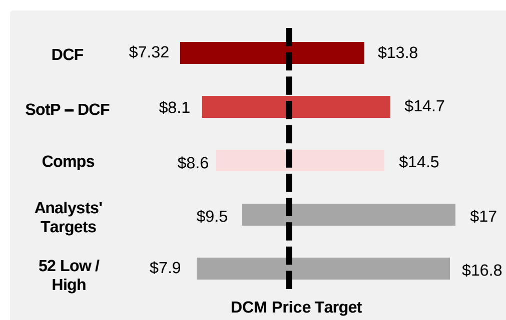
Catalysts

- **Topgolf Separation:** The companies are expected to split in Q2 2025, which could be a major turning point in the firm's recovery, as the market will better appreciate the value that each segment brings
- **Interest Rate Cuts:** If the Federal Reserve continues to lower interest rates, it could help alleviate pressure on the consumer and take pressure off Callaway's debt load

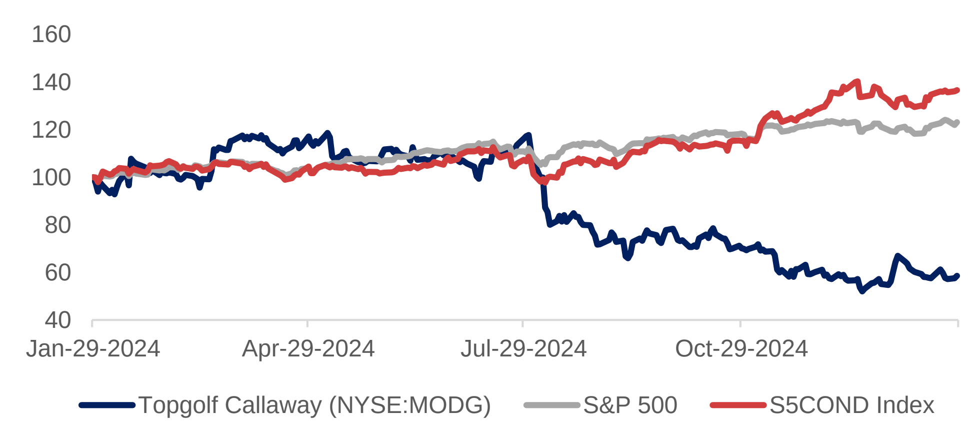
Risks

- **Consumer Spending:** If the consumer environment remains weak for extended period, discretionary spending on clubs and same-venue growth for Topgolf could remain depressed
- **Golf Popularity:** Golf popularity has had large cyclical downturns in the past (ex. mid-2000s), and thus, a slowdown of the post-Pandemic trend could weaken both sides of the business

Valuation Summary



1 Year Stock Performance



Position Summary

Rating	Buy
Price Target	$10.84
Price Feb-05	$8.09
Acquisition Date	2024-12-17
Shares of SRI & A²	7820 (SRI) 6780 (A²)

Source: Bloomberg, Company Filings

ENERGY

2024 REVIEW & 2025 OUTLOOK

MAXIME BENITA
Analyst

ALFONSO MARIN-APONTE
Analyst

YIWEN YANG
Analyst

ENERGY

2024 SECTOR OVERVIEW

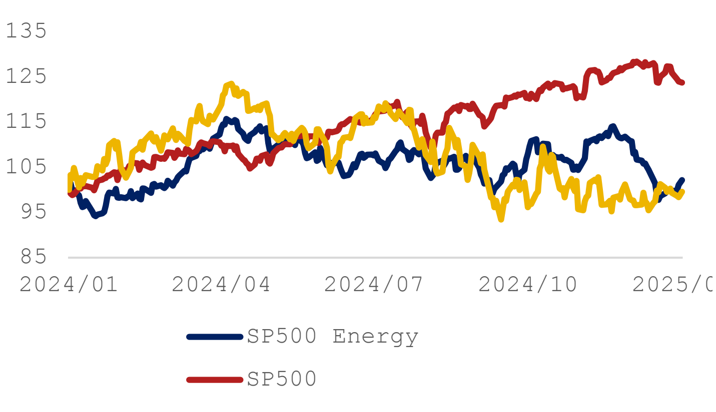
BENCHMARK PERFORMANCE

The energy sector experienced a mixed performance. After two years of outperformance during 2022-2024, it re-assumed its trend of underperforming all sectors; it is currently trading at a discount compared to the S&P 500. Overall, the midstream subsector experienced strong tailwinds from anticipated increased energy demand for natural gas due to AI and data centres, electrification, increased sales volume and expectations of deregulation by the incoming Trump administration. It also faced new headwinds from dampened Chinese demand and the prospect of oil oversupply, recording a disappointing 5.7% annual return. The sector ranked 9th out of 11 sectors, ahead of real estate (5.2%) but below Consumer Staples (14.9%). The energy sector's underperformance can be attributed to the drop in energy prices compared to 2023. The August dips were primarily due to weak demand data from China.

We maintain our assessment of investor perceptions on the impact of renewable energies on the sector; they remain muted. The energy transition is overstated, and fossil fuels will likely continue to represent 50% of global energy consumption by 2050, even according to more optimistic transition scenarios.

Multilateral efforts will likely continue to fall short. US is likely to withdraw from the 2015 Paris Agreement. UN COP29 in Azerbaijan provided disappointing targets.

Figure 1：S&P Energy vs. S&P 500



Source: Bloomberg, EIA, Novelis Investor, Forbes

Trump is likely to pause the renewable investments measures under Biden's Inflation Reduction Act (IRA) and may repurpose it to nuclear.

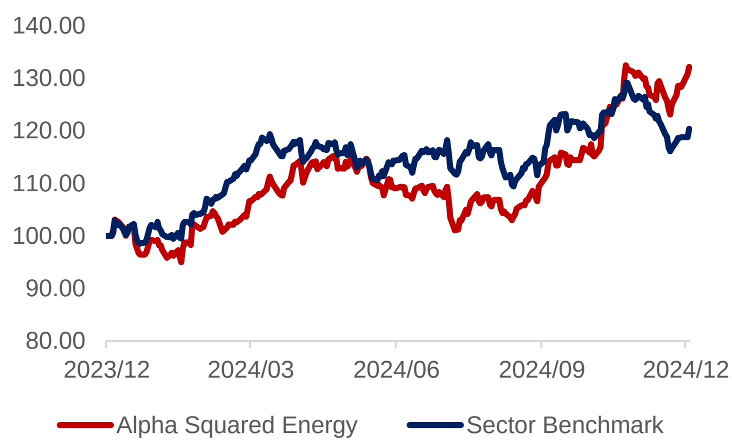
DCM SECTOR PERFORMANCE

In 2024, the DCM Energy sector underperformed the Sector Benchmark. However, it achieved an impressive annual return of 32.13%. This was above the Alpha Squared Energy Sector benchmark, which recorded a total return of 20.36%, resulting in an outperformance of 11.77%.

This outperformance can be attributed to midstream holdings such as ET Energy Transfer – one of the strongest performing stocks in Alpha Squared Fund – which generated a remarkable return of 42%, while nevertheless underperforming the midstream sub-sector return of 60.77%. Similarly, TC Energy and EQT Corporation exited a two-year valley, respectively increasing 42.92% and 21.65%.

We are monitoring the arbitration of Chevron's (-1.70%) acquisition of Hess related to Hess's stake in Guyana initiated by ExxonMobil. A ruling for Chevron could terminate the deal, delaying closure until October 2025 and potentially impacting Chevron's stock.

Figure 2: DCM sector performance vs. Sector Benchmark



ENERGY

SECTOR OUTLOOK

ENERGY

In 2025, we anticipate that overall global energy demand will continue to increase on par with growing economic demand and anticipated significant increases in AI-related energy consumption. DeepSeek's release does not alter our outlook; we are skeptical of the firm training their model without advanced chips. Due to slowed demand and uncertainty in Europe in China, total energy consumption is slated to increase only a 1.6%. Overall, the dilution of environmental regulations under a Trump administration could accelerate US energy consumption.

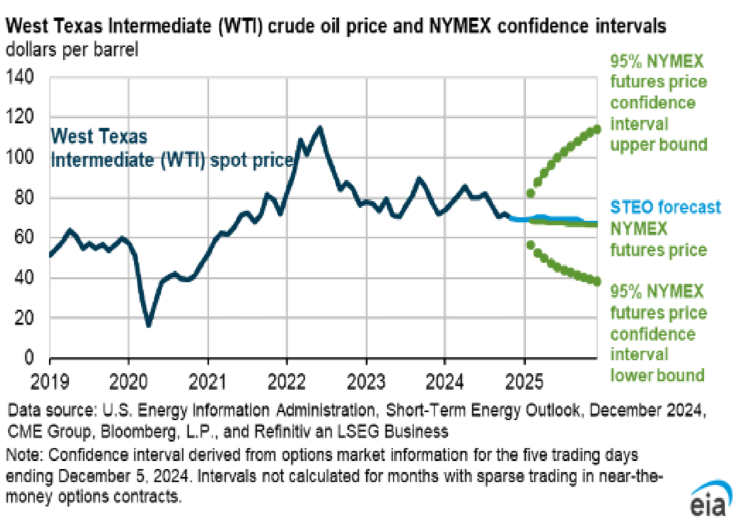
Both upstream and downstream subsectors will closely trend the price of crude, which will possibly represent enter a bear market for 2025 (see Oil). Nested within a longer horizon of growing economic demand, especially from non-OECD countries, upstream is well positioned to remain resilient. Large M&A in 2024 by Exxon and Chevron underscores confidence in overall future demand, and separately, European firms are likely to continue decelerating meeting their energy transition.

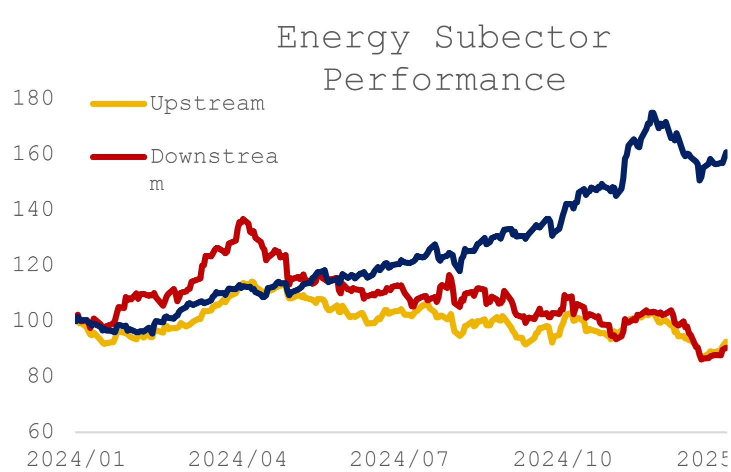
The midstream sector's increasing prices will likely continue to reap from anticipated increased energy consumption by data centers and AI, widespread electrification and increased volumes. On anticipated deregulation, the incoming Trump administration could withdraw from the 2015 Paris Agreement; lift the freeze on new LNG export permits; and, implement Drill Baby Drill resulting in modest production gains for 2025. While reversing Biden's offshore drilling ban is possible, new offshore leases are a small portion of new leases.

OIL

The expected average price forecast for Brent crude for 2025 is $74/barrel, below the 2024 value of $81/barrel. Oil production is set to increase by 1.6M bpd in 2025, mostly from non-OPEC+ production. However, we assess a bear oil market for 2025 due to a potential oversupply because of OPEC maybe lifting voluntary cuts (pushed to April 2025) and oversupply from non-OPEC+ countries across Americas. The question of delicate supply and demand is not set in stone; anticipated oversupply can quickly tilt into undersupply. A Chinese economy recovery could bolster prices.

Separately, absent more aggressive US sanctions on Iran and Venezuela oil that would provide OPEC+ countries with leeway for output growth, Saudi Arabia is unlikely to generate a larger supply. As well. the impact of a hypothetical trade war in North America, China or the European Union would decrease demand.





Source: EIA, Bloomberg

ENERGY

SECTOR OUTLOOK

NATURAL GAS

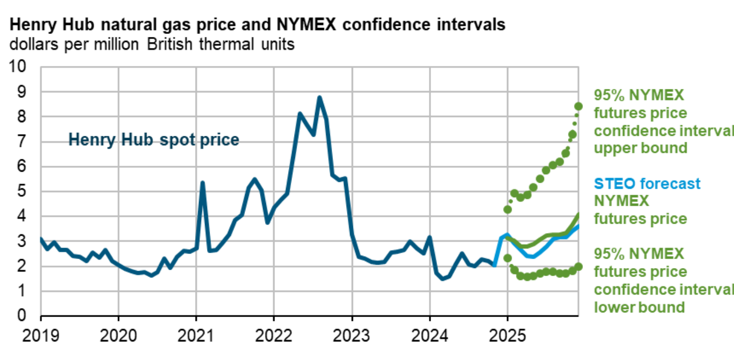
In 2024, natural gas demand is expected to grow significantly due to increased domestic consumption and anticipated exports in 2025. This growth is projected across all sectors except the industrial sector. Weather plays a crucial role in natural gas consumption, particularly in the electric power sector, where heating and air-conditioning equipment drive demand. The U.S. is forecasted to see an 11% increase in natural gas consumption for electricity compared to the previous five-year average. Although the winter heating season started warm in November, overall, this winter is expected to be colder than last year, with 6% more heating degree days.

Despite seasonal strengthening during winter, natural gas prices in Canada and the U.S. have remained low. This is largely due to increased drilling activity and preparations for LNG exports, which have suppressed prices. The Henry Hub price averaged $2.18/Mcf while AECO price averaged just $1.36/Mcf in 2024, a significant drop compared to previous years. However, market dynamics are expected to shift as new LNG export capacities come online in 2025, including 4.5 Bcf/d in the U.S., 1.8 Bcf/d from LNG Canada, and another 4.5 Bcf/d under construction or proposed in Mexico. As a result, AECO prices are forecast to rise to $3.50/Mcf by 2027, signaling greater price stability.

Demand for natural gas is driven primarily by two factors: electricity generation and LNG exports. In electricity generation, natural gas has seen sustained growth, with demand in the U.S. increasing annually by 5-6% over the last decade. The rise of data centers, particularly those supporting AI models, has further boosted electricity demand, which is projected to grow by 160% by 2030. Natural gas is uniquely positioned to meet this demand due to its reliability and ability to provide uninterrupted power. On the export front, LNG projects have become a crucial growth driver. In British Columbia alone, natural gas production grew by 5% in 2024, reflecting preparations for LNG export initiatives.

Infrastructure projects and significant capital expenditures further underscore the growth potential of natural gas. Increased drilling activity in 2024 supported LNG export preparations, and projects like the LNG Canada terminal are anticipated to relieve price pressures by mid-2025. Investments in Canada’s upstream sector have surged, with $12.8 billion spent in Q2 2024 alone, marking a notable recovery and optimism in the oil and gas industry.

In terms of pricing forecasts, AECO prices are projected to steadily climb from $2.30/Mcf in 2025 to $3.85/Mcf by 2030, while Henry Hub prices are forecast to rise from $3.25/Mcf in 2025 to $4.40/Mcf by 2030. These trends suggest a more stable and profitable future for the natural gas market as it aligns with increasing global demand and advancing infrastructure capabilities.



Data source: U.S. Energy Information Administration, Short-Term Energy Outlook, December 2024, CME Group, and Refinitiv an LSEG Business

Note: Confidence interval derived from options market information for the five trading days ending December 5, 2024. Intervals not calculated for months with sparse trading in near-the-money options contracts.

eia

Source: EIA. Bloomberg Government. World Energy Outlook – IEA; Deloitte Energy, Oil, and gas price forecast

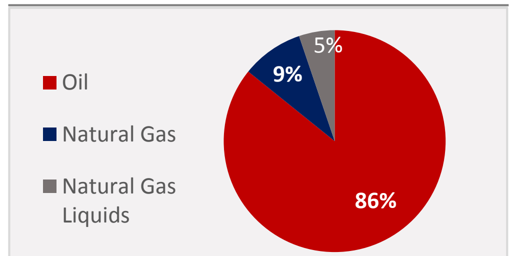
APA (NASDAQ: APA)

Exploration & Production

Company Overview

- Couche-Tard was founded in 1954 and is currently headquartered in Houston, United States.
- Its key operations are in the United States Permian Basin, Egypt's Western Desert, UK's North Sea, and Alaska's exploration activities aimed at unlocking new resources. Separately, the firm launched its October 2024 Final Investment Decision for oil development in Suriname in collaboration with TotaEnergies.
- Revenues come from sales of merchandise and from sale of transportation fuels

Revenue Breakdown



Investment Theses

The Market is overly skeptical of APA

– The skepticism is due to the repeated delay of the final investment decision on Suriname (delivered in October 2024), to which the market is not reacting.

– The Callon Petroleum merger of April 2024 bridges the gap between depleting reserves and Suriname earnings expected in 2028.

Financial Ratios

Metrics (LTM)	APA	Comps
EV/EBITDA	3.11x	4.39x
P/E	5.73x	9.69x
EPS	$47.09	$8.46
Div. Yield	4.54%	3.33%
EBITDA Margin	43.59%	59.88%

Catalysts & Risks

Catalysts

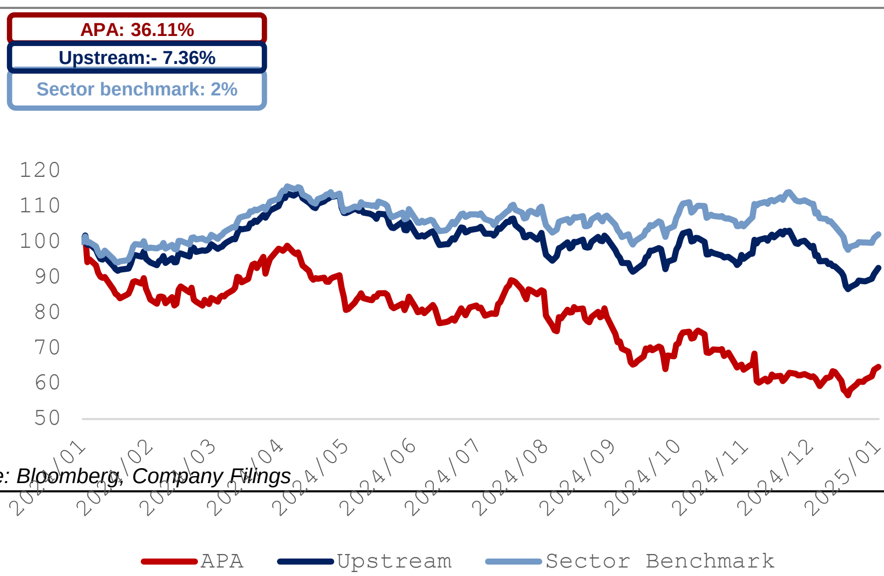
- GOP likely holding all: House, Senate and Presidency, favorable policies
- Pro forma guidance

Risks

- Fundamentals: Anticipated 2025 weak oil prices
- Suriname: Execution Risk
- Suriname: Moderate risk from changes in the investment climate
- Environmental: Climate lobby in Paris
- Environmental: Reparation damages from offshore drilling

Valuation Summary

1 Year Stock Performance



Source: Bloomberg, Company Filings

Position Summary

Rating	Hold
Price Target (10% discount)	$25.41
Price Target (6.43% discount)	$36.76
Price Dec-31	$20.60
Acquisition Date	2024-12-17
Shares SRI – A^2	N/A (SRI) 2,370 (A^2)

FINANCIALS

2024 REVIEW & 2025 OUTLOOK

Jingyi Chen
Analyst

Laurana Gahou
Analyst

Xinyue Li
Analyst

Nicole Miehm
Analyst

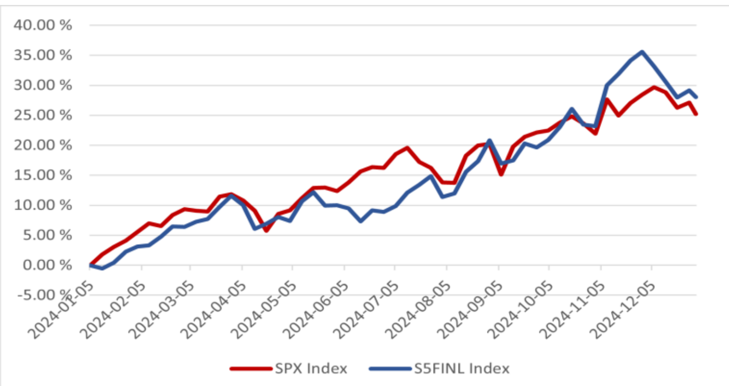
FINANCIALS

2024 Sector Review

Sector Performance

In 2024, the Financials sector achieved a return of 28.01 %, outperforming the broader S&P 500, which achieved a return of 25%. This was driven by the strong performance of key subsectors, especially the banking subsector. Below, we provide a comprehensive breakdown of each subsector's performance, and its contribution to the overall success of the Financials sector.

Figure #1: S&P 500 Financials vs S&P 500



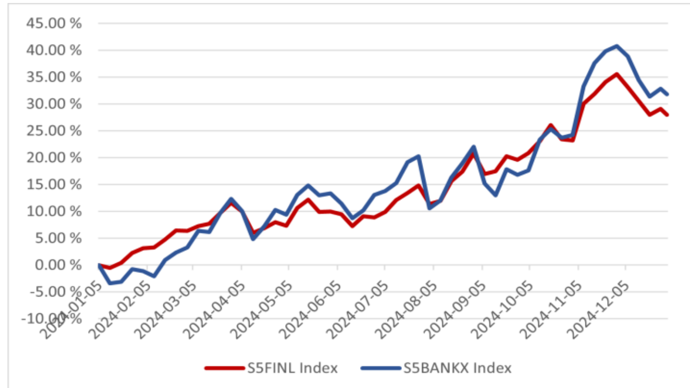
Subsector Performance

Banking

The banking subsector was the top-performing within the Financials sector. This outperformance was primarily driven by a series of the Federal Reserve rate cuts, which had several positive effects on bank stocks. Lower interest rates reduced loan default rates, enabling both individuals and businesses to service their debt more effectively. Additionally, banks benefited from lower provisions for credit losses and higher loan demand, further boosting their financial performance.

Another significant factor influencing bank stocks was the election of President Donald Trump. Following his victory, U.S. bank stocks reacted positively as investors anticipated policies that would ease regulatory burdens on financial institutions. This optimism led to a surge in major U.S. bank stocks, including JPMorgan Chase, Goldman Sachs, and Wells Fargo, which gained over 10% in the aftermath of the election. This sharp increase contributed to the notable rise in the banking index, as illustrated in the graph.

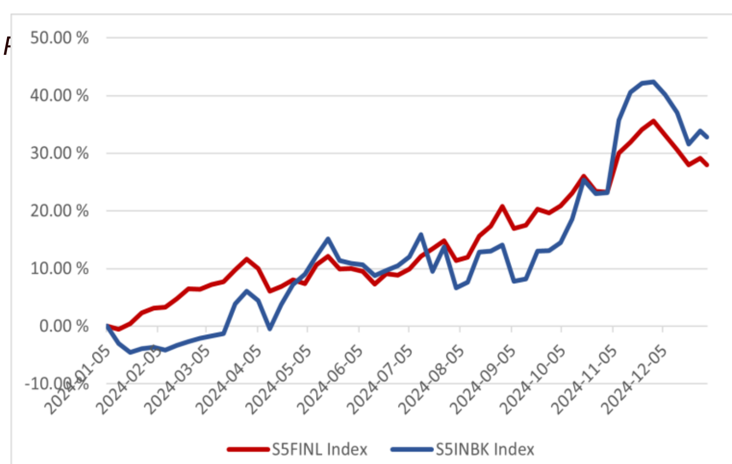
Figure #2: S&P 500 Financials vs Banking Index



Investment Banking

The Investment Banking subsector also outperformed the Financials sector, driven primarily by an increase in M&A activity (up 15% compared to 2023). This surge in M&A deals significantly benefited investment banks, as higher transaction volumes translated into increased revenue from advisory and underwriting fees.

A key catalyst behind the rise in M&A activity was the Federal Reserve's interest rate cuts, which lowered borrowing costs and encouraged leveraged buyouts (LBOs) and debt-financed acquisitions. As represented on the graph, the Investment Banking Index mainly began its upward trajectory in September, coinciding with the Fed’s first rate cut of 2024.



Source: Bloomberg

FINANCIALS

2024 Subsector Review

Subsector Performance

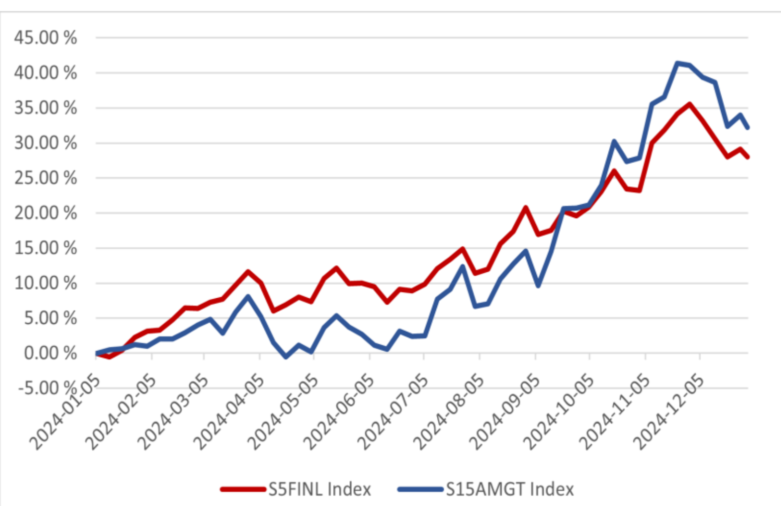
Asset Management

The Asset Management subsector outperformed the broader Financials sector, with its index beginning an upward trend in September, following the Federal Reserve's first 50 bps rate cut. Lower interest rates boosted company valuations and increased market optimism about corporate earnings, as businesses benefited from reduced borrowing costs, ultimately driving stock prices higher.

Another major driver of the subsector's strong performance was a series of high-profile acquisitions by BlackRock and Blackstone, the two largest players in the industry. Blackstone closed an $8 billion deal with Jersey Mike's and a $16 billion acquisition of Air Trunk, while BlackRock acquired HPS Investment for $12 billion.

These strategic acquisitions positively impacted both firms' stock prices, which surged 42% for Blackstone and 21% for BlackRock by the end of 2024. Given their dominant market positions, the strong performance of these two stocks significantly contributed to the overall gains in the Asset Management Index.

Figure #4: S&P 500 Financials vs Asset Management Index



Subsector Performance

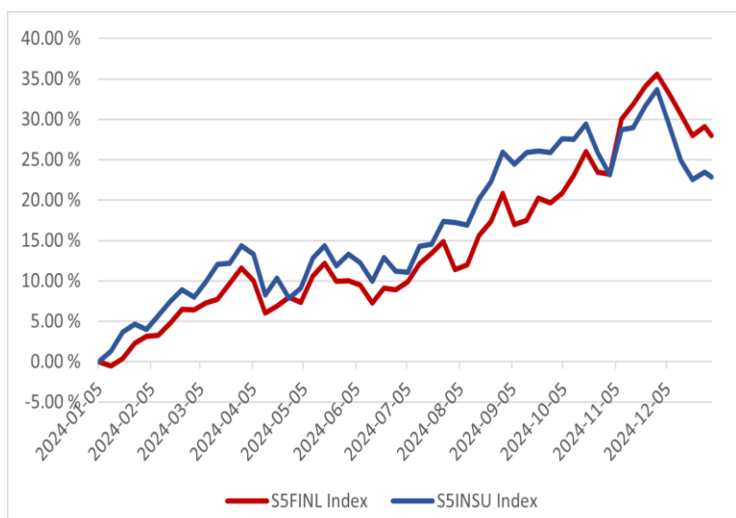
Insurance

The insurance subsector underperformed the Financials sector, though this underperformance was mainly due to a sharp decline in the last two months of the year, as illustrated in the graph.

For most of the year, the insurance industry delivered strong and consistent performance, driven by a 12% increase in premium rates compared to 2023 and a strategic revision of underwriting policies by insurance companies. These adjustments allowed insurers to mitigate rising claims and losses from natural disasters, boosting profitability.

However, the subsector's late-year decline was triggered by a major shock, the murder of the UnitedHealth Group CEO by a civilian. UnitedHealth, a major player in the health insurance industry, saw its stock price plummet following the news. There was also a strong negative reaction in the market, leading to a 6% drop in major insurance company stocks. This sudden downturn erased much of the sector's earlier gains, resulting in its underperformance for the year.

Figure #5: S&P 500 Financials vs Insurance Index



Source: Bloomberg

ALPHA SQUARE PERFORMANCE

2024 Historical Performance

One-Year Return

- The financial sector's annual return in Alpha2 fund was 32.59%, outperformed benchmark by 5.07%.
- Mainly due to the outstanding performance of exchange companies, banks and fintech companies
- **Performance Summary:**
  FI: 54.36%. BAC: 29.65%
  TMX: 41.5% MMC: 11.69%
  RY: 29.39%. MSCI: 7.95%
  IFC: 28.44%

Main Driver: Fiserv (NYSE: FI)

Company Overview

- **Fiserv, Inc.** is a global financial technology company specializing in payment solutions, banking services, and merchant processing.
- It is headquartered in Brookfield, Wisconsin, with a market cap of USD 130.58 billion, significantly higher than many peers in the Fintech space
- The Payments and Fintech segment is the largest contributor to the company's revenue, provide services like card issuing, digital payment processing, and risk management.
- Being globally diversified, its revenues primarily come from North America (65%), followed by Europe (20%), Asia-Pacific (10%), and other regions (5%).

Reason for High Growth

- **Strong Q3 Performance**:

In Q3 2024, Fiserv achieved a free cash flow (FCF) margin of 34%, the second-highest level in three years. This strong financial performance has led to a dramatic increase in analyst ratings, boosting investor confidence and the company's market valuation.

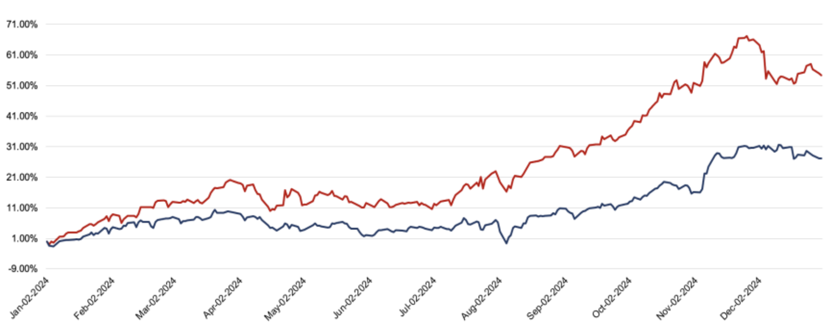
- **Year-End Promotions**:

Fiserv capitalized on year-end promotional events such as Black Friday, driving higher transaction volumes for its payment processing and merchant services.

- **Trump's Support for the Tech Sector and Digital Currency**:

In 2024, the Trump administration expressed strong support for the tech industry and digital currencies, creating a favorable policy environment. This endorsement boosted investor confidence across the sector, including for Fiserv, which benefited from its involvement in digital payment solutions and fintech innovations.

1 Year Stock Performance



Source: Bloomberg

Valuation Summary

Metrics	FI	Peers
EV/EBITDA	14.70x	14.66x
P/E	21.28x	18.06x
P/BV	4.30x	4.42x

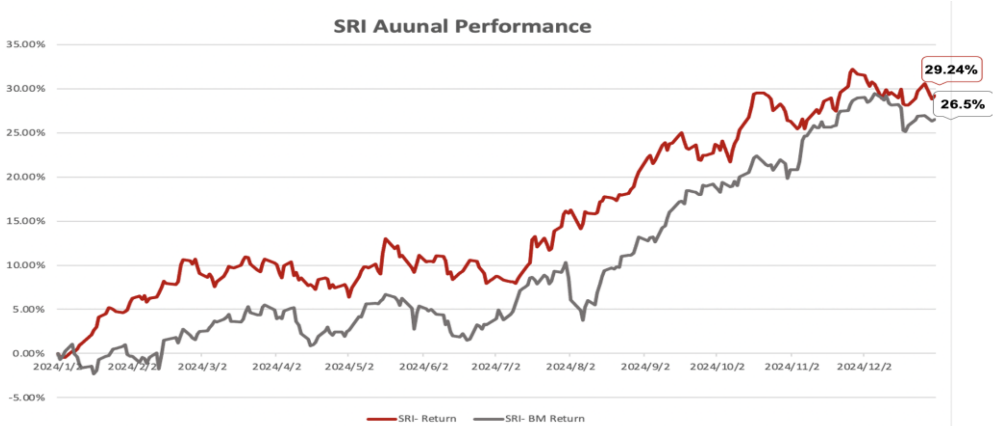
Position Summary

Rating	**Buy**
Price Target	$209.05
Acquisition Price	$149.00
Acquisition Date	Jun 10, 2024
Shares SRI – A^2	N/A (SRI) 190 (A^2)
Holding Period Return SRI – A^2	N/A (SRI) N/A (A^2)
Alpha to Sector Benchmark SRI – A^2	N/A (SRI) N/A (A^2)
Portfolio Weight SRI – A^2	N/A (SRI) 1.5% (A^2)

SRI PERFORMANCE

2024 Historical Performance

One-Year Return



- The financial sector's annual return in SRI fund was 29.24%, outperformed benchmark's return of 26.50% by 2.74% difference.
- Similar to the A2 fund, the outperformance mainly driving by the banking subsector. In addition, the outstanding performance of customer finance (Master Card) was one of the key factors that made SRI fund beat the benchmark
- **Performance Summary:**
  RY: 29.39%. MA: 24.81%
  CB: 21.53% CBOE: 9.65%

Main Driver: Royal Bank of Canada (TSX: RY)

Company Overview

- Royal Bank of Canada (RY) is a diversified financial services company operating globally. Its segments includes Personal Banking, Commercial Banking, Wealth Management, Insurance, and Capital Markets.
- Headquartered in Toronto, Canada, Royal Bank of Canada has a market cap of CAD 241.13 billion. This positions it as one of the largest financial institutions globally. Also, by market share, it's the largest bank in Canada
- The Personal Banking segment is a major contributor, providing services such as home equity financing, personal lending, and credit cards. In 2024, it has created 17.3 billion revenue.
- As a primarily Canadian but globally diversified bank, Royal Bank of Canada generates 61% of its revenue from Canada, followed by 21% from the United States and 12% from the rest of the world.

Valuation Summary

Metrics	RY	S&P500 Banks
P/E	13.42x	15.39x
P/BV	2.08x	1.94x

Position Summary

Rating	Buy
Price Target	$107.05
Acquisition Price	$125.00
Acquisition Date	Dec 2, 2020
Shares SRI – A2	726 (SRI) 770 (A2)
Holding Period Return SRI – A2	N/A (SRI) N/A (A2)
Alpha to Sector Benchmark SRI – A2	N/A (SRI) N/A (A2)
Portfolio Weight SRI – A2	3.8% (SRI) 4.2% (A2)

Reason for High Growth

Overall, RBC has been growing at a steady and high rate in 2024, and this high growth can be explained by a couple of factors

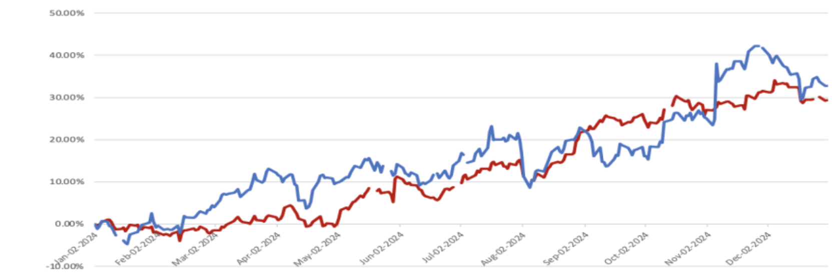
- **Strong Financial Performance**

In the four earning reports for 2024, RBC's EPS is 2.85, 2.92, 3.26 and 3.07. The EPS beats investor expectations with variances of 2.15%, 6.57%, 10.14% and 1.99% respectively. Its strong third quarter performance also gave its stock one of the strongest waves of growth in 2024.

- **Strategic acquisition**

In Feb 2024, RBC acquired HSBC Canada for $13.4B, this acquisition allowed RBC to significantly expand its client base, particularly high net worth clients and international affiliates. It further strengthens its leadership position in Canada and enhances its presence in the international marketplace and profitability.

1 Year Stock Performance



Source: Bloomberg

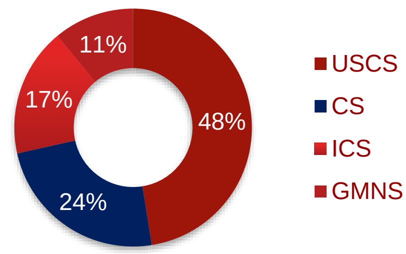
AMERICAN EXPRESS (NYSE: AXP)

Bank Holding and Financial Services Company

Company Overview

- American Express is a leading global financial services company, founded in and is primarily known for its credit cards, charge cards, and travel services.
- Amex cards are popular for offering premium rewards, exclusive benefits, and high credit limits, often catering to affluent consumers and businesses. In addition to its credit card offerings, Amex provides merchant services, travel booking, airport lounge access, and travel insurance.
- It competes with other payment giants like Visa, MasterCard, and Discover, and has a strong presence in the global payments industry.

Revenue Breakdown



Investment Theses

1. **Customer First Strategy**
   – Amex prioritizes customer loyalty with exceptional service and exclusive rewards. By targeting Gen Z and Millennials, who seek premium experiences, its customer-first strategy and strong marketing help retain high-value customers long-term

2. **Constantly Refining its Product Line**
   – Amex is adapting to digital payments, focusing on the growing B2B payment sector. Through strategic acquisitions and partnerships, it is expanding its product lineup to stay ahead of trends and capture value in the evolving payments ecosystem

3. **Expansion Driven**
   - Amex is expanding globally, offering premium products and services to attract international customers such as their partnership with Alipay in China. This strategy helps diversify revenue and capture market share from competitors

Financial Ratios

Metrics	AXP	S5CFINX
EV/EBITDA	9.31x	4.29x
P/E	21.18x	16.65x
P/BV	6.88x	2.71x

Catalysts & Risks

Catalysts:

Trump's Policy

- Trump's potential deregulation policies may reduce operational costs and create a more favorable environment for American Express

Bright Prospects for Tourism Industry

- Increased passenger numbers and growth in the tourism sector are expected to drive higher demand for American Express's travel-related services

Risks:

Concern of Acceptance

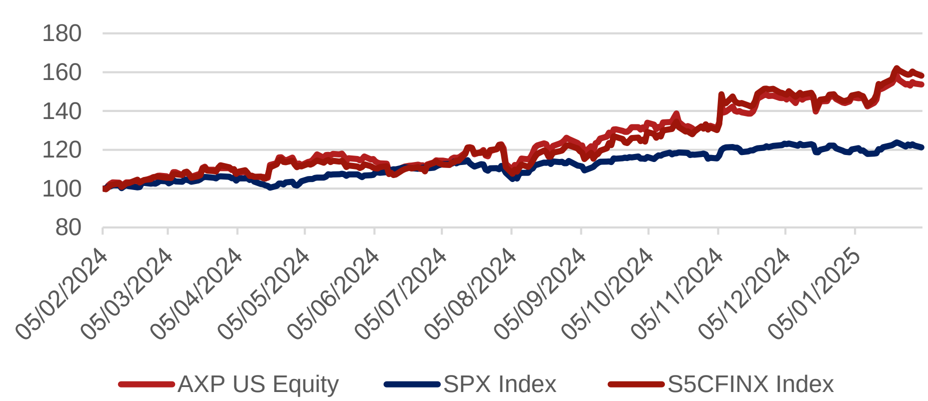
- Amex faces challenges with limited acceptance in China, where local payment systems are more widely used

High Discount Fee Concern

- Amex's higher discount fees may deter merchants, limiting the company's ability to expand its acceptance network

Valuation Summary

1 Year Stock Performance



Source: Bloomberg, Company Filings

Position Summary

Rating	Buy
Price Target	$331
Acquisition Price	$296.79
Acquisition Date	Dec 31, 2024
Shares SRI – A^2	205 (SRI) 180 (A^2)
Holding Period Return SRI – A^2	N/A (SRI) N/A (A^2)
Alpha to Sector Benchmark SRI – A^2	N/A (SRI) N/A (A^2)
Portfolio Weight SRI – A^2	3.1% (SRI) 2.6% (A^2)

FINANCIALS

2025 Sector Outlook

Main Themes

The financial sector in 2025 will be shaped by various drivers across its subsectors, with artificial intelligence (AI) playing a transformative role. AI is poised to revolutionize operational efficiency by automating processes, enabling personalized customer engagement, and enhancing fraud prevention and risk assessment capabilities. However, its adoption faces hurdles, including high costs, the need for workforce upskilling, and data governance challenges. Additionally, concerns around AI's ethical implications are growing, particularly in the insurance industry, where cases like the assassination of the UnitedHealthcare CEO, allegedly tied to AI-driven decisions, have raised alarms about unchecked automation and its potential societal consequences.

Key drivers in banking include the implementation of Basel III Endgame, which will reshape capital requirements, influencing lending capacity and risk management. Simultaneously, lower interest rates will drive refinancing activity but compress profitability, prompting banks to explore cost-cutting and restructuring measures. In global markets and banking, these lower rates will stimulate demand for fixed-income assets, equities, and real estate, while Basel III's stricter requirements will reduce liquidity and limit investment. Asset management will see growth in assets under management (AUM) as firms expand into alternative investments like private credit and hybrid funds, with lower rates pushing investors toward higher-risk, higher-return opportunities.

Insurance companies face unique pressures, with weather-related risks and geopolitical instability driving increased claims and creating market gaps. This will likely lead to greater reliance on government-backed coverage as private insurers shy away from high-risk areas. Meanwhile, FinTech will see growth fueled by regulatory clarity in Europe through MiCA, potential shifts in U.S. policy under Trump, and rising demand for digital wallets and RegTech solutions to streamline compliance in an increasingly complex regulatory environment. Together, these forces highlight the diverse and rapidly evolving landscape of financial services in 2025.

Opportunities

The financial sector in 2025 presents a dynamic landscape of underappreciated opportunities driven by evolving structural and market forces.

Within the banking sub-sector, discourse has largely focused on the anticipated compression of net interest margins in response to declining interest rates. However, this perspective overlooks the strategic expansion of fee-based revenue streams and fintech partnerships, which are poised to drive operational efficiencies and enhance long-term profitability.

In investment banking, the delayed recognition of robust M&A pipelines built throughout 2024 creates substantial upside.

Meanwhile, the asset management sub-sector is undergoing a paradigm shift, marked by the democratization of alternative investments. Once confined to institutional and ultra-high-net-worth clientele, these instruments are increasingly accessible to retail investors and mid-sized institutions, facilitated by regulatory advancements and the increasw of innovative fund structures.

Lastly, in the insurance sub-sector, the evolution of fully autonomous vehicles is expected to redefine liability frameworks, with a shift from individual driver coverage to product and cyber liability for manufacturers and software providers, creating new avenues for growth in commercial insurance.

Collectively, these developments signal a transformative era for the financial sector, with substantial potential for firms that leverage innovation and strategic foresight to capitalize on these emerging trends.

HEALTHCARE

2024 REVIEW & 2025 OUTLOOK

Yahya ED-DARI
Analyst

Cyrus MANS
Analyst

Rifat BASADE
Analyst

Philippe BENJAMIN-DURANCEAU
Analyst

HEALTHCARE

2023 Sector Review

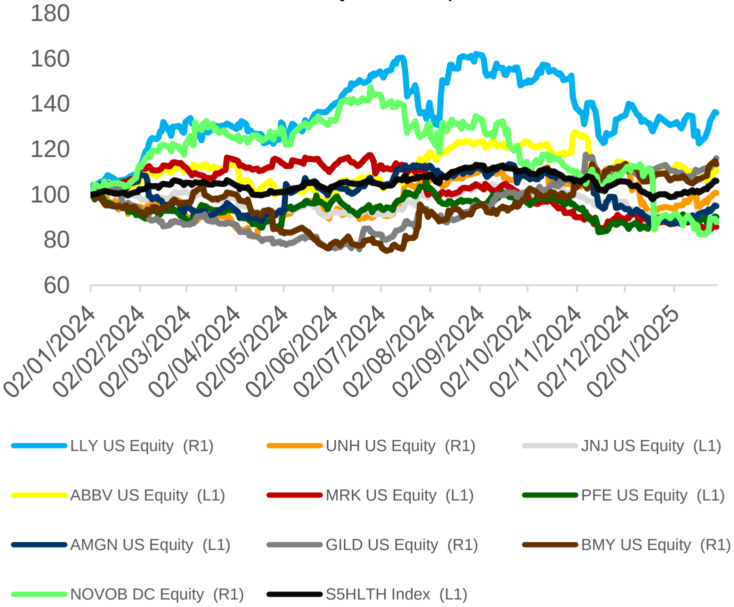
Sector Performance

In 2024, the healthcare sector underperformed the S&P 500, posting a -0.84% return compared to the S&P 500's 24.0% gain. This poor performance was mainly driven by three factors. First, investors favored high-growth technology stocks, with healthcare attracting interest only briefly in August amid recession fears showcasing its defensive nature. Second, following the U.S. presidential election in November, President Trump appointed Robert F. Kennedy Jr. as head of the Department of Health and Human Services, sparking uncertainty in the healthcare sector. His controversial stance on vaccination, along with his plans to restructure the FDA by reducing headcount, cutting funding, and altering the drug regulatory process, contributed to market volatility and sector underperformance. Third, a slowdown in M&A, particularly fewer mega-mergers, limited value creation in the sector.

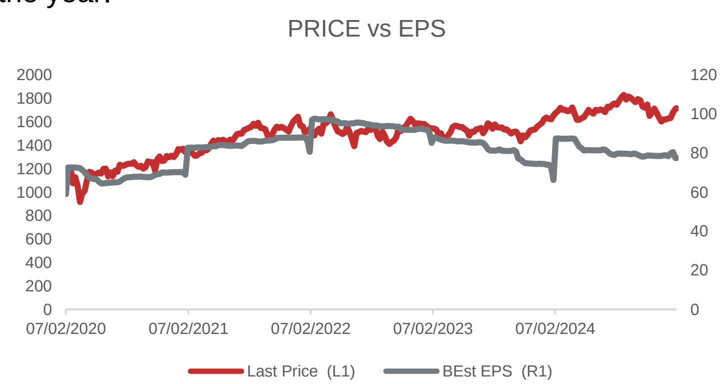
Figure: Healthcare vs. S&P 500

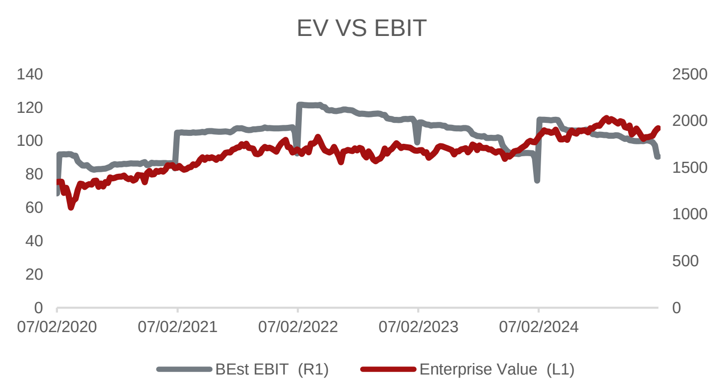
Most top healthcare firms underperformed again this year, with weak revenue growth and regulatory headwinds weighing on the sector. Companies like Pfizer struggled, facing post-COVID revenue declines and setbacks in drug approvals. However, Eli Lilly remained the standout performer, driven by continued demand for its weight loss drug, Zepbound. Despite its success, broader industry challenges, including a slowdown in M&A activity due to high capital costs and regulatory scrutiny, tempered overall investor sentiment. While some areas, like physician practice management, showed signs of renewed interest, dealmaking remained sluggish compared to previous years.

Figure: Top 10 companies in the Healthcare Index (S5HLTH)



The P/E ratio increased in due to higher valuations dragged up by Biotechs as highlighted in the graph below. EV/EBIT remained relatively stable throughout the year.





Source: Bloomberg

HEALTHCARE

2024 Sector Outlook

Regulation Changes

Potential FDA reforms could disrupt the healthcare sector, particularly with stricter regulations on AI-enabled medical devices and new cybersecurity mandates. Increased compliance burdens may slow innovation and raise costs for medtech firms. A potential RFK appointment adds further uncertainty, with proposed funding cuts, a reshaped drug approval process, and weakened public confidence in preventive care. These shifts could create headwinds for the industry, increasing regulatory risks and pressuring margins, particularly for firms unprepared to navigate the evolving landscape.

GLP1s

The GLP-1 drug class continued to disrupt the market in 2024, initially developed for type 2 diabetes but now widely prescribed for weight loss. Leading drugs like Zepbound (Eli Lilly) and Wegovy (the higher-dose version of Ozempic produced by Novo Nordisk) have demonstrated 15%-25% body mass reduction, driving sustained demand since 2023. Sales are projected to reach $150 billion by 2030. These treatments are typically administered via weekly injections, though efforts to develop oral alternatives are accelerating. Rybelsus (an oral semaglutide developed by Novo Nordisk) launched in 2019 but remains less popular due to its cumbersome dosing regimen. Given the vast cardio-metabolic market, non-first movers are seeking M&A opportunities to supplement in-house clinical development. For instance, with declining COVID-19 product revenue, Pfizer announced at the annual JP Morgan Healthcare Conference that it is going “all in” on its experimental obesity drug.

Progressive integration of AI

Looking ahead to 2025, AI is expected to play an even more transformative role in healthcare. With the continued evolution of generative AI models, we can anticipate further advancements in predictive analytics, enabling earlier detection of diseases such as cancer and cardiovascular conditions. Personalized medicine will see greater refinement through AI's ability to analyze vast amounts of genetic and clinical data, leading to more tailored treatment plans. Moreover, hospitals and healthcare providers are likely to leverage AI for workflow automation, reducing administrative burdens and enhancing patient care efficiency. Regulatory bodies are also expected to establish clearer guidelines around AI applications in healthcare to address ethical and data privacy concerns.

Surgical Innovation

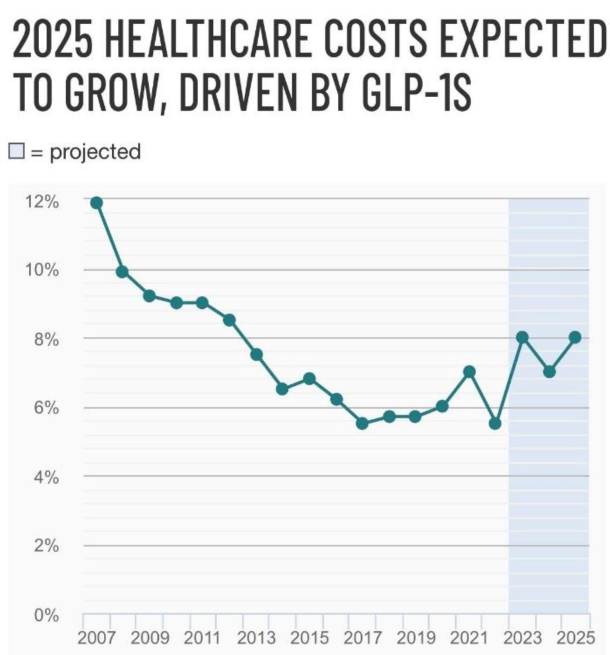
Robotic surgery is emerging as a key driver of innovation in the medtech industry, with companies like Intuitive Surgical and Johnson & Johnson leading advancements. Intuitive Surgical’s da Vinci 5 robot, which received FDA clearance last March, saw strong adoption with 174 units sold in Q4. The company plans to enhance the system with augmented reality, machine learning, and telemedicine capabilities. Meanwhile, J&J is expanding its surgical robotics portfolio, securing FDA approval for its OTTAVA system for general surgery. Another promising innovation is High-Intensity Focused Ultrasound (HIFU), a non-invasive technology gaining traction for precise tumor ablation and treatment of neurological disorders. As robotic-assisted procedures and HIFU technology improve surgical precision and patient outcomes, the medtech sector stands to benefit from increased adoption. With rising demand for minimally invasive techniques and ongoing technological advancements, this segment presents a strong growth opportunity, driving efficiency and expanding the market for surgical innovation.

M&A Consolidation

In 2025, the healthcare sector's M&A landscape is anticipated to experience a resurgence, driven by the pro-business policies of the Trump administration. The administration's focus on deregulation and a more lenient antitrust approach is expected to facilitate larger transactions, with an increase in deals exceeding $10 billion. Additionally, the Federal Reserve's recent interest rate cuts in late 2024 have reduced borrowing costs, making it more financially feasible for companies to pursue significant acquisitions. This combination of favorable regulatory and economic conditions is likely to stimulate substantial consolidation activities within the healthcare industry throughout the year.

Outlook

The healthcare sector is trading at a premium for EV/EBITDA (4.03 vs. 2.13 historical average), reflecting investor confidence despite macroeconomic headwinds. Supply chain disruptions from tariffs and geopolitical instability have increased costs, though easing tensions in Ukraine and the Middle East could support stabilization. Meanwhile, a shift toward domestic production and alternative sourcing strategies continues to shape the sector. M&A activity is expected to accelerate moderately, particularly in biotech and AI-driven healthcare, as lower interest rates create a more favorable environment. AI remains a significant driver of efficiency, enhancing diagnostics, hospital operations, and medical innovation, though its full impact on profitability is still uncertain. Policy risk remains a key concern, with potential U.S. drug pricing reforms and broader regulatory shifts exacerbated by political volatility. While reforms are likely to target select Medicare drugs, uncertainty around future healthcare policies adds downside risk. Given these factors, we issue a cautious stance with a slight underweight, as ongoing regulatory and macroeconomic uncertainties overshadow the sector’s strong innovation pipeline, AI-driven efficiencies, and demographic tailwinds from an aging global population.

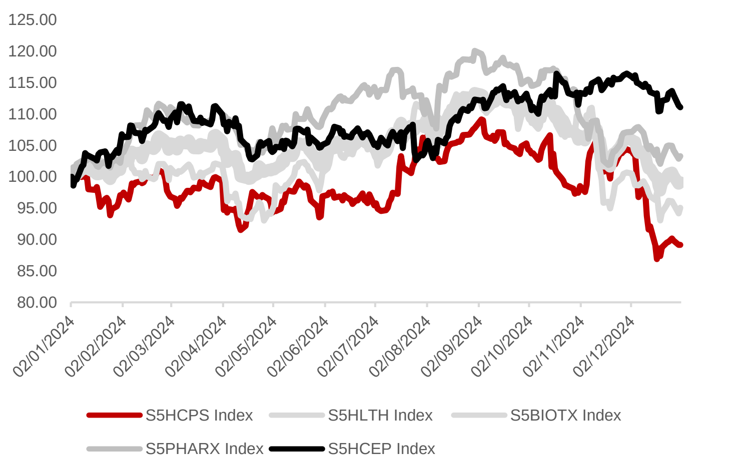


Source: BCG, McKinsey, PwC, The Medical futurist

HEALTHCARE

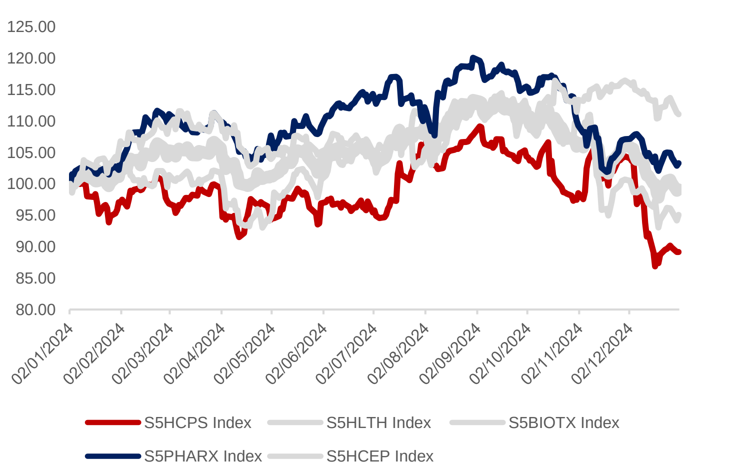
2024 Sub-Sector Performance

Figure: Equipment & Sup. Sub-Sector Performance



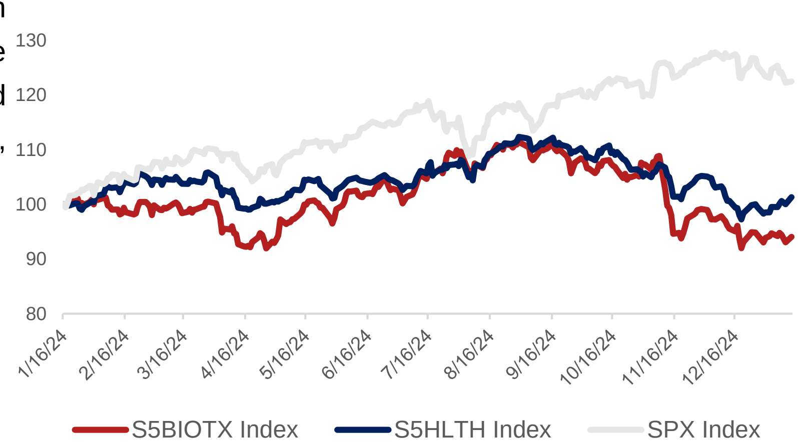
Driven by sustained demand for GLP-1 drugs, the pharmaceuticals sub-sector outperformed the broader healthcare sector in 2024. Continuing the trend from 2023, GLP-1 developers such as Eli Lilly and Novo Nordisk were key drivers of this outperformance. A notable example of this demand is Catalent's 53% return following its acquisition and privatization by Novo Holdings to expand Wegovy's production capacity. Conversely, pharmaceutical giants that thrived during the COVID-19 pandemic, including Pfizer and Johnson & Johnson, weighed on the sub-sector. These companies faced declining sales of COVID-related products, such as Paxlovid and Comirnaty (Pfizer), contributing to their underperformance.

Figure: Pharmaceuticals Sub-Sector Performance



Lastly, biotechnology subsector underperformed relative to other subsectors in 2024. With a modest return of around 1.1% for the year, biotech demonstrated resilience and opportunities for growth, influenced by several key factors. Firstly, several biotech companies achieved successes in clinical trials in areas of gene therapy, oncology, immunology. One such pivotal moment was the success of CRISPR-Casgevy, the first the first commercially approved CRISPR-based gene-editing therapy. Incyte emerged as the winner, with ~15% returns , credits to the blockbuster drug 'Jakafi' (for myelofibrosis) and strong demand for Opzelura (for dermatological conditions). Moderna experienced the steepest decline, recording a -66% return, primarily due to no demand for its covid vaccine. This subsector faced headwinds due to the persistent high interest rates, which constrained funding for research and development and M&A deals. Large cap biotech companies such as Vertex, Regeneron and Gilead led the subsector, while venture capital investment was focused on early-stage biotech firms.

Figure: Biotechnology Sub-Sector Performance



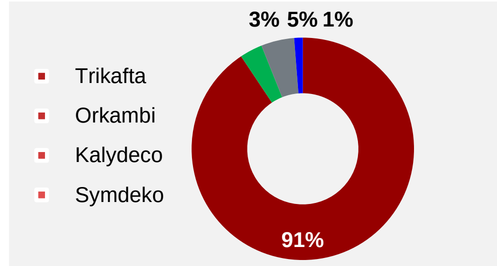
VERTEX PHARMACEUTICALS (NASDAQGM: VRTX)

Pharmaceuticals

Company Overview

- Vertex Pharmaceuticals is a global biotechnology company specializing in developing and commercializing transformative medicines for serious diseases with high unmet medical needs, particularly cystic fibrosis (CF)
- The company has a robust pipeline, including treatments for CF, sickle cell disease, beta-thalassemia, type 1 diabetes, and other rare diseases, with multiple therapies in clinical and preclinical development
- Headquartered in Boston, Massachusetts, Vertex operates globally with commercial operations in North America, Europe, Australia, and other markets

Revenue Breakdown



Investment Theses

1. Market Leader with Long-term Growth Potential in CF Globally

– The growing patient base, driven by the genetic nature of CF, improved life expectancy, and higher fertility rates, ensures long-term recurring revenue

– With 57,000 undiagnosed patients, partially in Europe where Vertex already holds regulatory approvals, the company has room to expand its market share

2. Favorable Context for Inorganic Growth Through M&A

– After recently acquiring Alpine Immune for $4.9B in cash to strengthen its kidney disease pipeline, Vertex is left with $5B of cash on hand for another game changing acquisition or multiple smaller acquisitions

– Vertex has a long history of successful acquisitions and the macro environnement is favorable for M&A

3. A Strong Pipeline for Potential Diversification

– Vertex's drug pipeline is very promising targeting different therapeutic areas

Financial Ratios

Metrics (LTM)	VRTX	Comps
EV/EBIT	20.3x	11.6x
P/B	7.8x	3.4x
P/E	25.1x	16.0x
EPS	11.85$	0.18$
Gross Margin	87.21%	86.21%

Catalysts & Risks

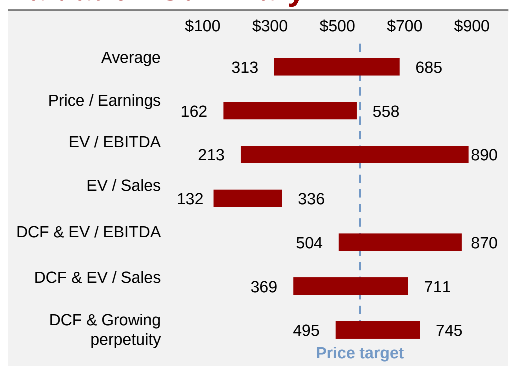
Catalysts

- **Growing Global Focus on Rare Disease** helping the CF market
- **Demographic Shifts** increasing the pool of people developing chronic diseases
- **Expanding Biotech Investment** strengthening pipeline diversification
- **Global Market Expansion** capturing more market share

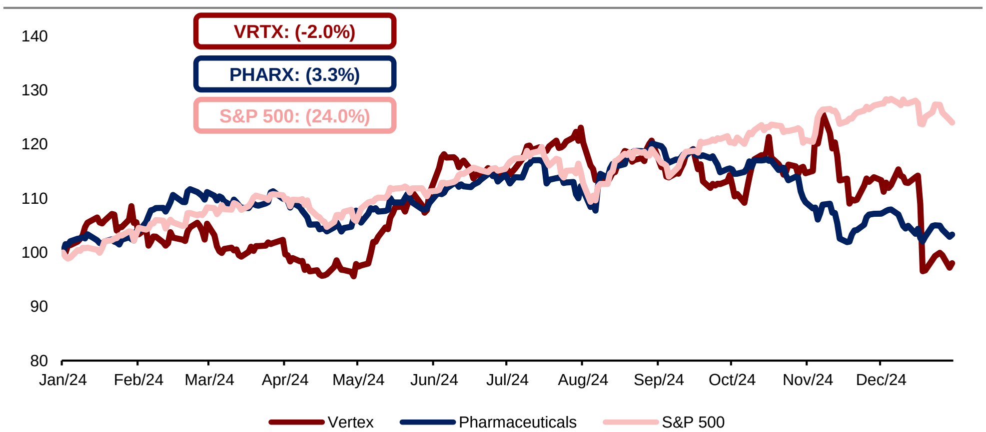
Risks

- **Regulatory Pressure** due to newly appointed RFK Jr. who is a wildcard
- **Supply Chain Risk** with tariffs putting at risk the availability of raw materials
- **Patent Expirations and Biosimilars** substantially impacting market share
- **Pipeline risk** with clinical trials revealing inefficacy in treatment

Valuation Summary



1 Year Stock Performance



Position Summary

Rating	Hold
Target Price	$562
Price Dec-31	$402.7
Acquisition Date	2024-12-03
Shares SRI – A^2	137 (SRI) 91 (A^2)
Holding Period Return SRI – A^2	1.08% (SRI) 1.08% (A^2)
Excess Return SRI – A^2	-10.50% (SRI) -8.09% (A^2)
Portfolio Weight SRI – A^2	2.77% (SRI) 1.72% (A^2)

Source: Bloomberg, Company Filings

INDUSTRIALS

2024 REVIEW & 2025 OUTLOOK

Nicolas Dansereau
Analyst

Owen Chung
Analyst

Salim Kaddouri
Analyst

Samuel Lachance
Analyst

Malo Marin
Analyst

INDUSTRIALS

2024 SECTOR PERFORMANCE

BENCHMARK PERFORMANCE

The S&P 500 Industrials sector delivered a return of 17.3% in 2024, underperforming the broader S&P 500 index by 7.7%. Within the sector, the Capital Goods subsector rose by 22.4%, followed by the Commercial & Professional Services subsector with an 18.3% gain. The Transportation subsector posted the smallest increase, advancing 0.3%.

During 2024, the Industrials sector experienced a year of mixed dynamics, shaped by macroeconomic trends and geopolitical developments. While inflation eased significantly compared to prior years, higher interest rates persisted, creating a challenging environment for capital-intensive industries. Companies in the sector navigated high borrowing costs, which particularly impacted businesses reliant on significant infrastructure investments, such as those in the Transportation and Capital Goods subsectors.

The recovery of global supply chains brought operational improvements, with lead times stabilizing and inventory levels normalizing across most industries. This was a welcome relief for manufacturers who had struggled with supply chain disruptions in previous years. However, ongoing geopolitical tensions,, created pockets of uncertainty for global trade, affecting logistics-dependent businesses.

The global push for decarbonization supported demand in renewable energy and electrification-focused industries. However, sentiment in these areas was dampened late in the year by expectations that the incoming U.S. administration would adopt less supportive policies for the renewable energy sector. Companies like ChargePoint and NEXTracker faced headwinds from this shift, with their stock performances reflecting the uncertainty.

Valuation multiples in the sector remained relatively stable throughout the year, reflecting the balance between easing supply chain pressures, ongoing rate impacts, and cautious optimism about a potential economic rebound in 2025. Industrials companies with differentiated competitive advantages, such as strong pricing power or leadership in innovation, were better positioned to navigate the complexities of 2024 and deliver stronger results.

2024 SECTOR PERFORMANCE

The Industrial sector ranked as the 5th best-performing sector in 2024, achieving a 17% return, which lagged behind the S&P 500's 23% return by a 6% differential. Despite this, North American large-cap industrial stocks matched the S&P 500 with a 23% increase. This performance was bolstered by companies in the electrical equipment and HVAC sectors, which benefited significantly from data-center and AI demand.

While key sectors such as electrical equipment and HVAC drove the sector's strong performance, more cyclical industries like machinery experienced flat growth, and the construction and agriculture equipment sectors faced declines. These segments did not benefit as much from the AI boom, falling short when compared to other sectors like Information Technology, Communication, Consumer Discretionary, and Utilities.

Source: Bloomberg

INDUSTRIALS

2024 SECTOR PERFORMANCE

Financially, the Industrial sector sustained its profitability through 2024 amidst market headwinds, thanks to effective cost management and strong backlogs that supported favorable pricing margins. However, the sector faces ongoing challenges from geopolitical tensions and potential new tariffs, which could impact future earnings.

In terms of valuation, the EV/EBITDA multiples for North American large-cap industrials expanded to 17.8x in 2024, up from a 7% premium to a 19% premium over the S&P 500 as of December 2023. This increase reflects growing investor confidence in the sector despite a contracting industrial production environment and an expansion of weaker end markets.

2024 SECTOR PERFORMANCE

Capital Goods Industry – The capital goods sector was the strongest performer of 2024 among the Industrials subsectors, led by the construction and engineering industry. The final quarter of 2024 saw components of the S&P500 realize an almost 40% growth, driven by growth in new home construction and improvement projects. In late 2024, strong machinery sales headlined the subsector, fueled by fed rate cuts and business equipment spending.

Source: Bloomberg

INDUSTRIALS

2024 SUBSECTOR PERFORMANCE

2024 SUBSECTOR PERFORMANCE

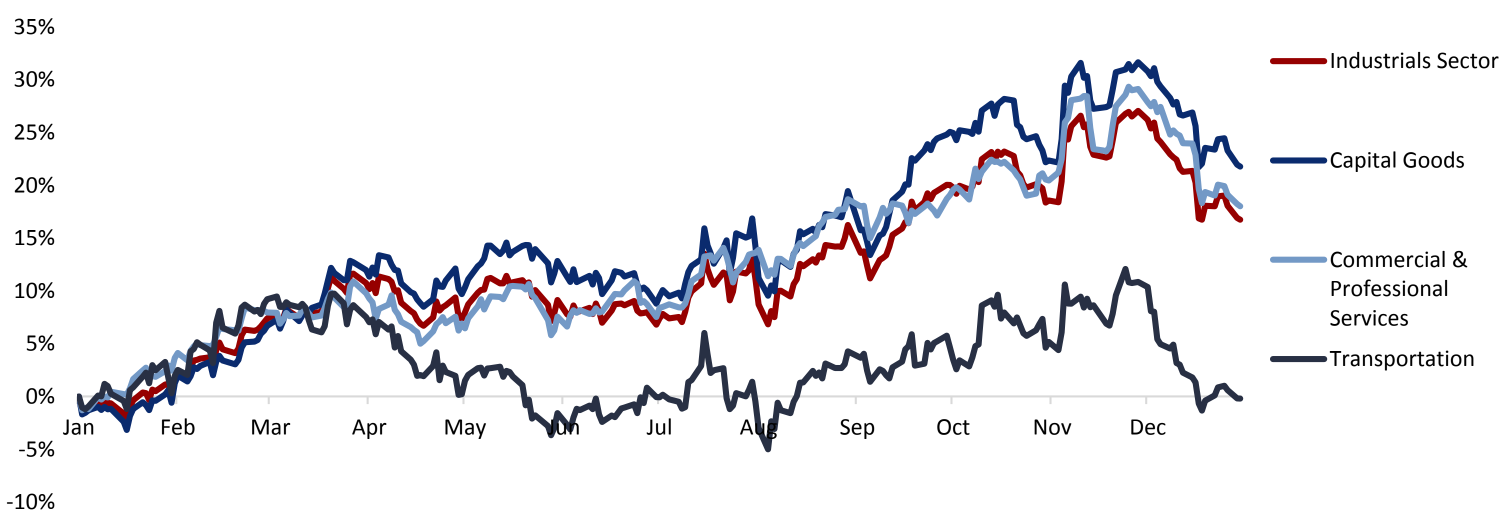
Transportation Industry – In 2024, the transportation industry, which consists of passenger and freight transport services, was a clear underperformer compared to other subsectors, dragged down by poor returns in ground transport and air freight and logistics. In the ground transportation industry, rising rates and flat volume increases characterized the first half of the year, while the back half was marked by troubling weather events in the southeast and lower than expected coal volume. In air freight, market leader UPS (NYSE: UPS) suffered due to the underutilization of premium services by consumers, causing margin contraction. Flying above other subsectors was the passenger airline segment, led by Delta Airlines (NYSE: DAL), who capitalized on a trend toward premium service offerings and increased passenger volume late in year.

Commercial & Professional Services Industry - In 2024, the professional and commercial services subsector grew by 18%, aligning with overall industry trends. This expansion was driven by mergers and acquisitions aimed at strengthening digital capabilities and expanding market presence.

Technological advancements in digital transformation and AI, particularly machine learning, significantly improved operational efficiency, productivity, and market adaptability. Additionally, strategic investments in technology and workforce management, including hybrid work models, played a crucial role in attracting and retaining top talent.

The growing momentum in environmental services within the commercial sector gained traction, driven by regulatory requirements and sustainability initiatives, increasing the sector's strategic importance and profitability.

Major acquisitions throughout the year underscored a broader industry shift toward consolidation and service optimization to better navigate rapid technological changes.



Source: S&P Capital IQ

INDUSTRIALS

2024 DCM SECTOR PERFORMANCE

2024 DCM SECTOR PERFORMANCE

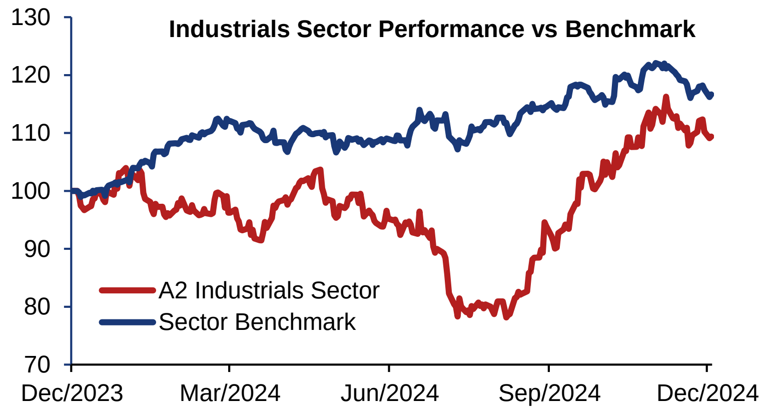
Alpha Square Fund – In fiscal year 2024, the Industrials Alpha Squared Fund delivered an underperformance of 7.3% relative to the sector index, primarily driven by the underperformance of our position in ATS Corporation.

ATS Corporation (TSE: ATS; NYSE: ATS) was the primary detractor from sector performance, ending the year with a 23% decline. ATS, a leader in automotive electrification processes for manufacturers, experienced a sharp revenue contraction due to the loss of several major contracts, particularly in electric vehicle projects. Given ATS's exposure to this segment and concerns over a potentially less favorable policy environment under President-elect Donald Trump's administration compared to the Biden administration, we reduced our exposure to ATS by 1,084 shares, representing a 44.6% reduction in our position. As of December 31, our fund holds 1,346 units of ATS Corporation.

Conversely, Delta Air Lines (NYSE: DAL) was a standout contributor to the fund's performance. Delta surged 57% during the year, by demonstrating strong operational performance, achieving record revenues and best-in-class profitability, supported by strong travel demand. The success of its premium seating options contributed significantly to revenue growth, enabling Delta to maintain the highest margins among peer airlines.

On December 17th of 2024, we added Deere & Company (NYSE: DE) to the Fund. Deere delivered a modest annual stock performance of 6.2%, and we initiated our position at USD440 per share. As a global leader in agricultural, construction, and forestry machinery, Deere is renowned for its innovation in precision agriculture technologies.

Our investment decision was driven by Deere's strategic shift toward a less cyclical, subscription-based revenue model and its leadership in precision agriculture, positioning the company to benefit from growing global food demand and the need for enhanced farm efficiency.



SRI Fund – In fiscal year 2024, the Industrials SRI Fund significantly underperformed of 59.4% relative to the sector index, primarily due to the underperformance of our positions in ChargePoint and NEXTracker.

ChargePoint (NYSE: CHPT) was the largest detractor, ending the year with a 52.6% decline. A leading provider of electric vehicle charging networks and solutions in the U.S. and internationally, ChargePoint faced headwinds as Tesla opened its charging infrastructure to all EVs, diminishing ChargePoint's competitive advantage.

On June 10, 2024, we added NEXTracker (NASDAQ: NXT) to the Fund, initiating a position at $59 per share. NEXTracker posted a negative annual return of 21.1%. The company, a leading provider of advanced solar tracking systems and software solutions for utility-scale solar projects, was added based on its undervalued competitive strengths and the anticipated growth of the solar industry driven by the Inflation Reduction Act (IRA) and other supportive legislation.

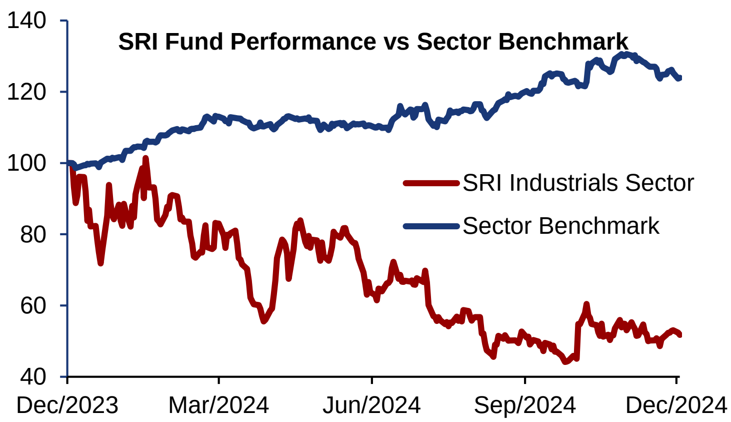
Source: Bloomberg

INDUSTRIALS

2024 DCM SECTOR PERFORMANCE

2024 DCM SECTOR PERFORMANCE

Additionally, for both holdings, market sentiment was adversely affected by expectations that President-elect Donald Trump's administration would adopt less favorable policies toward the renewable energy sector compared to the Biden administration.

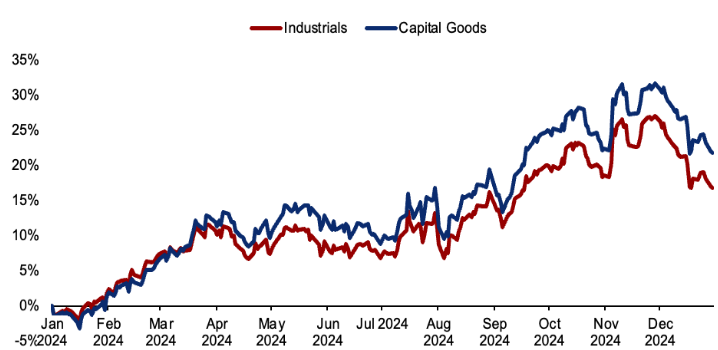


CAPITAL GOODS

The Capital Goods subsector involves the manufacturing of diverse assets designed to facilitate the production of consumer goods in subsequent stages. As a result, the subsector's performance relies on the capital expenditures of businesses. Following a strong finish to the year, the subsector looks well-positioned to capitalize on their recent results, as the Trump administration looks to boost support through infrastructure investment.

Despite underwhelming purchasing managers' index (PMI) data in late 2024, we expect capital goods, particularly construction and engineering, to have a strong 2025. While the declining PMI does not look favourably on the machinery industry, rising consumer confidence, potential decreases in mortgage rates and government infrastructure stimulus will all contribute to demand for equipment, improving the industry's fortunes as the year progresses.

Through trade policy, the new administration brings mixed signals to the subsector. The threat of tariffs on the United States' largest trade partner in China could lead to retaliation, severely affecting exports, resulting in less demand for industrial equipment. There are positives for American-based capital goods manufacturers as they are isolated from international competition from Japan or Korea. While we will continue to monitor developments, we do not see this as an imminent threat to the capital goods subsector.



Source: Bloomberg

INDUSTRIALS

2024 SECTOR OVERVIEW

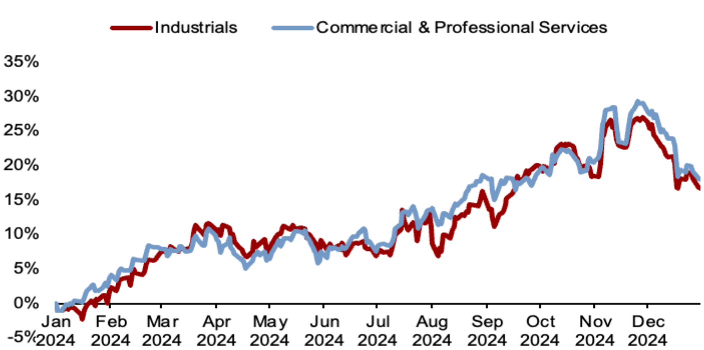
PROFESSIONAL & COMMERCIAL SERVICES

The professional and commercial services subsector, encompassing firms specializing in legal, accounting, consulting, and environmental services such as waste management and sustainability consulting, plays a critical role in delivering diverse solutions to businesses by leveraging human capital to optimize operational structures.

In 2024, the Professional subsector experienced solid growth, achieving an 18% increase in performance, comparable to the 17% growth recorded by the industrials sector, but lagging the S&P 500's 23% gain. Revenue reached approximately $77.42 billion, supported by a compound annual growth rate (CAGR) of 5.37%. Projections estimate that the market volume will expand to $95.44 billion by 2029. This reflects a broader industry shift toward technological adoption to drive full-scale digital transformations and secure a competitive advantage.

The subsector is making significant advancements in digital transformation, with a heavy emphasis on automation and advanced AI. Key to these efforts is the adoption of generative AI, seen as crucial for both immediate improvements and long-term growth. There is also a strong focus on human resources, with strategic investments aimed at optimizing talent acquisition and enhancing the employee experience.

An emerging trend is the shift towards digital revenue streams, which are expected to constitute a substantial portion of revenue in the near future. Additionally, sustainability-driven services are gaining attention as businesses adapt to stricter environmental regulations, reinforcing the sector's role in supporting compliance and resource efficiency.



Source: Bloomberg

TRANSPORTATION

2024 was a difficult year for the Transportation subsector due to flat rail volume figures and weak coal demand. 2025 introduces new uncertainty following the recent presidential election results in the United States. While the Trump administration has been more friendly to the coal industry in their previous term, renewed trade tensions and the threat of tariffs may hurt cross-border trade and shipping volume. There is optimism though that these losses are offset and catalysts such as continued rate cuts and reshoring can make up for worsening developments with China.

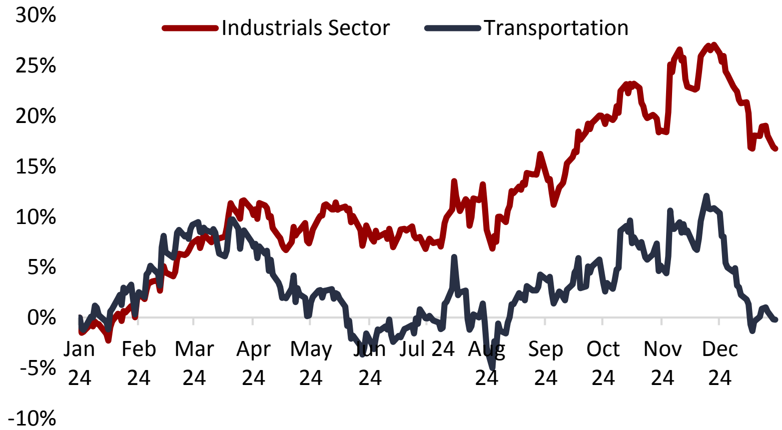
International trade policy is not the only issue on the agenda for the new administration as incentive programs such as the Inflation Reduction Act (IRA) are in danger of being partially repealed. Last year, we cited the IRA as a major factor for firms moving their manufacturing to North America. With diminished financial incentives to onshore, firms hoping to avoid tariff threats will bear a large share of increased production costs. We do not see this as threat to the transportation industry, as firms are not involved in production.

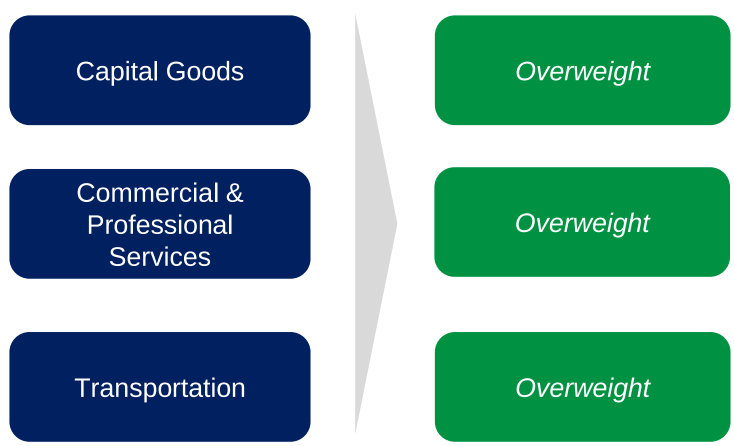
INDUSTRIALS

2024 SECTOR OVERVIEW

There is, however, the small risk rising cost of goods due to tariffs and rising production costs could cause consumers to purchase less, leading to lower shipping volumes.

Continuing to aviation and the passenger airline industry, we remain confident in the ability of major airlines to take advantage of strong travel volumes and a premiumization trend that propelled growth throughout 2024. Additionally, in contrast to increasing regulation of carbon emissions in the EU, the aviation under the new administration likely will not face any new challenges on the federal level, offering safety to airline margins for the foreseeable future.





Source: Bloomberg

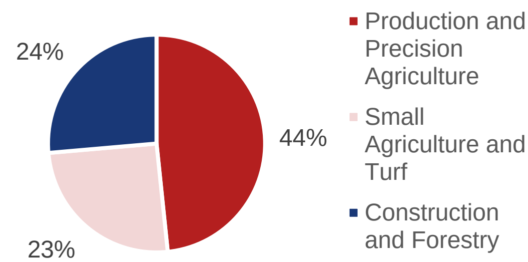
DEERE & COMPANY (NYSE: DE)

Agricultural and Farm Machinery

Company Overview

- Headquartered in Moline, Illinois, USA with over 83,000 Employees
- Deere & Company is specialize in manufacturing agricultural, construction, and forestry machinery, recognized for its innovation in precision agriculture technologies (Ag Tech)
- Founded in 1837 and IPO in 1929
- Leader and recognized for its innovation in machinery and precision agriculture technologies. The company operates primarily in equipment manufacturing and solutions designed for the agricultural sector, with additional businesses in financial services.

2023 Revenue Breakdown



Investment Theses

1. Deere & Co is a technology company
Better positioning within the industry to reinforce the competitive moat vs. its peers. The market is underestimating technology advancements. Technology is essential to feed the population.

2. Deere & Co is in transition to more stable cash flows
Farmers reduction in CAPEX leads to new initiatives: exposure to farmers OPEX.

3. The market is overly-pessimictic about trade policy
Reliance on trade with the US ensures disputes do not last and government subsidies mean farmers will be fairly compensated for potential damages

Financial Ratios

Metrics	DE	Comps
EV/EBITDA	21.3x	12.1x
P/E	20.7x	15.3x
EPS	$19.7	$6.7
Div. Yield	1.4%	1.9%
EBITDA Margin	22%	13.9%

Catalysts & Risks

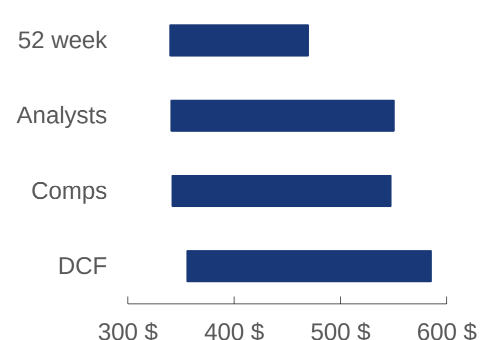
Catalysts

- Decrease in global reserves and interest rates: Global grain production forecasts for 2023/24 and 2024/25 have been cut by the International Grains Council (IGC) due to disease and drought stress
- Precision agriculture technologies, agricultural investment and electrification.

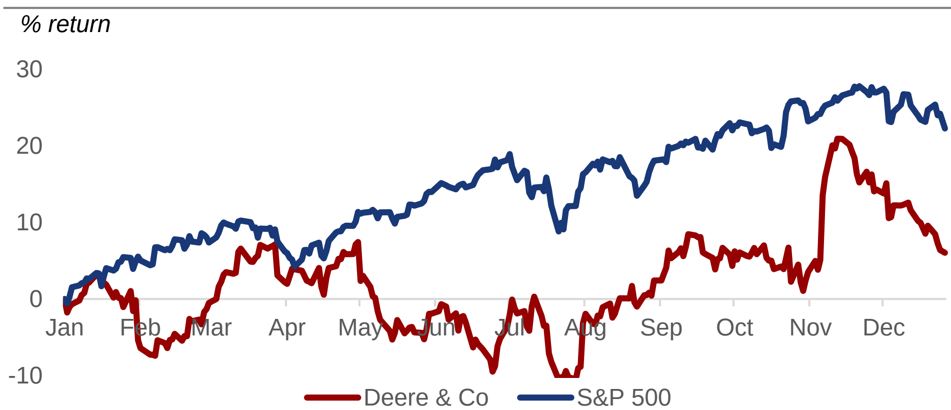
Risks

- Commodity price volatility, weather risk
- Geopolitical risk: 37% of Deere's sales come from their international segment; trade restrictions and tariffs in major markets like China could impact global sales

Valuation Summary



1 Year Stock Performance



Source: Bloomberg, Company Filings

Position Summary

Rating	Hold
Price Target	$480
Price Dec-31	$423
Acquisition Date	12/17/2024
Shares SRI – A^2	N/A (SRI) 123 (A^2)
Holding Period Return SRI – A^2	N/A (SRI) -3% (A^2)
Excess Return SRI – A^2	N/A (SRI) N/A (A^2)
Portfolio Weight SRI – A^2	N/A (SRI) 2.6% (A^2)

INFORMATION TECHNOLOGY

2024 REVIEW & 2025 OUTLOOK

Zhengchao Wang
Analyst

Jianyu Niu
Analyst

Yu Cao
Analyst

Chang Liu
Analyst

INFORMATION TECHNOLOGY

2024 Review

Benchmark Performance

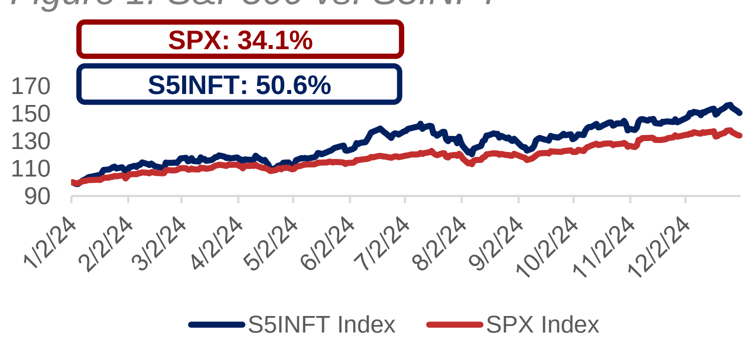
Since the beginning of 2024, the S&P 500 Index has been on a continuous upward trend, with the Information Technology sector (S5INFT) surging to nearly 51%, outperforming the market by **17%.** The IT Sector was ranked first amongst the other ten CIGS sectors.

The IT sector experienced significant growth and innovation, primarily driven by advancements in artificial intelligence (AI). According to Gartner, global IT spending is projected to rise by 7.5% to $5.26 trillion, with data center systems expected to see a 24.1% increase, reaching $293.09 billion. This surge is largely attributed to major tech companies like Microsoft, Alphabet, Meta, and Amazon investing heavily in AI infrastructure to meet the computational demands of generative AI technologies.

The transformative advancements in generative AI continued to redefine industries in 2024, compelling enterprises globally to accelerate the development of comprehensive AI-driven strategies. Beyond automating mundane tasks, generative AI has extended its reach into healthcare diagnostics, financial modeling, and personalized education, underscoring its expansive utility. In 2024, companies like Amazon and Alphabet amplified investments in AI infrastructure, further solidifying their dominance in the space, while new entrants leveraged innovative applications to capture niche markets. These developments, coupled with the rising integration of AI across business processes, have sustained the IT sector's growth trajectory. The IT sector's earnings in 2024 grew by 8.2%, significantly outperforming the S&P 500, which reported an increase of 4.7%. This earnings expansion was bolstered by robust demand for cloud computing, data center upgrades, and AI-driven solutions. Consequently, the IT sector traded at a premium, with a forward P/E ratio of 34.7x compared to the S&P 500's 23.5x, representing an average premium of over 11 points. This valuation underscores strong investor confidence and the sector's pivotal role in driving innovation and productivity gains across the global economy.

.

Figure 1: S&P500 vs. S5INFT



Bloomberg

2024 DCM Sector Performance

We currently hold 5 companies within the IT sector. In the Alpha Squared Fund, we hold Roper (NYSE: ROP), CGI (TSE: GIB.A) and EPAM (NYSE: EPAM). In the SRI Fund, we hold Roper (NYSE: ROP), Western Digital (NYSE: WDC), Advanced Micro Devices (NASDAQ: AMD) and EPAM (NYSE: EPAM). Also, we hold iShares U.S. Technology ETF in both funds.

In January and December 2024, we purchased EPAM Systems and the iShares U.S. Technology ETF, respectively. Unfortunately, EPAM's performance did not meet our growth expectations. While in 2023, EPAM Systems demonstrated strong resilience and growth potential by leveraging its global talent network and robust geopolitical adaptability, securing a leading position in cutting-edge technologies such as generative AI, and maintaining diversified revenue streams across key industries like financial services and life sciences, its performance in early 2024 was adversely affected by a downturn in the overall market environment. The IT services sector's revenue growth significantly lagged behind the broader IT segment, and EPAM's revenues were severely impacted. Following the release of its Q1 2024 earnings, EPAM's stock price plunged by 27%. This decline was primarily driven by weakened customer demand, which led to project delays and a prioritization of cost-saving measures by clients. Moreover, challenges in the macroeconomic environment further negatively affected customer demand.

In 2024, our IT sector holdings had returns **-1.8%** and **1.7%** in SRI and A2 funds respectively. The SRI fund underperformed their benchmark by roughly **52%**, while A2 underperformed their benchmark by **44%.** The underperformance is due to bad sector allocations and poor equity holdings. AMD and EPAM contributed 23% and 31% of the underperformance compared to the SRI IT sector, also EPAM even contributed 96% of the underperformance compared to the A2 IT sector. The top performer out of our holdings was **CGI** at **139%.** Unfortunately, SolarEdge Technologies (SEDG) posted poor performance (-85%), reflecting broader struggles in the solar sector. SolarEdge's downturn was attributed to a steep decline in sales due to weak demand and heightened competition in Europe. As a result, the fund sold all shares in early November.

INFORMATION TECHNOLOGY

2024 Review

2023 DCM Sector Performance

Figure 2: A2 IT vs. A2 IT Benchmark

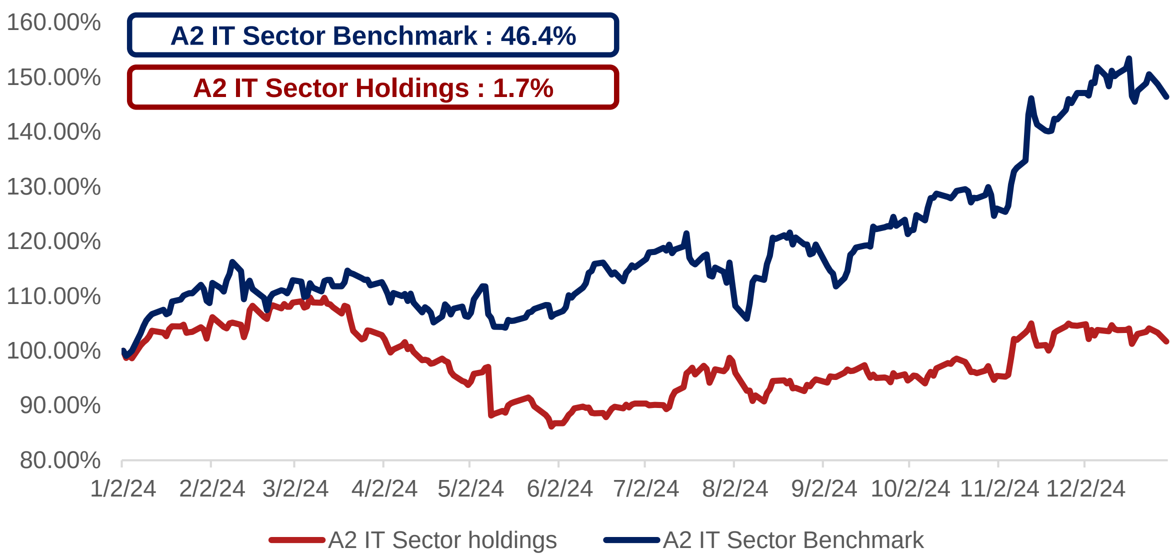
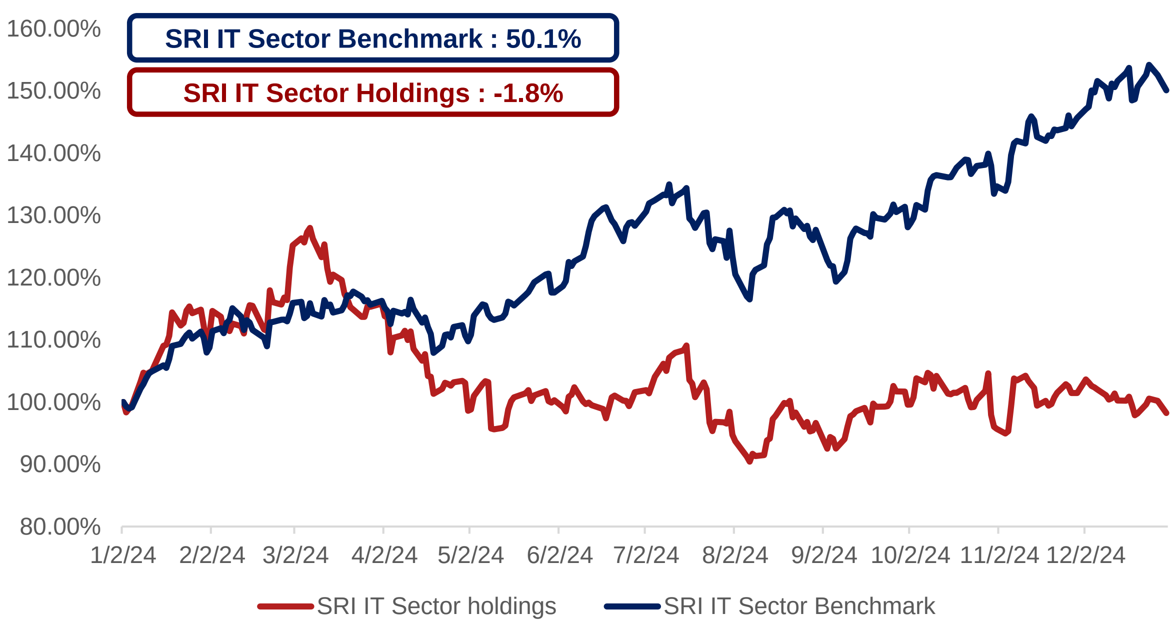


Figure 3: SRI IT vs. SRI IT Benchmark



Bloomberg

Information Technology

2024 Review

Subsector Performance

The IT sector is divided into six subsectors, most of which underperformed the overall index. The best performing subsector was **Semiconductors & Semiconductor Equipment**, outperforming the IT index by **30.08%**. Conversely, **IT Services** was the worst performing subsector, underperforming by **19.39%**, despite returning **12.27%**.

Software

The software subsector increased by **17.44%** in 2024, underperforming the IT Index by **15.68%**. Returns were both driven by a surge in P/E ratio.

In 2024, the software subsector saw moderated growth in cloud computing and SaaS, catering to the demand for remote work solutions. Why did it underperform? The market is gradually saturating, as the rapid adoption of SaaS and cloud solutions has led to a stabilization of growth in these areas by 2024. Additionally, the integration of generative AI into existing systems began replacing traditional software functions, reducing demand for standalone tools and further contributing to the subsector's underperformance.

IT Services

The IT services subsector increased by **12.27%** in 2024, underperforming the IT Index by **19.39%** and marking it as the worst-performing subsector.

In 2024, the moderate growth of IT Services subsector driven by the integration of AI, cloud computing, and big data analytics into enterprise solutions. However, the subsector's underperformance stemmed from macroeconomic pressures, including high interest rates and slower economic growth, which curtailed spending on IT outsourcing projects. Additionally, the widespread adoption of automation tools and AI chatbots reduced demand for low-end IT services such as maintenance and support, further weighing on the subsector's performance.

Semiconductors

The semiconductors subsector increased by **81.18%** in 2024, outperforming the IT Index by **30.08%**. Returns were mainly driven by a surge in P/E ratio and earning growth.

Why did it outperform? In 2024, the semiconductor subsector experienced strong growth fueled by the U.S. government support. The CHIPS Act continued to drive growth in 2024, allocating over $50 billion to boost domestic semiconductor manufacturing and innovation. Major investments, such as TSMC's Arizona facility for 3nm chips and Intel's Ohio expansion, reinforced the U.S. position as a leader in advanced chip production. Additionally, the rapid adoption of generative AI, cloud computing, 5G, and autonomous technologies created unprecedented demand for high-performance GPUs, CPUs, and AI accelerators, cementing semiconductors' critical role in driving technological advancements.

Technology hardware, storage & peripherals

The technology hardware subsector increased by 32.01% in 2024, underperforming the IT Index by 5.22%. Returns were mainly driven by a surge in P/E ratio.

The tech hardware, storage, and peripherals subsector in 2024 saw growth driven by rising enterprise demand for energy-efficient IT infrastructure, fueled by the increasing adoption of AI workloads, edge computing, and cloud services.

The subsector’s underperformance was primarily attributed to weak consumer electronics demand, driven by post-pandemic spending slowdowns and macroeconomic pressures, which led to declining sales in key segments such as PCs, smartphones, and tablets. Additionally, persistent price pressures, including low NAND and DRAM prices, failing to improve the revenues of related companies.

INFORMATION TECHNOLOGY

2024 Outlook

IT Sector Valuation

The latest numbers show that the IT sector (S5INFT) continues to command a noticeable valuation premium relative to the broader market. Specifically, S5INFT's **forward EV/EBITDA ratio** sits at **28.13x**, which is **10.74** points above the S&P 500's (SPX) **17.39x**. Meanwhile, the **trailing P/E ratio** for S5INFT stands at **54.88x**, exceeding SPX's **34.33x** by **20.55** points. Although these multiples may shift over time, the persistently higher ratios suggest that investors remain willing to pay more for technology names.

Given the current valuation spread, an **overweight** stance on the IT sector appears compelling. Within the sector, **semiconductors and hardware** stand out for their potential to benefit from increasing demand related to AI training. This approach recognizes the ongoing expansion of AI capabilities and the associated infrastructure investments required, creating a favorable environment for these sub-sectors.

Software

In 2025, the software industry will experience rapid growth driven by artificial intelligence (AI). The adoption of generative AI in content creation and customer relationship management (CRM) is accelerating, while cloud computing platforms and real-time data analytics are essential components of digital transformation. The global shift toward digitalization, combined with increasing IT investments and demand for technology upgrades among small and medium-sized enterprises, will drive industry growth. Competition will intensify, with leading companies leveraging technological dominance and startups innovating in niche markets. Sustainability will also remain a key focus, as companies optimize energy efficiency to meet social responsibilities. The global software market is expected to expand steadily in 2025, creating both opportunities and challenges.

IT Services

In 2025, the IT services will experience rapid growth driven by the expanded adoption of AI and automation across sectors. The industry will expand through tailored solutions in manufacturing, healthcare, and finance, while the integration of edge computing and IoT will increase demand for real-time data processing, particularly in autonomous driving and smart manufacturing. Cybersecurity will strengthen, with zero-trust architectures and AI-powered defenses at its core to ensure data privacy and compliance. As digital transformation accelerates globally, consulting and business process outsourcing (BPO) will become more prevalent, shifting IT services from technology providers to strategic business partners.

Semiconductors

In 2025, the semiconductor subsector faces both challenges and opportunities amid broader economic uncertainty. The intense rivalry among major AI platforms—including Google's Gemini, OpenAI's ChatGPT, and Anthropic's Claude—is fueling demand for ever more powerful chips, as these companies seek to further train and refine their models. Meanwhile, AI appears to be branching into two main development paths: conversational AI, typified by ChatGPT 4, and a newer, reasoning-focused approach embodied by ChatGPT O1 and O3, which aim to replicate human-level logic and have already surpassed most human coders in competitions. At the same time, one critical challenge lies in managing inventory levels as semiconductor manufacturers ramp up production; any mismatch between supply and demand could weigh on margins and disrupt pricing stability. Nonetheless, geopolitical tensions may ease somewhat, as figures such as President Trump and President Xi place greater emphasis on domestic issues, reducing the risk of direct superpower confrontation and potentially stabilizing supply chains—particularly where Taiwan is concerned. Overall, these factors suggest that, despite headwinds, the semiconductor industry could see further growth and resilience in the coming year.

Technology hardware, storage & peripherals

The launch of China's DeepSeek AI on January 28, 2025, which uses only 5% of ChatGPT's power while achieving comparable reasoning capabilities, has shaken the technology hardware, storage, and peripherals sector, causing sharp stock declines for Nvidia (-17%) and Micron Technology (-14%). This disruption stems from fears that improved algorithms may reduce demand for GPUs and storage in data centers. However, these concerns are likely short-lived, as the AI industry's growth will drive sustained demand for hardware. New competitors entering the market will still require substantial GPU and storage capacity to train and deploy models, even with algorithmic advancements. The sector's future lies in the synergy of efficient algorithms and cutting-edge hardware, ensuring long-term growth despite temporary market reactions. Companies like Nvidia and Micron remain well-positioned to capitalize on this demand as the AI landscape expands.

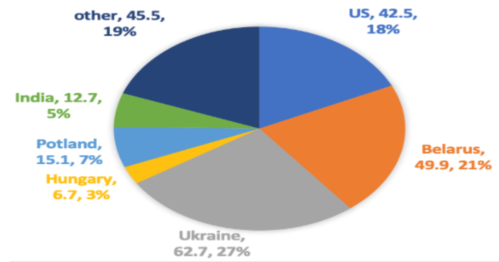
EPAM SYSTEMS (NYSE: EPAM)

Information Technology Services

Company Overview

- EPAM is the global leading provider of digital platform engineering, and software development services around the world, primarily in North America and Europe. Its key service offerings and solutiions include 5 practice areas, such as engineering, operations, optimization, consulting and design.
- EPAM is based in Newtown, Pennsylvania, its customers are concentrated in 5 specific industry verticals: Travel & Comsumer (25%), Financial Services (20%), Business information & Media, and software & Hi-Tech (15% each), life Sciences & Healthcare and Emerging Verticals (10% each)

Asset Distributions



Investment Theses

1. EPAM Systems is well-positioned to capitalize on two critical trends:

– its strategic acquisitions in emerging markets and focus on expanding operations in cost-effective regions such as India and Latin America bolster its ability to maintain robust profit margins amidst global economic uncertainties.

– EPAM is uniquely suited to help clients complete the shift towards hybrid cloud solutions by leveraging its expertise in edge computing and scalable software.

2. EPAM's sharp stock price decline had pushed market sentiment to its peak, but its strong rebound at the end of the year still demonstrated its potential for future growth.

– EPAM's global presence does not rely solely on the performance of the IT in a single region. Its diversified client base across various industries, such as finance, healthcare, and consumer goods, further mitigated risks, enabling it to demonstrate greater resilience amidst macroeconomic fluctuations

Financial Ratios

Metrics (LTM)	EPAM	Comps
EV/EBITDA	14.26x	12.3x
P/E	22.1x	19.3x
EPS	$10.79	$10.59
EV/SALES	2.48x	2.5x
Gross Margin	30.84%	30.6%

Catalysts & Risks

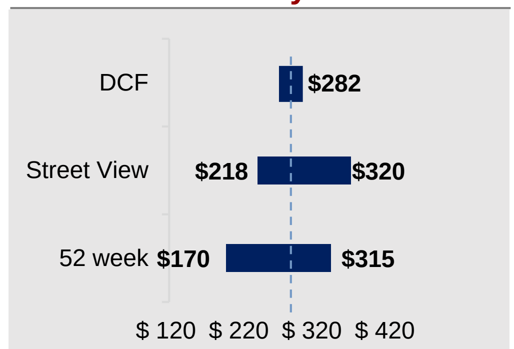
Catalysts

- **Operational Efficiency,** The non-GAAP operating margin grew by 210 basis points year-over-year to 19.1%, supported by $29 million from the Polish R&D incentive program. EPAM also achieved a record $237 million in free cash flow.
- **Geographic Expansion,** EPAM enhanced its delivery capabilities in Latin America and Europe through the acquisitions of NEORIS and First Derivative, solidifying its leadership in SAP, cloud computing, and financial services.

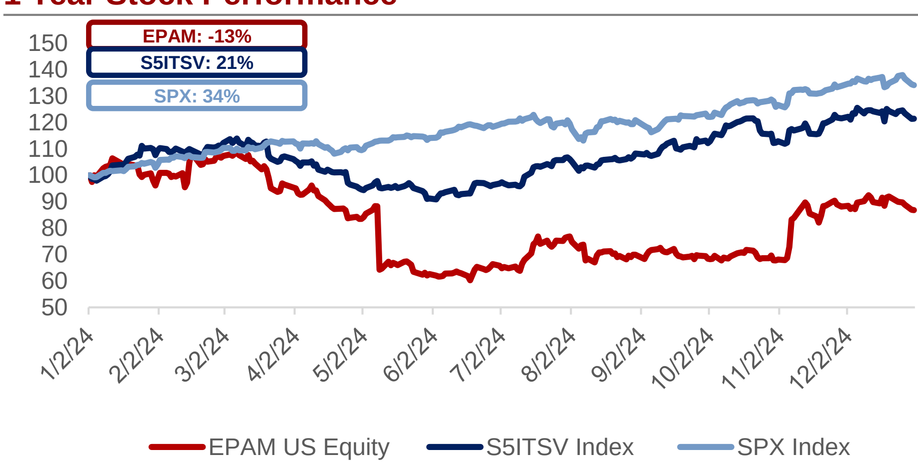
Risks

- **Talent and Resource Allocation,** As EPAM shifts operations to emerging regions like India and Latin America, it faces potential challenges in maintaining high service quality during workforce transitions.
- **Russia – Ukraine Conflict,** Ukraine is still home to the largest percentage of EPAM employees (20%) as management sees the country as critical to its long-term success

Valuation Summary



1 Year Stock Performance



Source: Bloomberg

Position Summary

Rating	Hold
Price Target	$261.14
Price Dec-31	$233.82
Acquisition Date	2024-01-12
Shares SRI – A²	181 (SRI) 198 (A²)

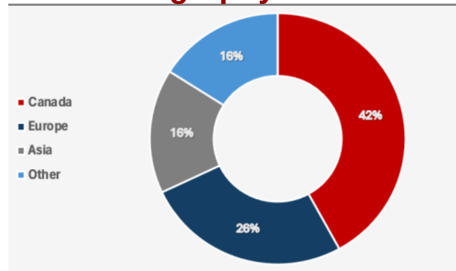
ROPER (NASDAQ: ROP)

IT Software and Other Services

Company Overview

- Roper is a global software conglomerate that provides engineered products and solutions for four global niche end markets. The company serves healthcare, water, food, transportation, energy and commercial construction markets.
- Roper is headquartered in Sarasota, Florida and has manufacturing assembly across the world. It exports products to Asia, Europe, Canada, the Middle East and other countries.
- Revenue is generated from three main segments: Application Software (51.6%), Network Software(23.3%) and Technology Enabled Products (25.1%).

Client Geography



Investment Theses

1. **Market has underestimated Roper's potential growth due to significant M&A activity and placed a complexity discount on Roper's portfolio**
   - After large divestitures, Roper has rebuilt capacity to pursue more M&A, a key pillar in its growth strategy.
   - A long history of free cash flow to net-income conversion well above 100% is expected to improve and will enable them to be aggressive in M&A market.
2. **Roper's shift from an industrial stock to mainly IT will allow for its cash-flow compounding strategy will justify its premium valuation**
   - Roper's shift to software limits cyclical exposure and industrial-outlook concerns. It's software-focused business strategy allows for recurring revenue, customer retention and high backlog for its product businesses.
   - Software consisted of 75% of sales in Q4 and $2.1 billion has been allocated toward vertical software acquisitions while SAAS remains a key growth driver.

Financial Ratios

Metrics (LTM)	ROP	Comps
EV/EBITDA	24.4x	29.6x
P/E	30.5x	38.6x
EPS	$11.74	$4.93
EV/REV	9.9x	12.4x
Profit Margin	31.9%	28.0%

Catalysts & Risks

Catalysts

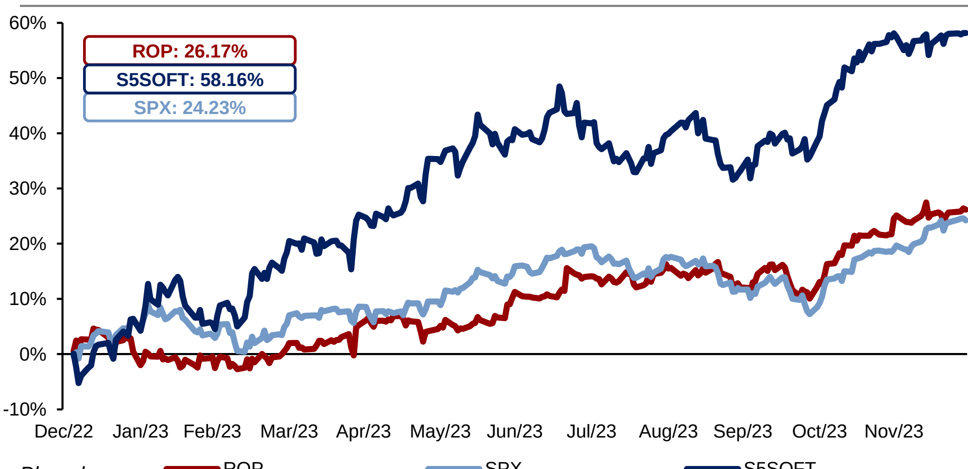
- As Roper continues to shift its business model to software-based, the cash flows of the company will resemble a technology company
- Continued prevalence of mobile devices used for SMB, allows for enterprise cloud-based solutions to become an industry standard across all markets.

Risks

- High downside volatility makes them poorly equipped for a potential economic downturn
- Increased M&A activity in the software industry could result in Roper acquiring companies at a premium, which could reduce firm value

Valuation Summary

1 Year Stock Performance



Bloomberg

Position Summary

Rating	Hold
Price Target	$591.55
Price Dec-31	$545.17
Acquisition Date	2019-12-23
Shares SRI – A^2	230(SRI) 90 (A^2)

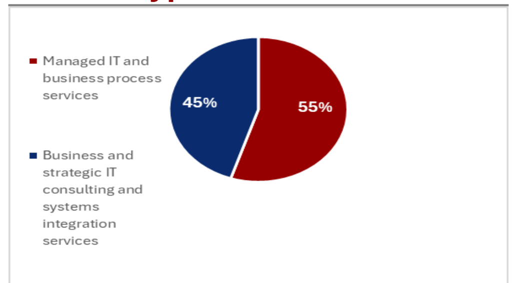
CGI (TSX: GIB.A, NYSE: GIB)

IT Consulting & Other Services

Company Overview

- CGI Inc., founded in 1976 and headquartered in Montreal, Canada, provides IT and business process services globally, including consulting, systems integration, application development, cybersecurity, and digital transformation, serving diverse industries like government, finance, healthcare, and manufacturing.
- Revenues are apportioned into two main segments: 59% of its revenue comes from managed IT and business process services while 41% comes from business and strategic IT consulting and systems integration services.

Service Type



Investment Theses

1.CGI offers strong defensive, and diversification benefits due to its lower beta compared to other stocks in the portfolio.

- Diverse Client Base with Strong Relationships: CGI serves a wide range of industries, including government (40%), financial services (22%), and manufacturing & retail (25%), reducing its reliance on any single sector. Its proximity-based model fosters close client relationships, enhancing retention and revenue stability.
- Stable Government Contracts and High Renewal Rates: Approximately 70% of CGI's bookings come from contract renewals, extensions, and add-ons, particularly in the public sector, ensuring predictable revenue streams and reducing exposure to economic downturns

2. **A Strategic "Build and Buy" Model Enhanced by Industry-Specific SaaS**

- CGI's "Build and Buy" strategy balances targeted acquisitions and innovation, strengthening its presence in government, finance, and manufacturing. Unlike broad enterprise SaaS (IBM Cloud, Accenture SynOps), CGI's custom BPaaS solutions—Momentum®, Ratabase®, and Trade360®—drive recurring revenue, while acquisitions expand market reach and secure long-term contracts.

Financial Ratios

Metrics (LTM)	CGI	Comps
EV/EBITDA	12.14x	13.85x
P/E	19.29x	21.32x
EPS	$7.56	$9.30
EV/SALES	2.44x	2.91x
Gross Margin	30.10%	38.4%

Catalysts & Risks

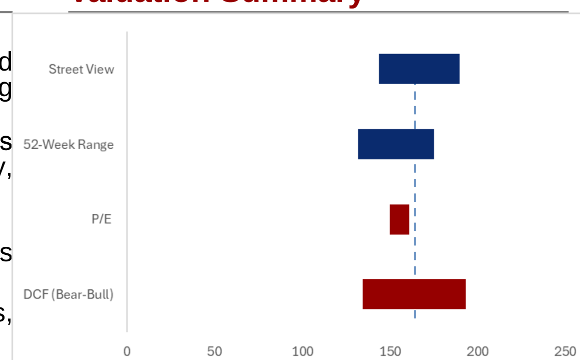
Catalysts

- Recurring Revenue Strength – With 70% of revenue from renewals and extensions, CGI ensures steady cash flow and high client retention, reducing volatility in economic downturns.
- Lower Beta and Defensive Positioning – Compared to industry peers, CGI's diverse client base and long-term contracts provide lower market sensitivity, making it a defensive play in uncertain macroeconomic conditions

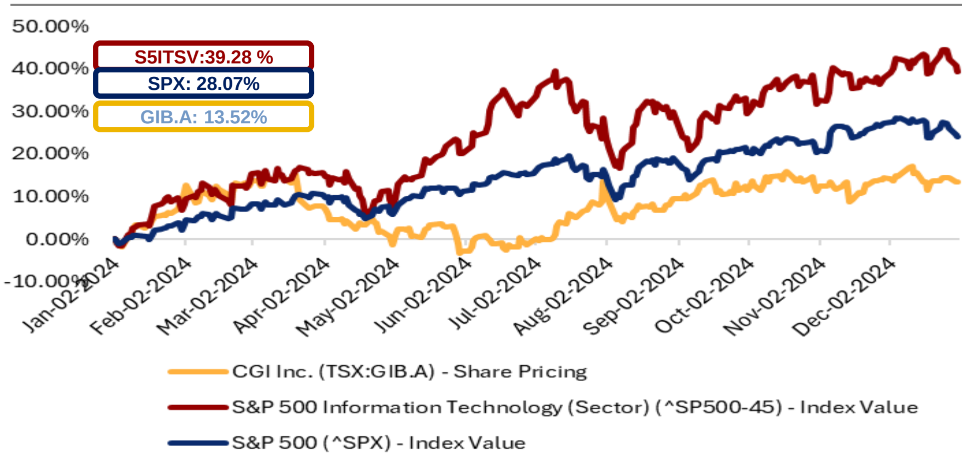
Risks

- Slower Acquisition Integration – Challenges in integrating acquired companies may delay synergies and impact profitability.
- Public Sector Dependence – With 40% of revenue from government contracts, budget cuts or policy shifts could affect growth and renewals.

Valuation Summary



1 Year Stock Performance



Source: Bloomberg

Position Summary

Rating	Hold
Price Target	$178.72
Price Dec-31	$157.28
Acquisition Date	2022-12-20
Shares SRI – A^2	N/A(SRI) 600 (A^2)

ADVANCED MICRO DEVICES INC (NASDAQ:AMD)

Semiconductors

Company Overview

- AMD is a global semiconductor company operating in Data Center, Client, Gaming, and Embedded segments, offering x86 microprocessors, GPUs, chipsets, embedded processors, and semi-custom SoCs under brands such as Ryzen, Radeon, EPYC, and others.
- The company serves OEMs, cloud providers, system integrators, and distributors through its direct sales force. Incorporated in 1969 and headquartered in Santa Clara, California, AMD leverages its innovative technology and broad portfolio to maintain a competitive edge in the industry.

Client Geography

Investment Theses

1.Leadership in AI and Data Center Growth

- AMD's Data Center segment revenue grew 94% YoY, driven by strong demand for EPYC processors and Instinct AI accelerators, positioning AMD as a key player in the AI and cloud computing markets . The company's focus on AI workloads and custom silicon solutions for hyperscalers further strengthens its competitive advantage .

2.Expanding Partnerships and Ecosystem Strength

- AMD is expanding its customer and partner ecosystem, including deep collaborations with hyperscale cloud providers (IBM Cloud, Microsoft Azure, Google Cloud) and OEMs. The acquisition of ZT Systems enhances AMD's ability to deliver integrated AI and data center solutions at scale, accelerating enterprise adoption

Financial Ratios

Metrics (LTM)	CGI	Comps
EV/EBITDA	12.14x	13.85x
P/E	19.29x	21.32x
EPS	$7.56	$9.30
EV/SALES	2.44x	2.91x
Gross Margin	30.10%	38.4%

Catalysts & Risks

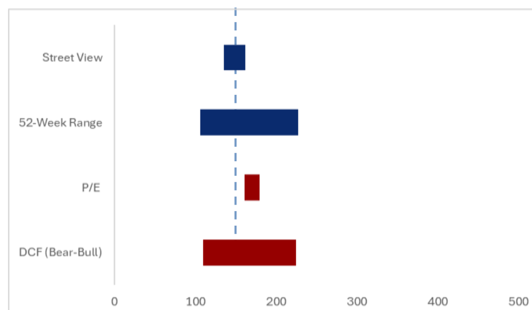
Catalysts

- Custom AI & HPC Silicon Leadership – AMD's advancements in heterogeneous computing (CPU, GPU, FPGA integration) and custom AI silicon set it apart, driving adoption in AI workloads and supercomputing beyond traditional data centers.
- Chiplet & Advanced Packaging Innovation – AMD's chiplet architecture and 3D stacking (e.g., 3D V-Cache, Infinity Architecture) improve scalability, efficiency, and performance per watt, offering a competitive edge over monolithic designs in AI, gaming, and servers.

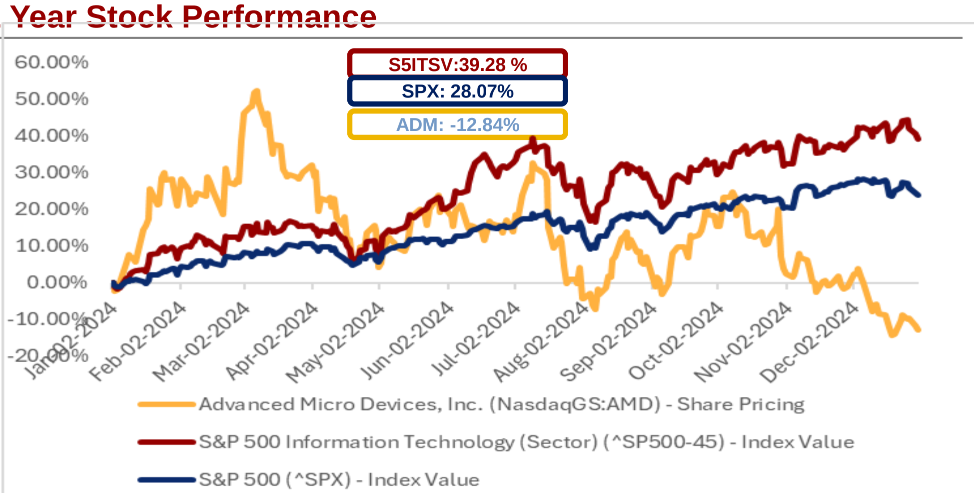
Risks

- AI Software Ecosystem Lag – AMD's ROCm stack still trails NVIDIA's CUDA, limiting developer adoption and slowing the AI accelerator market penetration despite strong hardware.
- Shifting AI Compute Demand – With models like DeepSeek optimizing AI efficiency, global markets may question the long-term necessity of high-end AI accelerators, potentially weakening AMD's growth outlook.

Valuation Summary



1 Year Stock Performance



Source: Bloomberg

Position Summary

Rating	**Hold**
Price Target	$152.37
Price Dec-31	$120.79
Acquisition Date	2020-12-02
Shares SRI – A^2	589(SRI) N/A(A^2)

WESTERN DIGITAL (NYSE: WDC)

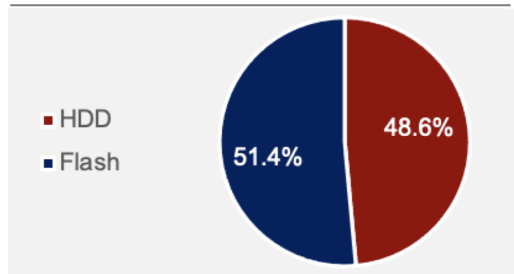
Computer Hardware & Storage

Western Digital

Company Overview

- Western Digital is an American technology company, founded in 1970, specializing in the design and production of hard disk drives, solid-state drives, and advanced digital storage solutions for personal and enterprise
- It operates through 2 main segments: Flash (51.4%), and HDD (48.6%)
- Headquartered in California but operating around the world, with 72.4% of its revenue coming from foreign, China accounting for 41.6% and the remaining 27.6% in the United States

Revenue Breakdown



Investment Theses

1. WDC plans to separate its HDD and Flash businesses into two independent listed companies in 2025

- Enabling each to develop strategies independently and improve efficiency and financial performance.

2. The rise of AI and big data is driving demand for Western Digital's HDD and flash solutions

- Enterprise storage, a major market, is expected to reach $115 billion by 2025, with the company investing in advanced technologies to meet large-scale storage needs.

3. Western Digital ensures stable material and product flows by optimizing its global supply chain across Asia, North America, and Europe

- U.S. policies like the CHIPS Act offer additional support for domestic storage manufacturers.

Financial Ratios

Metrics (LTM)	WDC	Comps
EV/EBITDA	12.98x	5.77x
P/E	64.95x	17.09x
EPS	$ 1.43	$ 6.81
EV/SALES	1.99x	2.13x
Gross Margin	30.5%	36.16%

Catalysts & Risks

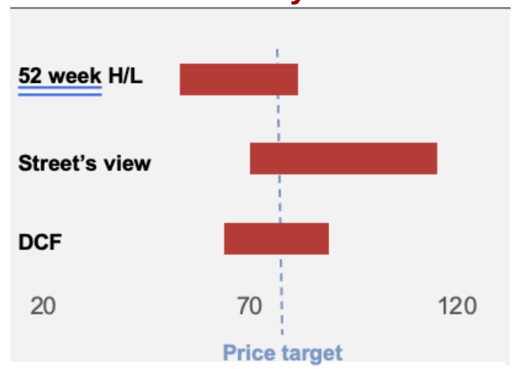
Catalysts

- WDC's technological leadership is strengthened by continuing investments in high-capacity HDD, QLC NAND flash, and next-generation storage technologies. This not only boosts the company's competitiveness in the data storage industry, but it also provides the foundation for future expansion.

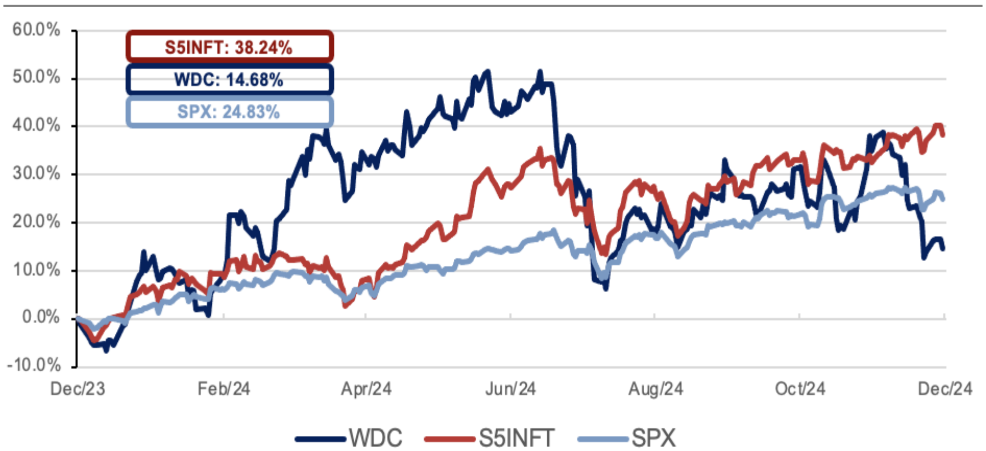
Risks

- WDC's reliance on a few large data center and cloud customers increase the risk of revenue fluctuations and operational uncertainty, since any disruption in key relationships could impact its stability.

Valuation Summary



1 Year Stock Performance



Source: Bloomberg, Company Filings

Position Summary

Rating	**Hold**
Price Target	$86.32
Price Dec-31	$64.07
Shares	1504 (SRI)
SRI – A²	N/A (A²)

MATERIALS

2024 REVIEW & 2025 OUTLOOK

Many Benvidi
Analyst

Bianca Iacobacci
Analyst

Charlie McLernon
Analyst

Malorie Otton
Analyst

Anubhav Singh
Analyst

MATERIALS

2024 SECTOR PERFORMANCE

BENCHMARK PERFORMANCE

In 2024, the S&P 500 Materials sector was the only segment to decline, finishing the year down approximately 1.2%, while the broader S&P 500 posted a 23.3% gain. Despite this, the sector experienced a strong 9.2% gain in Q3, briefly outperforming the broader index. However, macroeconomic headwinds, including global economic uncertainties, a slowdown in China, and high interest rates from the Federal Reserve, pressured the sector throughout the year. Conversely, the S&P/TSX Materials sector performed exceptionally well, posting a 21.8% gain, significantly outperforming the broader S&P/TSX Composite Index, which rose 5.9%. This strong performance was driven by a surge in commodity prices, particularly gold, copper, and aluminum. Gold reached record highs, and copper prices surged due to strong global demand, especially in electrification and construction. Notable performers like Teck Resources and Ero Copper benefited from higher copper production and favorable market conditions. In addition, global economic factors, such as anticipated stimulus measures in China and geopolitical uncertainties, supported the demand for precious metals.

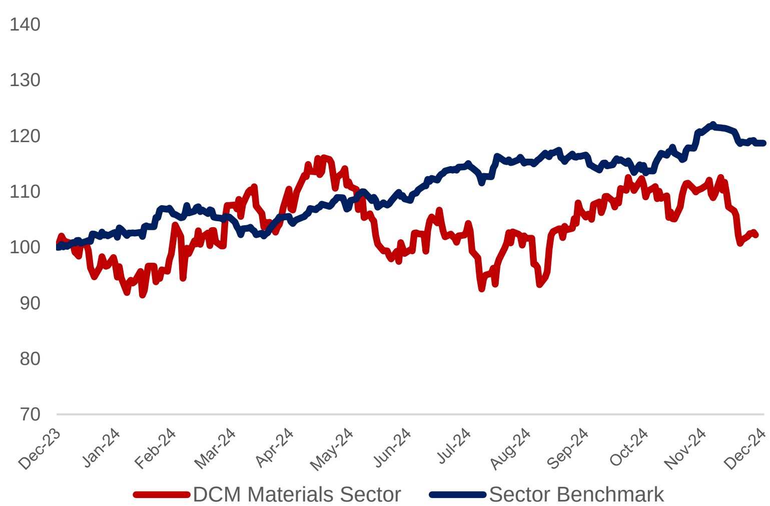
Figure 1: DCM's MMF Materials Holdings Performance

2024 DCM SECTOR PERFORMANCE

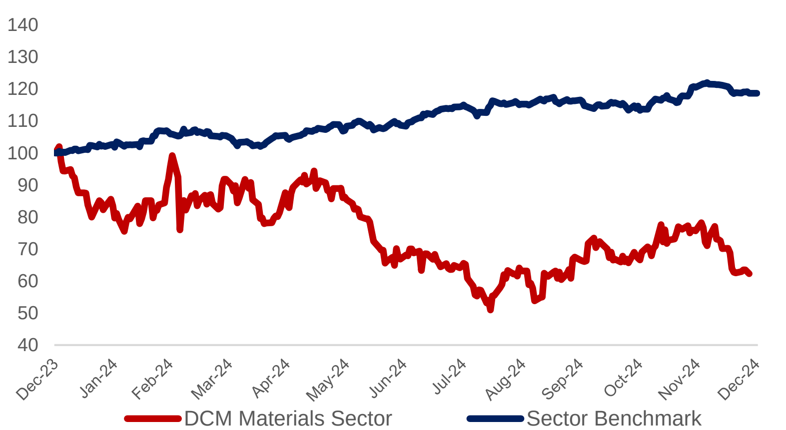
In 2024, both SRI and Alpha Square struggled in the materials sector, primarily due to Albemarle Corporation's poor performance. Between July and September, Albemarle's stock dropped sharply, driven by falling lithium prices, an oversupply in the market, and reduced EV demand. This led to underperformance for both funds. SRI faced a decline in the sector, worsened by Albemarle's net loss of $1.11 billion in Q3.

SRI saw continued weakness through August and September, with the decline in lithium prices and investor caution deepening. Freeport-McMoRan (FCX) also experienced downward pressure, though it later rebounded as copper prices regained momentum. However, the negative impact from Albemarle and broader economic uncertainty led to SRI's underperformance compared to the benchmark..

Similarly, Alpha Square saw significant losses due to Albemarle's downturn and a 71% drop in lithium prices. Although Franco-Nevada Corporation showed some strength, it wasn't enough to offset the losses. As a result, Alpha Square decided to sell its position in Albemarle on December 17, 2024, and added shares of Eagle Materials, aiming to improve stability and diversify its exposure within the sector going forward.



A2 Sector Benchmark



SRI Sector Benchmark

Source: Bloomberg

MATERIALS

2025 OUTLOOK

In 2024, as central banks cut rates to stimulate growth, the materials sector sees a key opportunity. These rate cuts boost investment and demand for raw materials and goods. While supply challenges for metals like copper and lithium are temporary, demand is expected to surge as electrification resumes. However, trade wars, especially by the US, pose risks, potentially driving up costs and reducing demand for these metals.

METALS & MINING

The metals and mining sector faces a rapidly evolving landscape in 2025, shaped by geopolitical tensions, shifting trade policies, and slowing economic growth. Hard assets such as mines, mills, and smelters are increasingly crucial as trade wars and investment restrictions reshape global markets. Cost inflation and capital-intensive reinvestment continue to pressure margins. In addition, steel and aluminum markets are in transition, with the EU's Carbon Border Adjustment Mechanism set to disrupt trade flows in 2026, while North American steelmakers consolidate and modernize to stay competitive.

Battery metals like lithium, nickel, and cobalt face near-term outlook uncertainty after oversupply, weaker Chinese demand growth, and sharp price corrections. While we believe lithium's long-term outlook remains strong due to EV and energy storage expansion, producers are scaling back investments in response to depressed prices. However, strategic investments by major players, such as Rio Tinto's push into lithium, reflect confidence in future demand. Meanwhile, copper remains a key beneficiary of electrification, though short-term supply disruptions have influenced prices more than sustained deficits.

Geopolitical and policy uncertainties will continue to shape investment strategies and capital flows. Market fragmentation, trade barriers, and US-China tensions are prompting reassessments of supply chains and capital allocation. Potential US tariffs on goods could further complicate sourcing for manufacturers and miners. Despite these challenges, companies are focusing on financial discipline, technological innovation, and vertical integration to navigate volatility. AI-driven efficiencies, brownfield expansions, and sustainability initiatives are becoming essential for profitability. Meanwhile, gold remains a safe-haven asset amid inflation and risk sentiment, while silver is seeing renewed interest due to its role in solar PV production. As firms adapt to economic and geopolitical shifts, disciplined capital deployment and adaptability will be key for long-term success.

CHEMICALS

The outlook for the chemicals sector remains neutral in 2025. 2023 and 2024 were difficult years for the sector as it grappled with prolonged destocking of chemical value chains from the post-COVID-19 production boom. While chemical demand and production volumes are projected to increase in 2025, pricing power has been reduced as a result of weak sentiment in rate-sensitive downstream industries, including automotive and construction. Despite modest volume improvements and lower energy and feedstock costs, chemical producers' margins remain under pressure.

Rising trade tensions between the US and China may exacerbate the situation in 2025. For example, China is a major export market for US chemicals used in construction. Imposition of tariffs or stricter import regulations by China in response to the US's 35% proposed tariff on Chinese imports would be expected to negatively impact the US chemicals sector. Further, the strengthening US dollar may make US chemical exports more expensive for foreign buyers, reducing their competitiveness in global markets.

Source: Bloomberg

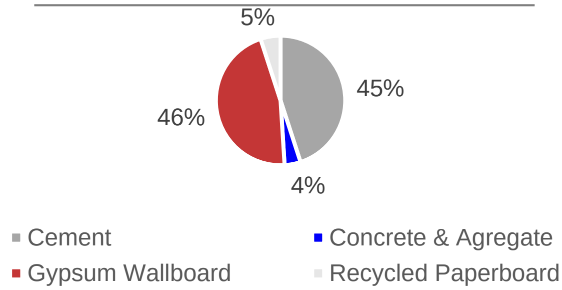
Eagle Materials (NYSE: EXP)

Construction Materials

Company Overview

- Founded in 1963 & headquartered in Dallas, Texas
- Construction materials company selling cement, concrete & aggregates, gypsum wallboards, and recycled paperboards
- Operates entirely in the US, operations are in over 20 states
- Over 60% of the revenue is generated from 10 key states

Revenue Breakdown



Investment Theses

1. **EXP has plants that are strategically positioned across states with public infrastructure that is ready for early retirement.** Many states are in the need for the renovation or completely new highways and bridges. The current public infrastructure needs retirement earlier than expected. Due to the high cost of transportation of cement and concrete & aggregates the government will be looking for plants close to these projects. Eagle Materials is positioned in these states and has been expanding into states with the need for renewal of their public infrastructure.
2. **We see the need for increased residential buildings in the United States.** EXP has a strategic advantage in being able to produce lighter and cheaper gypsum wallboard products. With the population increasing in the US and the new homes construction being depressed over the past couple of years we believe EXP will be able to capture a large portion of gypsum sales to the new homes.

Financial Ratios

Metrics (LTM)	EXP	Comps
EV/EBITDA	14.3x	15.7x
P/E	21.4x	35.0x
EBITDA CAGR	11.4%	9.9%
Gross Margin	30.3%	32.3%
EBITDA Margin	34.7%	26.6%

Catalysts & Risks

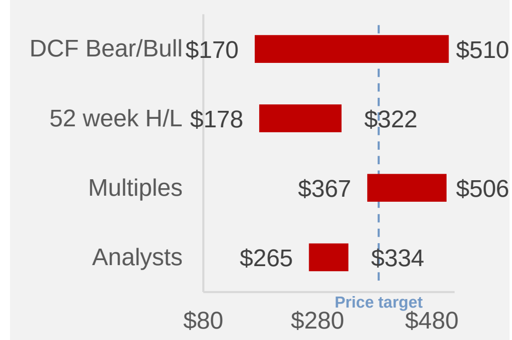
Catalysts

- Bridges and highways become faulty and unsafe to use
- Government commits capital to spend on cheap housing projects across the country
- States receive promised funds to commence the renewal of their public transportation infrastructure

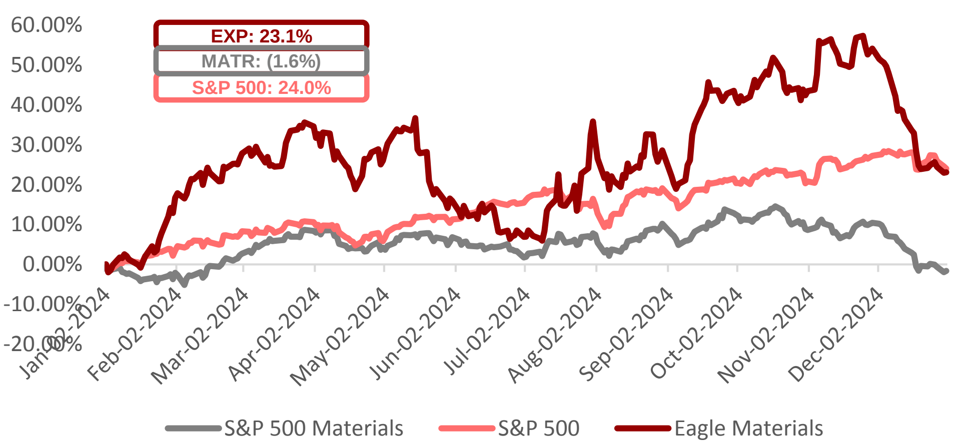
Risks

- Labour shortages due to stricter immigration policies under the Trump administration
- Interest rates stay where they are and do not fall
- Suspension of government spending on public infrastructure projects with the Trump administration

Valuation Summary



1 Year Stock Performance



Position Summary

Rating	Hold
Price Target	$374
Price Dec-31	$247
Acquisition Date	2024-12-17
Shares SRI – A²	N/A (SRI) 194 (A²)
Portfolio Weight SRI – A²	N/A (SRI) 2.3% (A²)

Source: Bloomberg, Company Filings

RENEWABLES & UTILITIES

2024 REVIEW & 2025 OUTLOOK

Samuel Hazan Mea
Analyst

Asad Alam
Analyst

Sehajpreet Lubana
Analyst

Florentin Belfio
Analyst

Jules Lamarre
Analyst

Rick Yabuki-Soh
Analyst

Jason Yiu
Analyst

Julius Alessandro Xanthoudakis
Analyst

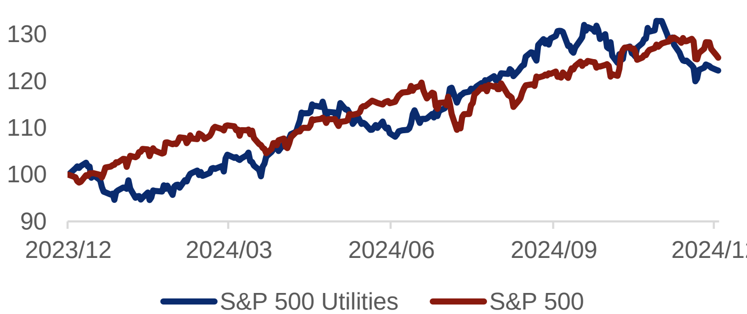
Renewables & Utilities

2024 SECTOR OVERVIEW

SECTOR PERFORMANCE

In 2024, the electric utilities sector delivered a strong performance, returning 22.3%, largely driven by the AI data center boom, which significantly boosted electricity demand forecasts. This surge aligns with projections from the U.S. Energy Information Administration, indicating that U.S. power demand is at an inflection point, expected to grow over 38% by 2040—from 3.8 thousand TWh in 2020 to 5.3 thousand TWh in 2040. The sector faced macroeconomic headwinds early in the year due to higher-than-expected inflation and sustained elevated interest rates, which initially weighed on performance. However, sentiment improved as the year progressed, supported by growing data center demand and positive market reactions to the U.S. presidential election, which favored traditional utilities. Despite challenges like infrastructure damage from Hurricane Milton and concerns over tariffs raising inflationary pressures alongside increasing treasury yields, the sector demonstrated resilience. Overall, the utilities sector's growth was underpinned by structural demand shifts, political developments, and its defensive nature amid economic uncertainty.

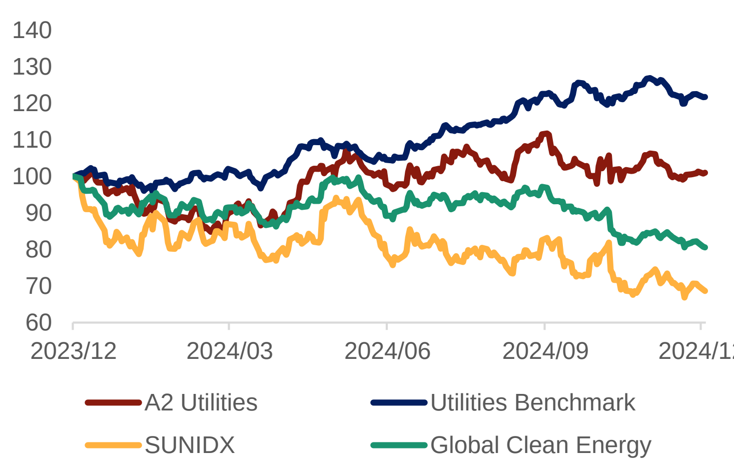
Figure 1：S&P500 & Utilities Index



A2 Renewables and Utilities Performance

The A² Renewables & Utilities Fund delivered a mixed performance when benchmarked against SUNIDX, the Global Clean Energy Index, and the S&P 500 Utilities. While the Utilities Benchmark posted a solid gain of +21.8%, A² Renewables & Utilities lagged, experiencing a small gain of +1%. Although the fund's performance lags when compared to the Utilities sector, it significantly outperformed the Global Clean Energy Index (-19.4%) and SUNIDX, which recorded the steepest drop at -31.3%. At the individual stock level within the fund, Clearway Energy Inc. (CWEN) delivered a positive return of +9.9%, driven by strategic growth investments, strong financials, and a dividend increase of 1.7% to $0.4240 per share. Meanwhile, Northland Power Inc. (NPI) and Dominion Energy Inc. (D) reported negative returns of -18.3% and -6% (since purchase in December), respectively. NPI's performance was adversely affected by operational challenges, including a cable outage at its Gemini offshore wind farm and lower-than-expected wind production.

Figure 2: A2 Utilities/Renewables 2024 Performance



Source: Bloomberg

Renewables & Utilities

2024 SECTOR OVERVIEW

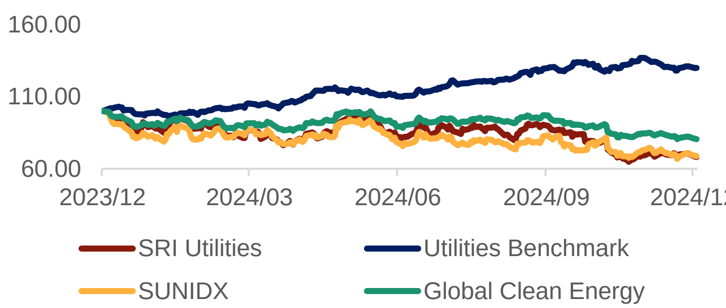
SRI Renewables and Utilities Performance

The SRI Utilities faced a challenging year, with its performance aligning with the broader renewable and clean energy indexes. While the Utilities Benchmark achieved a solid gain of +29.9%, SRI Renewables & Utilities declined by –31.9%. However, due to the heavy exposure to solar for most of the year, it is more comparable to the Global Clean Energy Index and SUNIDX.

Within the fund's holdings, Canadian Solar Inc. (CSIQ) faced headwinds due to market volatility and competitive pressure in the solar industry, reporting a net loss of $14 million in Q3. This downturn was driven by declining average selling prices for solar modules and reduced project sales. Consequently, CSIQ was sold from the fund in early June.

Enphase Energy Inc. (ENPH) also struggled, with a decrease in net income and revenue in Q3, attributed to softening demand in Europe and the U.S., alongside challenging market conditions driven by high interest rates. Conversely, Boralex Inc. (BLX) demonstrated resilience, with a strong focus on renewable energy projects and strategic investments that helped offset some losses from other holdings.

Figure 3: SRI Utilities/Renewables 2024 Performance

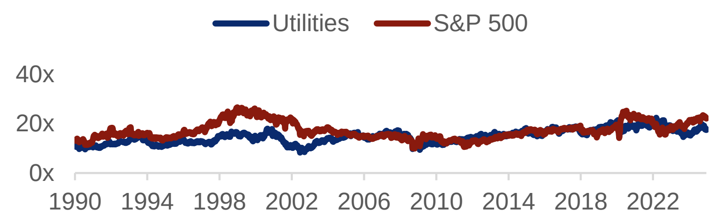


Source: Bloomberg

Renewables and Utilities Forward Multiples

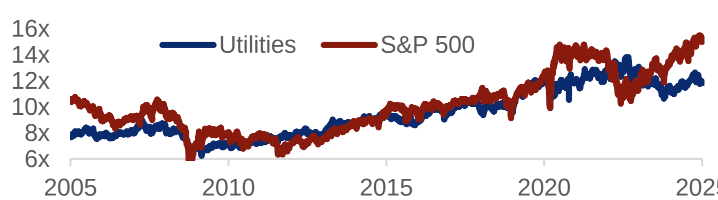
The Utilities sector is currently trading at a larger-than-average discount to the S&P 500, as reflected in the Forward P/E ratios. As of 2024, Utilities have a forward P/E of 17.4x, significantly lower than the S&P 500's 22.0x, marking a discount of -20.8% (compared to average of 12%). This valuation gap highlights potential opportunities, as Utilities are priced attractively relative to historical averages.

Figure 4: Forward P/E



As of 2024, Utilities have a forward EV/EBITDA of 11.8x, compared to the S&P 500's 15.0x, reflecting a discount of -21.3%, which is well below the historical average of -5.8%. This widening gap suggests that utilities are undervalued relative to the broader market. Given the discount and potential for mean reversion, we believe the sector will be supported in the event of an economic downturn. Their defensive characteristics and attractive valuations offer downside protection in volatile markets. While Renewables remain important for long-term growth, recent underperformance and sector-specific risks suggest a more cautious, selective approach.

Figure 5: Forward EV/EBITDA



RENEWABLES & UTILITIES

2025 SECTOR KEY DRIVERS & OUTLOOK

2025 SECTOR KEY DRIVERS

In 2025, several key drivers are expected to influence the performance of the utility sector and its sub-sectors. Rising electricity demand, driven by the proliferation of AI and data centers, presents opportunities for utilities to increase revenue through higher energy sales, infrastructure investments, and renewable energy partnerships, but also poses challenges such as grid strain, carbon emissions pressures, and peak demand management. Additionally, rising electricity prices could create both opportunities and challenges; while utilities might explore new business models such as energy efficiency programs and microgrids, they may also face customer pushback and regulatory scrutiny aimed at controlling costs. The ongoing transition to renewable energy is another significant factor, with companies like Duke, Southern, and Xcel accelerating their capital expenditures to shift from coal to renewables, and solar power expected to remain the fastest-growing energy subsegment. However, regulatory uncertainties under President Donald Trump could alter the energy landscape, as his pro-fossil fuel stance may delay coal plant retirements, support natural gas expansion, and potentially roll back environmental regulations. Lastly, technological advancements in nuclear energy, such as Small Modular Reactors (SMRs), and the role of natural gas as a backup to renewables, highlight evolving infrastructure investment opportunities. Despite the political and economic uncertainties, utilities are positioned to navigate these dynamics through strategic investments and adaptation to shifting market conditions.

2025 SECTOR OVERVIEW

The outlook for the utility sector and its subsectors in 2025 presents a mix of opportunities and challenges, with several factors potentially not yet fully priced into current valuations. The AI-driven data center boom is expected to drive electricity demand, benefiting unregulated power producers like Constellation and Vistra, which could see margin expansion. In the solar industry, despite a significant 20% revenue drop in 2024—the first decline since 2012—a rebound is likely between 2025 and 2027, driven by expanding community solar projects and growing global demand, particularly in China. Falling solar PV prices, with monocrystalline panel costs dropping by 65% to 9 cents per watt, may compress EBITDA margins for manufacturers, despite the demand boom. Meanwhile, the outlook for wind energy appears less favorable due to President Donald Trump's strong opposition to offshore wind projects, which he has pledged to halt through executive action. In contrast, nuclear energy is poised to gain prominence, supported by legislative backing such as the Inflation Reduction Act and the ADVANCE Act. Technological advancements, such as Westinghouse's eVinci microreactor, and private sector investments from tech giants like Microsoft and Amazon further underscore nuclear's growing influence. Additionally, Canada's strategic push to become the world's leading uranium producer, with Cameco planning a production increase of nearly a third, could position the country as a key player in the global nuclear supply chain. As a result, nuclear investments and AI-driven energy demand may present long-term upside potential that is not yet fully reflected in market prices.

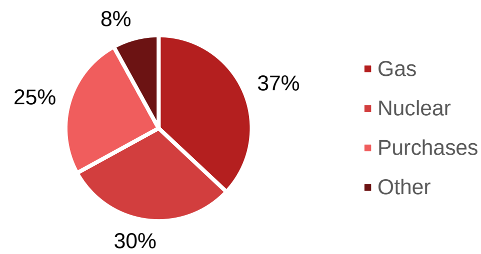
DOMINION ENERGY (NYSE: D)

Integrated Electric Utilities

Company Overview

- Incorporated in Virginia in 1983, operates a 30 GW energy portfolio across 13 states, primarily powered by natural gas (37%) and nuclear (30%)
- Provides electric and natural gas services to over 4.5 million customers, with a strong focus on the East Coast
- Major energy supplier in Virginia, accounting for a significant share of the state's natural gas and nuclear power generation

Revenue Breakdown



Investment Theses

1. AI & Data Center Demand

- Surge in AI-driven applications is increasing power demand, allowing Dominion to leverage its infrastructure

2. Offshore Wind Farms

- Dominion's Coastal Offshore Virginia Wind project strengthens its position in renewable energy

3. Favorable Policies and Financial Incentives

- The Inflation Reduction Act and Advance Act boost Dominion's deployment of next-gen Small Modular Reactors (SMRs), supporting its net-zero 2050 goal

Financial Ratios

Metrics (LTM)	D	Comps
EV/EBITDA	12.49x	13.93x
P/E	19.87x	19.21x
EPS	$2.71	$4.03
Div. Yield	5.0%	3.5%
EBITDA Margin	48.2%	40.1%

Catalysts & Risks

Catalysts

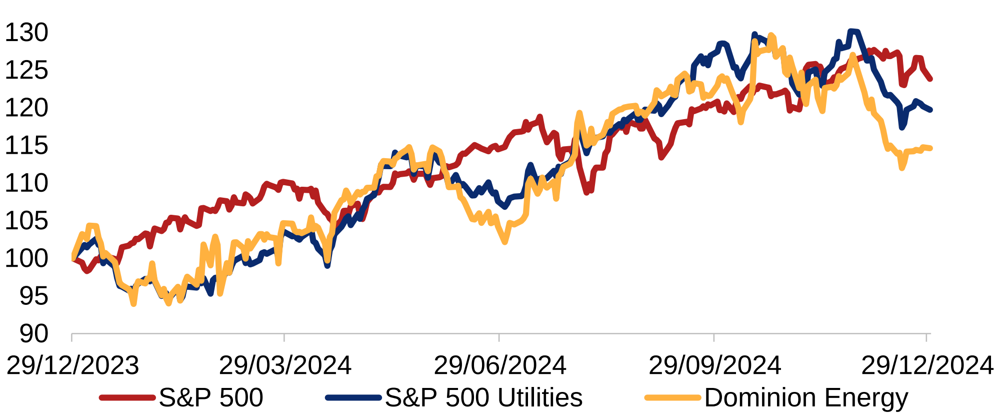
- Increasing demand for sustainable energy solutions
- Rising annual data center connection rates
- Focus on regulated electricity markets ensures a stable revenue base

Risks

- Delays in offshore wind projects could impact performance
- Potential policy shifts against data center expansions in Virginia
- Changes in energy regulations may pose challenges

Valuation Summary

1 Year Stock Performance



Capital IQ

Position Summary

Rating	Hold
Price Target	$69.55
Price Dec-31	$53.86
Acquisition Date	2024-12-03
Shares SRI – A^2	N/A(SRI) 883 (A^2)

DISCLAIMER

The Desautels Global Equity Fund, the Desautels Fixed Income Fund, the Desautels Alpha Squared Fund, and the Desautels SRI Fund (hereafter: the Desautels Funds), together with Desautels Capital Management Inc., have been established as a pedagogical venture in order to offer students in the Investment Management Program in the Desautels Faculty of Management at McGill University some meaningful and realistic experience of the investment management industry and of investment research and analysis by working for Desautels Capital Management Inc. All outstanding shares of Desautels Capital Management Inc. are owned by McGill University. Desautels Capital Management Inc. has a separately constituted board of directors, all of whom are independent from McGill, and constitutes a separate legal entity having responsibility for its own affairs. The role of McGill University towards Desautels Capital Management Inc. is limited to the following activities: (i) appointing independent directors to Desautels Capital Management Inc.'s board of directors; and (ii) providing limited financial resources and support to Desautels Capital Management Inc., such as office space and allowing certain of its officers and employees to serve as officers of Desautels Capital Management Inc. or to carry out certain other functions.

Neither McGill University nor the Board of Governors of McGill University has the authority or power to act on behalf of Desautels Capital Management Inc. or the Desautels Funds, or to incur any expenditures on behalf of Desautels Capital Management Inc. or the Desautels Funds. Neither McGill University nor the Board of Governors of McGill University shall be liable for any debts or obligations of Desautels Capital Management Inc. or the Desautels Funds. McGill University is not involved in the daily activities of Desautels Capital Management Inc., including making investment decisions, and therefore does not take any responsibility for Desautels Capital Management Inc.'s activities. More specifically, McGill University has no liability under the Units, does not guarantee or otherwise stand behind the Units nor does it guarantee performance of the Desautels Funds. Any function or activity of Desautels Capital Management Inc. carried out by individuals who are also officers or employees of McGill University is carried out exclusively in the name of Desautels Capital Management Inc. and McGill University shall have no liability as a result thereof.

Neither the information nor any opinion expressed in this Annual Report constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instrument or any derivative related to such securities or instruments (e.g. options, futures, warrants, and contracts for differences). This Annual Report newsletter is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this Annual Report and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this Annual Report.

All opinions, projections and estimates constitute the judgment of the author as of the date of the newsletter and are subject to change without notice. Prices also are subject to change without notice. Desautels Capital Management Inc. is under no obligation to update this Annual Report and readers should therefore assume that Desautels Capital Management Inc. will not update any fact, circumstance or opinion contained in this Annual Report. Neither Desautels Capital Management Inc., nor any director, officer or employee of Desautels Capital Management Inc. accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this Annual Report or its contents and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

CIBC MELLON

BLG Borden Ladner Gervais