



2025 Annual Report

Master of
Management
in Finance



DESAUTELS

Capital Management
Gestion de capitaux





CFA Stock Pitch Challenge: 2026 National Champions

Congratulations to our MMF Desautels Capital Management team on winning the local and national stages of the 2026 CFA Research Challenge. This marks the second time in three years that a DCM team has won the prestigious title. Video presentation available at www.desautelscapital.ca/dcm-tv.



(From left to right: MMF students Cezar Musharrafiyyah, Kush Patel, Sebastian Stanculescu, Jad Baba, and Thibault Lanoë.)

“An investment in knowledge
pays the best interest.”

- Benjamin Franklin

TABLE OF CONTENTS

<u>A Message from the Presidents</u>	6
<u>Class profile</u>	7
<u>Job Placements</u>	8
<u>Program Leadership</u>	9
<u>Our team</u>	13
<u>Socially Responsible Investing Fund</u>	23
<u>Alpha Squared Equity Fund</u>	29
<u>Strategist Review</u>	34
<u>Economics Team</u>	53
<u>Risk Management Team</u>	68
<u>Sustainability Team</u>	74
<u>Quantitative Strategy</u>	77
Sector Review, Outlook & Holdings Review	
<u>Communication Services</u>	81
<u>Consumers</u>	86
<u>Energy</u>	93
<u>Financials</u>	98
<u>Healthcare</u>	108
<u>Industrials</u>	114
<u>Information Technology</u>	120
<u>Materials</u>	129
<u>Renewables & Utilities</u>	138
<u>Disclaimer</u>	144

A Message From The Class Presidents

“Uncertainty must be taken in a sense radically distinct from the familiar notion of risk...”
- Frank Knight

And so, this is how it started: a sense of what lay ahead—sleepless nights, friendships, hardships, and more—paired with an immeasurable feeling of not knowing what would come next. A feeling that, in many ways, is forever.

The Master of Management in Finance is an accelerated ten-month marathon-sprint that pushed all of us beyond our inner limits. What made the difference was the people. Friendships formed among remarkably interesting characters who were always willing to help (*reviewing the 30th version of your résumé*). It can't be overstated how much pride we take in one another. Being surrounded by so many people who are both tough and kind, a rare combination, has undoubtedly shaped our mindsets moving forward.

One thing is *certain*. The outcomes of this cohort involve risk, and each of us has shown the ability to be among the best. Where we end up is probabilistic. Alas, how we get there is a matter of uncertainty. And for that, we wish our friends the very best of luck.

We would especially like to thank our program mentors, Professors Vadim di Pietro and Jiro Kondo, whose constant support and guidance was an essential part of our learning experience. Finally, to our investors, thank you for standing with the Desautels MMF program since its early days. Over the last decade, your continued confidence has made this journey possible. We are grateful for the trust you place in us and in our work, and we hope you enjoy the 2025 Annual Report.

- *Cezar Musharrafyiah & Florence Lalonde*



2026 Class Profile

An Exclusive Cohort

3.75	690	29	15
Average GPA	Average GMAT	Total Students	Canadian Students
10	3	9 / 20	
International Students	PR Students	Female / Male	

Undergraduate Degrees Represented

Arts, Business Administration and International Business, Commerce, Economics, Engineering, Finance, Mathematics, Science, Medical Sciences

Languages Spoken

English, French, Arabic, Spanish, Cantonese, Mandarin, Chinese, Gujarati, Hindi, Romanian, Vietnamese, German

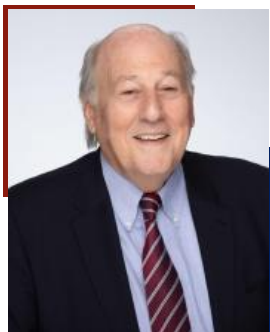
2	10
MMF students speak at least 4 languages	MMF students speak at least 3 languages

Class of 2026: Select Internship & Full-Time Placements

Outcomes



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.



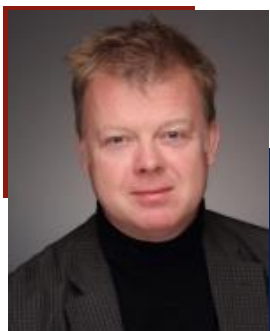
Vadim di Pietro, *Chief Investment Officer*

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, *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, *President and CEO*

Walter Financial

Mr. Pan is currently the President and CEO of Walter Financial. He previously served as Vice-President and Head of Corporate Finance at Power Corporation, where he led strategic planning, and also held roles at Power Financial. Earlier in his career, he was an Executive Director in Investment Banking at Goldman Sachs International in London, England.



Sharon Stern, *President*

Eastmore Management

Ms. Stern currently serves as President of Eastmore Management. She is also President and Managing Partner of Metro Investments. Previously, Ms. Stern served as an Independent Director of Cedar Realty Trust, Inc. Prior to these roles, she was a Senior Analyst in Strategy and Corporate Development at BDC. Ms. Stern has extensive experience in investment management, corporate strategy and leadership.



Neil Murdoch, *Director*

Wm. T. Murdoch Ltd.

Mr. Murdoch is currently an Investor, Corporate Advisor and Director at Wm. T. Murdoch Ltd. Previously, Mr. Murdoch was President of Aston Hill Asset Management. Prior to that, he was Chief Executive Officer of Connor, Clark & Lunn Capital Markets Inc., and EVP, Portfolio Manager and CFO of AIC Limited. Earlier in his career, he was a Senior Manager at Price Waterhouse Management Consultants..

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



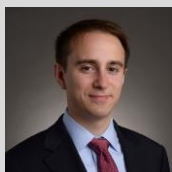
Erik Groot (BS'05)
Partner
TPG Public Equity Partners



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



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



Antonino Piazza (HIM'13)
Partner
McKinsey & Company



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



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



Meagan Prins (HIM'17)
Head of Strategy
Addi

Our Team

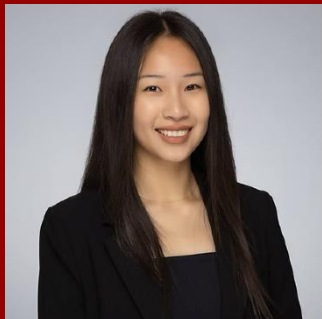
Executives



Thomas Di Stefano

Strategist – A2 Fund, Equity Analyst - Financials

Employment Experience: *iA Global Asset Management
Fixed Income Analyst Intern (Summer 2024)*



Zhaoxin (Jo) Li

Strategist – A2 Fund, Equity Analyst - Energy

Employment Experience: *CIMC Enric, Shenzhen
Risk Control Analyst Intern (Winter 2024)*



Karim Chaitani

Strategist - SRI Fund, Equity Analyst – Communications

Employment Experience: *Mindsets Strategy & Decision Advisors
Business Analyst Intern (Winter 2024)*



Xavier Fu

Strategist – SRI Fund, Equity Analyst - Industrials

Employment Experience: *MPA Morrison Park Advisors
Investment Banking Analyst (Fall 2023)*



Xavier Keating

Market Strategist, Head of Accounting, Equity Analyst - Financials

Employment Experience: *Mitsubishi Capital
Credit Analyst (Winter 2025)*



Florence Lalonde

Co-President, Equity Analyst - Industrials

Employment Experience: *CDPQ*

Capital Solutions Intern (Winter 2025)



Cezar Musharrafiyyah

Co-President, Equity Analyst - Materials

Employment Experience: *Glencore*

FP&A Intern (Summer 2024)



Rohan Rastogi

Co-President, Equity Analyst - Consumers

Employment Experience: *Deloitte*

Financial Engineering & Modelling Analyst Intern (Summer 2023)



Silas Needler

Head of Risk Management, Equity Analyst - Materials

Employment Experience: *Geospectrum Technologies*

Mechanical Engineering Intern (Summer 2021)



Lillian Chiu

Co-Head of Quantitative Strategies, Equity Analyst - Energy

Employment Experience: *ABB*

Electrical Engineer (2023 – 2025)



Kush Patel

Co-Head of Quantitative Strategies, Equity Analyst - Industrials

Employment Experience: *NanoXplore*

Materials R&D (2023 – 2025)



Teerthraj Patel

Co-Head of Quantitative Strategies, Equity Analyst - Consumers

Employment Experience: *Desautels Capital Management*

Equity Analyst (2025 – 2026)



Jayden Huang

Chief Economist, Equity Analyst - Materials

Employment Experience: *E&M Industrial*

Global Chemicals Market Analysis (2024 – 2025)



Sebastian Stanculescu

Chief Sustainability Officer, Equity Analyst - Materials

Employment Experience: *Infrastructure Canada*

Financial Analyst Intern (2023)



Alessandra Rbiez

Chief Compliance Officer, Equity Analyst – Healthcare & Renewables

Employment Experience: *Desautels Capital Management*

Equity Analyst (2025 – 2026)



Thibault Lanoë

Co-Head of Alumni Relations, Equity Analyst – Communications

Employment Experience: *Russell Bedford*

Financial Services Intern (Winter 2025)



Cora-Lee Villemure

Co-Head of Alumni Relations, Equity Analyst - Consumers

Special Team: *Sustainability*

Employment Experience: *Saputo*

Finance Technician (2025-2025)



Jad Baba

Head of AI Implementation, Equity Analyst - Financials

Employment Experience: *RBC*

Financial Advisor (2023 – 2025)

Our Team

Analysts



Xavier Devedeux Delorme

Equity Analyst - Consumers

Employment Experience: *Montréal International
Foreign Investment Intern (Summer 2024)*



Huixuan Huang

Equity Analyst - Financials

Employment Experience: *SIAS AI Quantitative Research Group
Research Assistant (2024 – 2025)*



Thomas Lalande

Equity Analyst – Financials

Employment Experience: *Desjardins
Quantitative Finance Intern (Summer 2024)*



Yamila Bawa

Equity Analyst – Healthcare & Renewables

Employment Experience: *BCI
Infrastructure & Renewable Resources Analyst (Summer 2024)*



Eric Tran

Equity Analyst - Healthcare & Renewables

Employment Experience: *Treasury Board of Canada Secretariat
Junior Analyst Intern (2024 – 2025)*



Kexin (Camilia) Yang

Equity Analyst - Healthcare & Renewables

Employment Experience: *Founder Securities*

Asset Management Analyst Intern (Summer 2022)



Charlie-Rose Boucher

Equity Analyst - Industrials

Employment Experience: *CDPQ*

Private Equity Intern (2026)



Thomas Besse

Equity Analyst – Industrials

Employment Experience: *BDG & Partners*

Private Equity Analyst (Fall 2025)



Noah-Lou Casey

Equity Analyst - Industrials

Employment Experience: *CDPQ*

Direct Infrastructure Investments Intern (Winter & Summer 2025)



Nikolaus Zuffer

Equity Analyst - Industrials

Employment Experience: *Raiffeisen Bank International*

Investment Banking Intern (Winter 2024)



Kamil Benchekroun

Equity Analyst – Information Technology

Employment Experience: *Nextuarial
Strategy Lead (2024 – 2025)*



Zihua Huang

Equity Analyst – Information Technology

Employment Experience: *Extern
HP Tech Venture Extern (Summer 2024)*



Prad Lucas

Equity Analyst – Information Technology

Employment Experience: *Alliance
Economics Analyst Intern (Summer 2024)*



Shuaijun Liu

Equity Analyst - Energy

Employment Experience: *Waterwood Group
Investment Associate (2025)*



Samuel Hazan Mea

Equity Analyst - Energy

Employment Experience: *National Bank Financial
Sustainable Finance – Corporate & Investment Banking Analyst (Fall & Winter
2025)*

STRATEGIST MESSAGE

Dear Investors,

This year has been one of learning, reflection, and renewed conviction. As strategists, our goal remains to bridge academic insight with real-world decision-making, translating research, valuation work, and collaboration into actionable portfolio strategy.

Our teams have strengthened sector coverage, enhanced coordination between the Alpha Squared and SRI funds, and deepened our commitment to disciplined, fundamentals-driven investing. Beyond results, what defines our progress is the professionalism, curiosity, and rigor shown by every analyst.

We are grateful for your continued trust and support, as well as the guidance of Professors di Pietro and Kondo, whose mentorship shapes everything we do at Desautels Capital Management.

Yours truly,



Xavier Fu
SRI Fund Strategist



Zhaoxin (Jo) Li
Alpha-Squared Fund
Strategist



Karim Chaitani
SRI Fund Strategist



Thomas Di Stefano
Alpha-Squared Fund
Strategist



Xavier Keating
Market Strategist

Socially Responsible Investing Fund

2025 REVIEW & 2026 OUTLOOK

Xavier Fu
SRI Strategist



Karim Chaitani
SRI Strategist



STRATEGIST REVIEW

2025 Review & Outlook

Fund Performance and Outlook

Dear Investors,

We are happy to report that the SRI Fund returned 36.8% in 2025, gross of fees, vs. 16.1% for our blended benchmark (20% S&P/TSX Fossil Fuel Free and 80% S&P 500 Fossil Fuel Free). Market conditions during the first half of the year were challenging, with volatility driven largely by tariff-related headlines and uncertainty surrounding Liberation Day. In the second half, equities recovered strongly as growth expectations stabilized, monetary policy became more supportive, and artificial intelligence enthusiasm continued to support technology names. Green stocks did surprisingly well this year as renewable tax-credit cuts in the “Big Beautiful Bill” proved softer than expected. Within this environment, the SRI portfolio benefited from strong stock selection across these themes, allowing the fund to generate significant alpha.

Our outperformance was largely driven by maintaining large weights in several stocks that delivered strong returns across multiple sectors, particularly in technology (SanDisk, Western Digital, AMD), consumers (Callaway, Tapestry), and energy-related names (NextPower, Cameco). Performance accelerated in the second half of the year, with the fund returning 28.9% in H2. The performance gap wi-

-dened further in Q4, when the fund generated 12.5% returns, driven by continued momentum while the benchmark remained more diversified

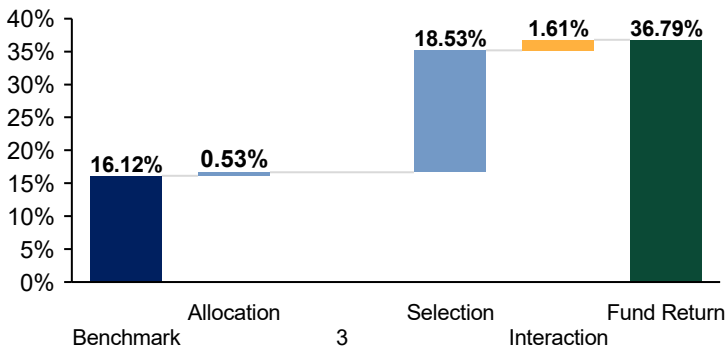
We used the Brinson-Fachler attribution model to quantify our relative performance.

Asset Allocation: Our overweight positions in Information Technology, Consumer Discretionary, and Energy-related exposures were strong contributors to performance. Our underweight in TSX Materials hurt relative performance as the sector delivered strong returns during the year and a slight underweight in Communication Services also detracted.

Stock Selection: Stock selection was the main driver of excess return. Our 109% return in Information Technology vs 23.8% for the benchmark generated significant alpha. We also generated strong results in Consumer Discretionary, where our holdings produced a 47.5% sector return vs roughly 7% for the benchmark. In addition, energy-related holdings were strong contributors, with Cameco returning 70% and Nexttracker returning 138%.

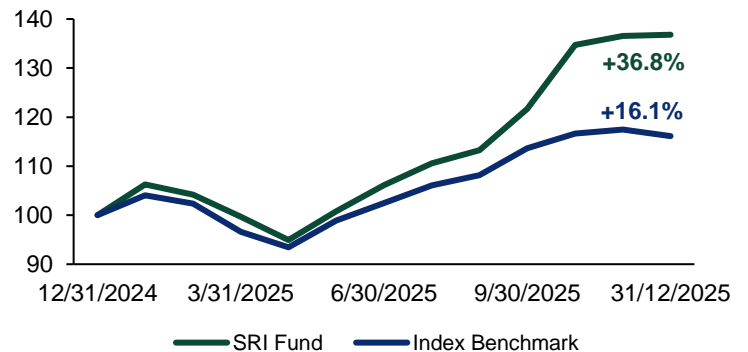
Interaction: Residual positive effect from strong stock selection within sectors where we maintained overweight positions.

Figure 1: Performance Breakdown (Brinson Model)



Source: Bloomberg L.P.

Figure 2: SRI Fund Performance







STRATEGIST REVIEW

2025 Review & Outlook

Best and Worst Performers

Portfolio performance in 2025 was driven primarily by strong gains from companies exposed to AI infrastructure, data storage, and renewable energy investment, while select real asset holdings faced cyclical macro headwinds. The table below highlights the portfolio's top three contributors and largest detractor for the year based on holding period return (HPR).

Table 1: Best and Worst Performing Holdings of 2025

Sector	Company	2025 HPR
Information Technology	 SanDisk	388%
Information Technology	 Western Digital	282%
Industrials	 nextracker	138%
Real Estate	 Weyerhaeuser	(16%)

Sandisk Corp. (SNDK) – Sandisk was the portfolio's strongest contributor in 2025, gaining 388% during the year. The rally was driven by a sharp recovery in the memory cycle alongside accelerating demand for high-performance storage supporting AI infrastructure and hyperscale data centers. Improving supply discipline across the NAND industry and strengthening pricing dynamics supported margin recovery. While the company has benefited from cyclical momentum, the stock has also attracted increasing short interest as few investors question the sustainability of the current pricing cycle. We continue to view data storage as a critical component of the broader AI infrastructure build-out.

Western Digital Corp. (WDC) – Western Digital returned 282% in 2025 as the company benefited from the same structural recovery in NAND markets and

growing enterprise demand for high-capacity SSD storage. As hyperscale data growth accelerates and AI workloads expand, demand for scalable storage infrastructure continues to increase. The company's improving fundamentals and positioning within the data ecosystem reinforced our investment thesis.

Nextracker Inc. (NXT) – Nextracker gained 138% during the year as strong global solar installations and supportive policy frameworks drove robust demand for its solar tracking systems. The company reported expanding project backlogs and resilient margins, highlighting the durability of demand for utility-scale solar infrastructure. Long-term decarbonization and electrification trends remain structural tailwinds for the business.

Weyerhaeuser Company (WY) – Weyerhaeuser declined 16% in 2025 as weaker housing activity and softer lumber pricing weighed on investor sentiment. While near-term fundamentals remain tied to the cyclical housing market, the company's high-quality timberland portfolio continues to provide long-term exposure to real assets and inflation-linked cash flows.

Overall, the year highlighted the portfolio's exposure to structural growth themes such as AI infrastructure and energy transition, while cyclically sensitive real asset holdings experienced temporary macro headwinds.

Thematic Exposure: AI and Tariff Sensitivities AI Trade Exposure

Our portfolio remains positioned for long-term AI adoption with valuation discipline. Using three years of simulated daily returns against the Bloomberg Artificial Intelligence Aggregate Total Return Index (BAIAT Index), we estimate an AI beta of 0.39, above the

STRATEGIST REVIEW

Thematic Special Topic – Tariffs

benchmark’s 0.34, reflecting stronger sensitivity to AI-driven trends..

- Most AI providers continue to trade at elevated multiples.
- The economic benefits of large-scale AI adoption are still unfolding and may take longer to fully materialize.
- Current enthusiasm favors enablers and infrastructure rather than direct application developers.

We integrate AI exposure through bottom-up stock selection, maintaining measured positioning as productivity gains materialize.

Other Charts

Figure 3: SRI Performance Metrics

Performance Metrics in 2025

Performance Metrics	Since Inception	2025
Return	+11.86%	+36.79%
Over/Underperformance	-3.57%	+20.67%
Standard Deviation	16.47%	14.57%
Sharpe Ratio	0.45	1.40
Beta (to Benchmark)	1.10	1.25
Alpha	-3.43%	10.55%
Tracking Error	2.39%	2.04%

Figure 5: Sector Exposure vs Benchmark

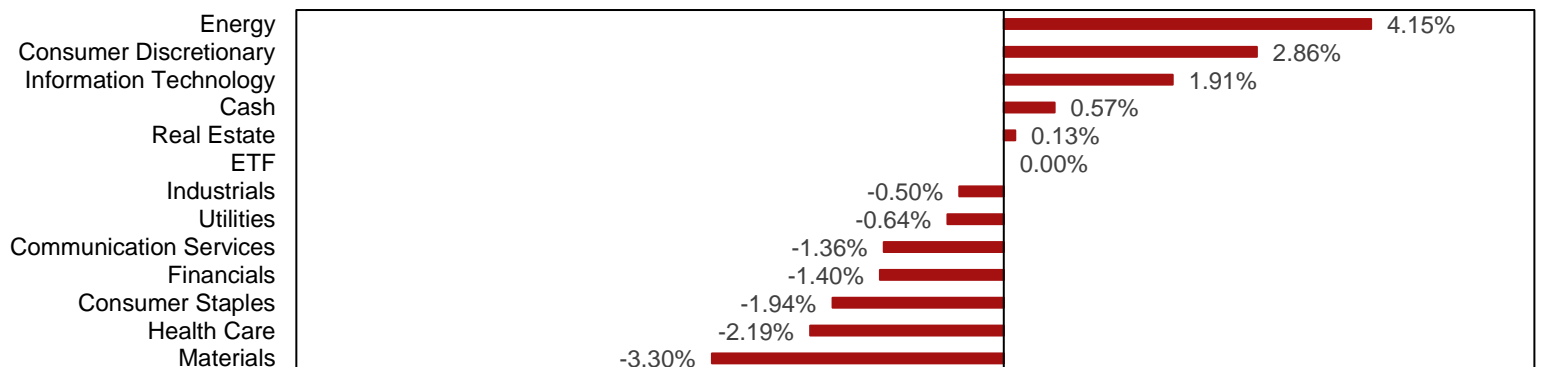


Figure 4: Sector Exposure vs Benchmark

Sector	DCM (Updated)	Benchmark
Communication Services	6.93%	8.29%
Consumer Discretionary	12.13%	9.27%
Consumer Staples	3.12%	5.06%
Energy	4.90%	0.74%
Financials	19.44%	20.84%
Health Care	5.13%	7.32%
Industrials	8.86%	9.36%
Information Technology	31.66%	29.75%
Materials	3.00%	6.30%
Real Estate	2.10%	1.97%
Utilities	2.02%	2.65%
Cash	0.71%	0.00%
Total	100.00%	100.00%

SRI FUND

2025 Q3 Review & Outlook

Other Charts

Figure 6: Current Currency Exposure

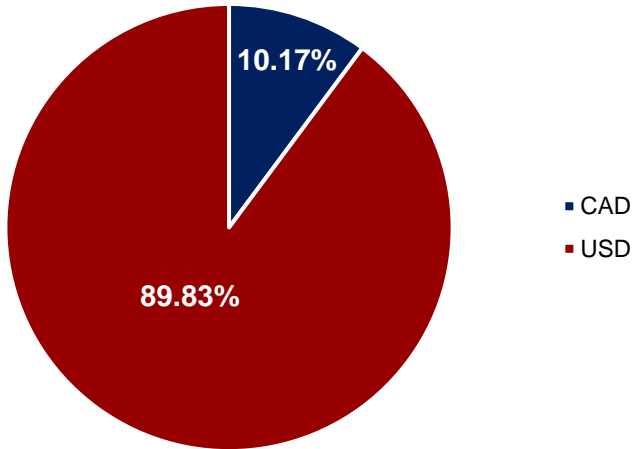


Figure 7: Market Cap Exposure

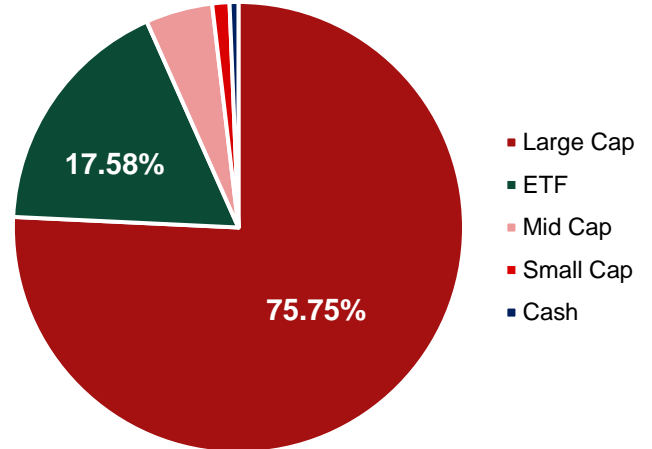
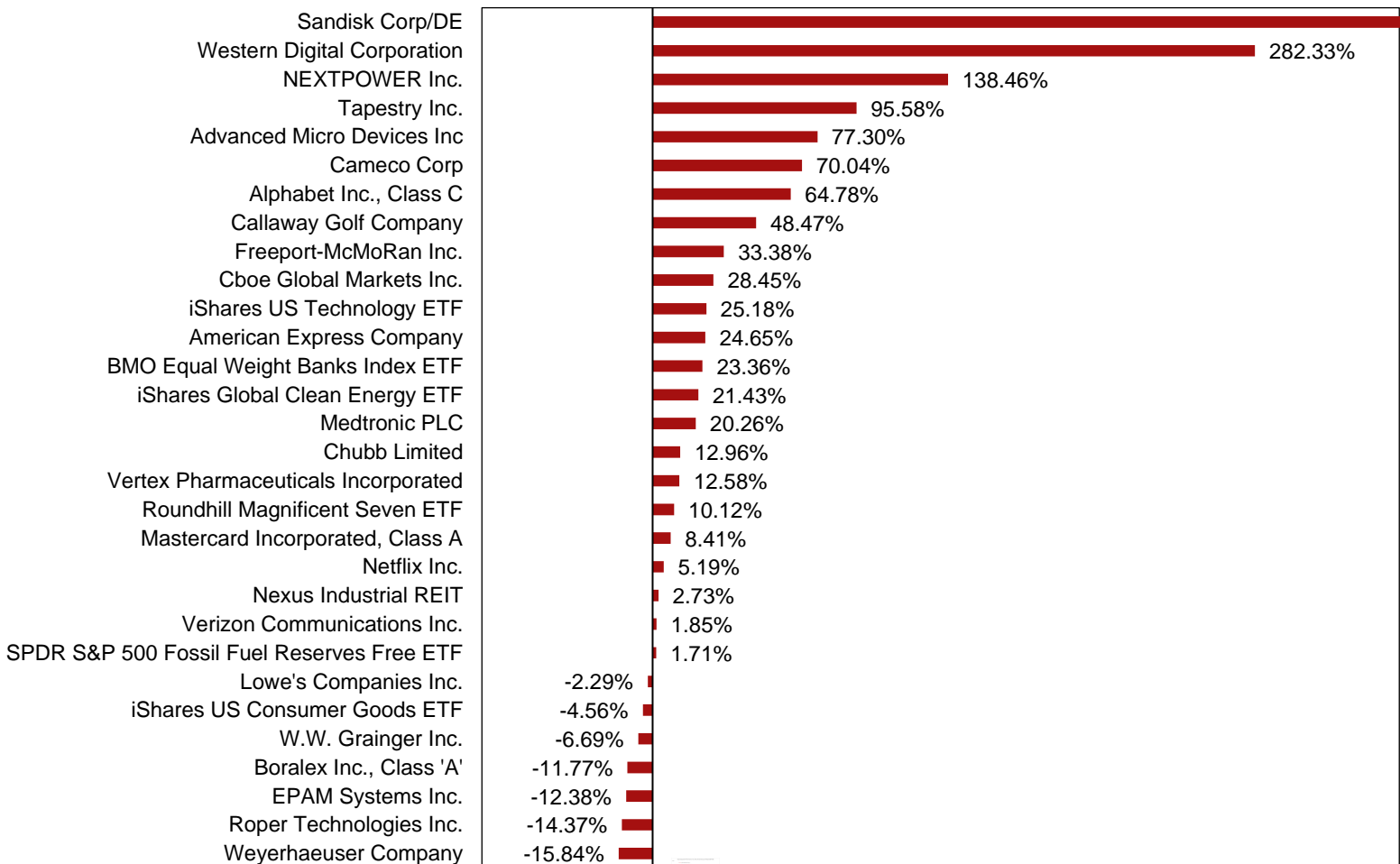


Figure 8: Holding Period Returns in 2025



SRI FUND

Holdings: Dec 31, 2025

	Security	Shares/Par	Currency	Local Price	Local Market Value	CAD Value	Weight
1	Boralex Inc., Class 'A'	2,287	CAD	25.33	57,930	57,930	1.5%
2	Nexus Industrial REIT	5,976	CAD	7.90	47,210	47,210	1.2%
3	Advanced Micro Devices Inc	589	USD	214.16	126,140	173,134	4.5%
4	Alphabet Inc., Class C	596	USD	313.80	187,025	256,701	6.7%
5	American Express Company	205	USD	369.95	75,840	104,094	2.7%
6	Callaway Golf Company	7,820	USD	11.67	91,259	125,258	3.3%
7	Cboe Global Markets Inc.	432	USD	251.00	108,432	148,828	3.9%
8	Chubb Limited	450	USD	312.12	140,454	192,780	5.0%
9	EPAM Systems Inc.	181	USD	204.88	37,083	50,899	1.3%
10	Freeport-McMoRan Inc.	1,500	USD	50.79	76,185	104,568	2.7%
11	iShares Global Clean Energy ETF	1,070	USD	16.43	17,580	24,130	0.6%
12	iShares US Consumer Goods ETF	1,030	USD	66.92	68,928	94,607	2.5%
13	iShares US Technology ETF	1,128	USD	199.68	225,239	309,152	8.1%
14	JPMorgan Chase & Company	319	USD	322.22	102,788	141,082	3.7%
15	Lowe's Companies Inc.	420	USD	241.16	101,287	139,022	3.6%
16	Mastercard Incorporated, Class A	155	USD	570.88	88,486	121,452	3.2%
17	Medtronic PLC	740	USD	96.06	71,084	97,567	2.6%
18	Microsoft Corporation	215	USD	483.62	103,978	142,715	3.7%
19	Netflix Inc.	920	USD	93.76	86,259	118,395	3.1%
20	NEXTPOWER Inc.	1,800	USD	87.11	156,798	215,213	5.6%
21	Regeneron Pharmaceuticals Inc.	133	USD	771.87	102,659	140,904	3.7%
22	Republic Services Inc.	491	USD	211.93	104,058	142,824	3.7%
23	Roundhill Magnificent Seven ETF	950	USD	65.96	62,662	86,007	2.2%
24	Sandisk Corp/DE	501	USD	237.38	118,927	163,234	4.3%
25	SPDR S&P 500 Fossil Fuel Reserves Free ETF	1,600	USD	56.19	89,904	123,398	3.2%
26	Verizon Communications Inc.	1,425	USD	40.73	58,040	79,663	2.1%
27	Vertex Pharmaceuticals Incorporated	137	USD	453.36	62,110	85,250	2.2%
28	W.W. Grainger Inc.	60	USD	1,009.05	60,543	83,098	2.2%
29	Western Digital Corporation	831	USD	172.27	143,156	196,489	5.1%
30	Weyerhaeuser Company	847	USD	23.69	20,065	27,541	0.7%
31	United States Dollar	3,123	USD	0.73	3,123	4,286	0.1%
32	Canadian Dollar	28,483	CAD	1.00	28,483	28,483	0.7%
					Total	3,825,913	100%

Source: Bloomberg L.P.

Alpha Squared Fund

2025 REVIEW & 2026 OUTLOOK

Thomas Di Stefano
Alpha Squared Strategist



Zhaoxin (Jo) Li
Alpha Squared Strategist



ALPHA SQUARED FUND

2025 Q3 Review & Outlook

Fund Performance and Outlook

In 2025, the Alpha Squared Fund generated a gross return of 11.1% compared to 23.8% for the benchmark (60% S&P/TSX, 40% S%P500). Before liberation day, the fund outperformed the benchmark but then lagged when the market recovered from the tariffs shock. This can be mainly attributed to our underexposure to the Information technology sector. The full attribution of the performance will be addressed using the Brinson-Fachler attribution model.

Another major contributor to our underperformance for 2025 is our overexposure to U.S. assets relative to our benchmark (74% vs. 40%). In addition to the FX risk of this exposure, the S&P/TSX returned an impressive 31.7% in total returns which further exacerbated the effect of being overweight in the U.S. market. We plan on returning closer to our benchmark’s country allocation in 2026 to limit some of our country specific tracking error.

Figure 1: Performance, 2025

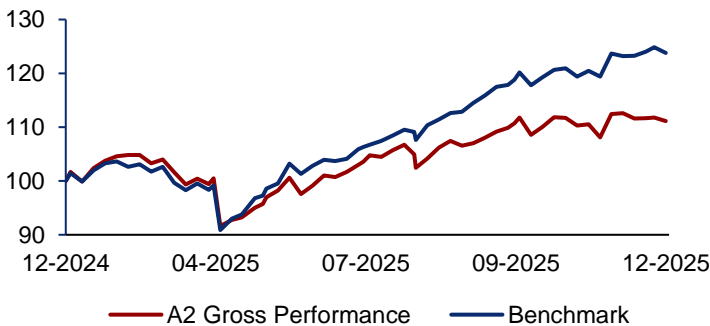
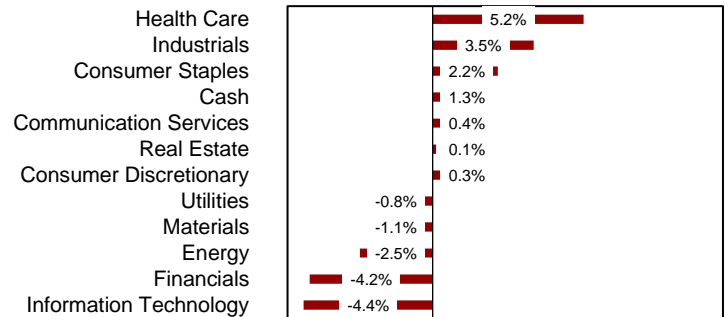


Figure 2: Since Inception and Metrics, 2025

Performance Metrics	Since Inception	2025
Gross Return	8.08%	11.1%
Over/Underperformance	-4.44%	-12.7%
Standard Deviation	14.8%	13.5%
Sharpe Ratio	0.38	0.64
Beta (to Benchmark)	1.00	1.00
Alpha	-4.12%	-9.56%

Source: Bloomberg L.P.

Figure 3: Relative Sector Weights, Dec 31, 2025



The figure below shows a detailed breakdown of our relative performance in 2025 based on an expanded Brinson-Fachler attribution model.

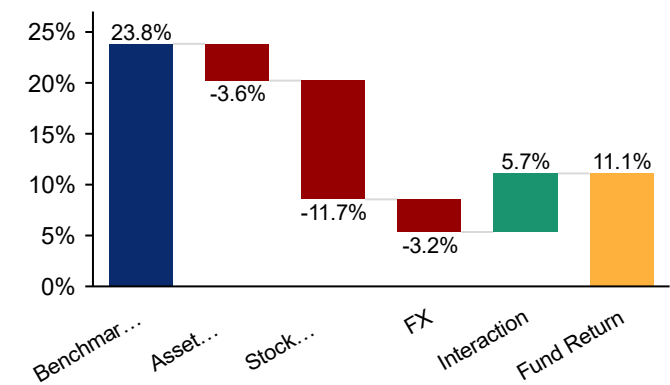
Asset Allocation: Underweight in TSX Materials that returned 101% and an overweight in S&P500 Financials that returned 9.63% hurt relative performance

Stock Selection: our 15% return in TSX Financials against the 35% sector performance and our 7% return in S&P500 Info Tech against the 18% sector performance were the main culprits.

FX: Overweight in USD vs CAD exposure (34% overweight) with a weakening USD led to this underperformance.

Interaction: Residual effect from good stock selection in overweighted sectors, and vice versa.

Figure 4: Detailed Performance Attribution YTD



ALPHA SQUARED FUND

2025 Q3 Review & Outlook

Best and Worst Performers

Cameco (2025 HPR: 74.74%) – From April 29 to December 22, 2025, Cameco's market performance decoupled from its strong fundamental execution. Despite significant Q1 and Q2 earnings beats driven by rising uranium demand from the AI data center boom, and a major \$80 billion U.S. government-backed investment in Westinghouse reactors, the resulting stock rally faded. The market treated the reactor announcement as a long-term policy signal rather than immediate cash flow, leading to profit-taking on stretched valuations. Selling the stock was justified because our core investment theses were fully realized: Cameco successfully capitalized on the full nuclear value chain through Westinghouse, global policies firmly supported nuclear energy for the clean energy transition, and aggregate AI electricity demand outpaced model efficiency gains.

Robinhood (2025 HPR: 74.74%) – Between April 29 and December 22, 2025, Robinhood demonstrated explosive revenue and profit growth. The stock rallied 35% following a Q2 earnings beat driven by 46% YoY revenue growth and a 10% user increase. Momentum accelerated with a 133% surge after Q4 earnings beat estimates by 123% and revenue grew 58% YoY, heavily fueled by options and cryptocurrency trading. The firm's market maturation was further solidified by its inclusion in the S&P 500.

We sold the position because our core investment theses fully materialized. The thesis of Robinhood becoming a comprehensive financial services company was validated by its successful expansion into retirement accounts, credit cards, and broader financial products. The thesis of crypto as a growth driver also proved accurate, evidenced by surging digi-

-tal asset trading revenues and the strategic acquisition of the Bitstamp exchange.

Spin Master (2025 return: -43.59%) – TOY severely underperformed in 2025, culminating in a 64% Q4 EPS miss and an 11% selloff. This decline was driven by tariff headwinds on overseas manufacturing, weak PAW Patrol sales, and impairments on digital IPs including Rubik's Match, Nordlight, and Toca Day. Consequently, the thesis that the market underweights the digital games segment is currently challenged, as these impairments justify a fundamental discount. Conversely, the thesis regarding the undervaluation of the entertainment segment retains merit. While sluggish revenue has depressed valuations, making TOY cheaper than peers Mattel and Hasbro on a PEG basis, the market is likely underestimating the revenue potential of upcoming catalysts like the new PAW Patrol movie, positioning the stock as a compelling hold.

Fiserv (2025 HPR: -77.7%) – FI severely underperformed due to consecutive earnings misses and a structural slowdown in its Clover merchant payment solution. Beginning with lowered guidance in Q4 2024, the stock faced significant selloffs in 2025, including an 18% drop in Q1, a 14% drop in Q2, and a 44% drop in Q3. These were driven by missed revenues, low payment volumes, and a 60% cut to growth guidance. Our original investment theses of rapid domestic and global Clover expansion alongside Fiserv's underrated recession resilience proved unrealizable, ultimately necessitating the divestment of the position.

Source: Bloomberg L.P., Company Filings

ALPHA SQUARED FUND

2025 Q3 Review & Outlook

Other Charts

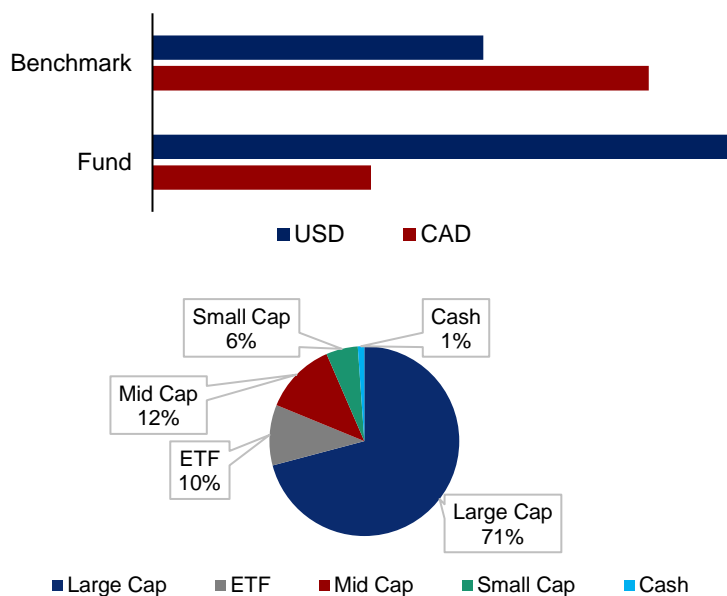
Figure 6: Fund Currency Allocation

Sector	Company	2025 Return Contribution
Energy	Cameco	2.39%
Financials	robinhood	2.34%
Consumer Discretionary	삼성	(-0.88%)
Financials	fiserv.	(-1.24%)

Fund Thematic Exposure: AI Trade

We used the same regression methodology as the SRI fund to identify our AI exposure. Our Beta to AI Aggregate of 0.40, against the benchmark's 0.41, and our Beta to AI Enablers of 0.30 against the benchmark's 0.30. We are comfortable with our exposure that is on par with the benchmark, but as mentioned in our AI review, we will be looking to increasing our exposure to the AI enablers and look for creative ways of benefiting from the second stage of the AI buildout.

Figure 7: Fund Market Cap Allocation



Source: Bloomberg L.P.

Figure 8: Holdings 2025 Performance

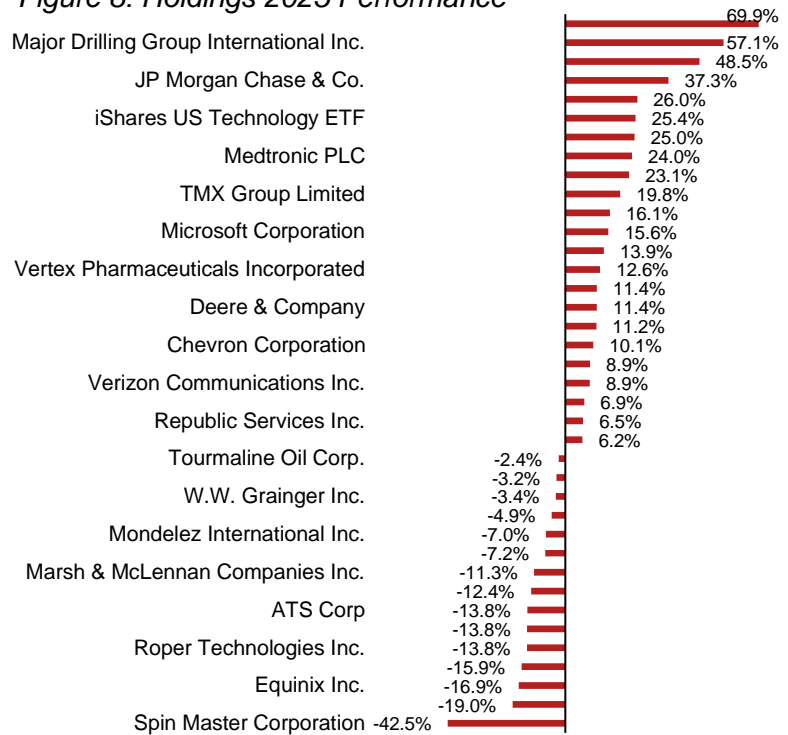
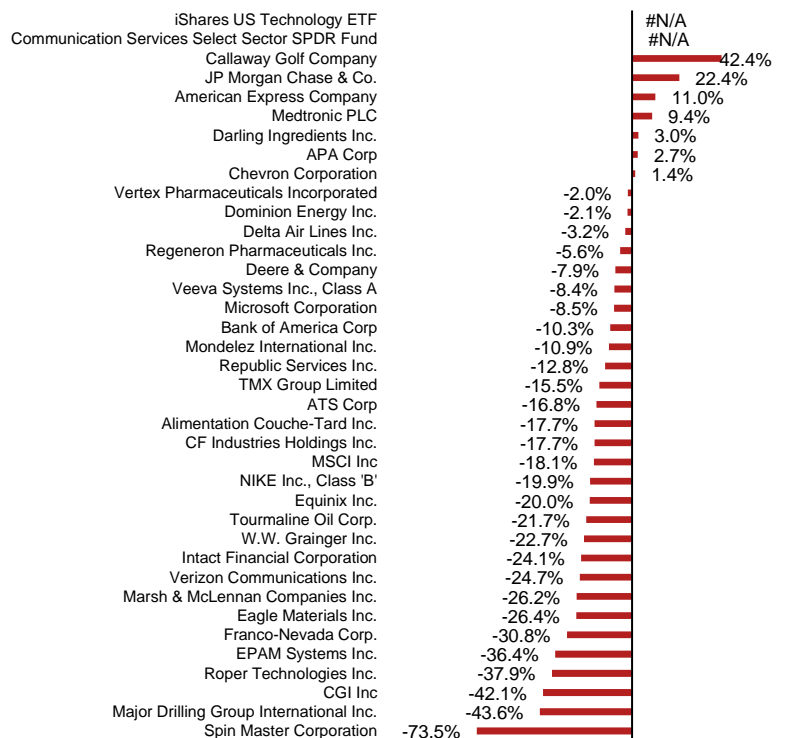


Figure 9: Holdings 2025 Relative Performance



ALPHA SQUARED FUND

Holdings: Dec 31, 2025

	Security	Shares/Par	Currency	Local Price	Local Market Value	CAD Value	Weight
1	Alimentation Couche-Tard Inc.	1,000	CAD	74.96	74,960	74,960	2.3%
2	ATS Corp	1,346	CAD	37.81	50,892	50,892	1.6%
3	Bank of America Corp	3,800	CAD	27.94	106,172	106,172	3.3%
4	CGI Inc., Class 'A'	600	CAD	126.78	76,068	76,068	2.4%
5	Franco-Nevada Corp.	201	CAD	284.51	57,187	57,187	1.8%
6	Intact Financial Corporation	350	CAD	285.73	100,006	100,006	3.1%
7	Major Drilling Group International Inc.	9,700	CAD	12.90	125,130	125,130	3.9%
8	Spin Master Corporation	1,779	CAD	19.05	33,890	33,890	1.1%
9	TMX Group Limited	2,450	CAD	52.23	127,964	127,964	4.0%
10	Tourmaline Oil Corp.	1,535	CAD	61.57	94,510	94,510	2.9%
11	American Express Company	180	USD	369.95	66,591	91,399	2.8%
12	APA Corp	2,370	USD	24.46	57,970	79,567	2.5%
13	Callaway Golf Company	6,780	USD	11.67	79,123	108,600	3.4%
14	CF Industries Holdings Inc.	900	USD	77.34	69,606	95,538	3.0%
15	Chevron Corporation	400	USD	152.41	60,964	83,676	2.6%
16	Communication Services Select Sector SPDR Fund	504	USD	117.72	59,331	81,435	2.5%
17	Darling Ingredients Inc.	1,300	USD	36.00	46,800	64,235	2.0%
18	Deere & Company	123	USD	465.57	57,265	78,599	2.4%
19	Delta Air Lines Inc.	1,436	USD	69.40	99,658	136,786	4.2%
20	Dominion Energy Inc.	883	USD	58.59	51,735	71,009	2.2%
21	Eagle Materials Inc.	194	USD	206.68	40,096	55,034	1.7%
22	EPAM Systems Inc.	198	USD	204.88	40,566	55,679	1.7%
23	Equinix Inc.	52	USD	766.16	39,840	54,683	1.7%
24	iShares US Technology ETF	954	USD	199.68	190,495	261,464	8.1%
25	JPMorgan Chase & Company	250	USD	322.22	80,555	110,566	3.4%
26	Marsh	219	USD	185.52	40,629	55,765	1.7%
27	Medtronic PLC	500	USD	96.06	48,030	65,924	2.0%
28	Microsoft Corporation	100	USD	483.62	48,362	66,379	2.1%
29	Mondelez International Inc.	637	USD	53.83	34,290	47,064	1.5%
30	MSCI Inc	129	USD	573.73	74,011	101,584	3.2%
31	NIKE Inc., Class 'B'	455	USD	63.71	28,988	39,788	1.2%
32	Regeneron Pharmaceuticals Inc.	100	USD	771.87	77,187	105,943	3.3%
33	Republic Services Inc.	240	USD	211.93	50,863	69,812	2.2%
34	Roper Technologies Inc.	90	USD	445.13	40,062	54,987	1.7%
35	Veeva Systems Inc., Class A	257	USD	223.23	57,370	78,743	2.4%
36	Verizon Communications Inc.	1,582	USD	40.73	64,435	88,440	2.7%
37	Vertex Pharmaceuticals Incorporated	91	USD	453.36	41,256	56,626	1.8%
38	W.W. Grainger Inc.	60	USD	1,009.05	60,543	83,098	2.6%
39	United States Dollar	688	USD	0.73	688	944	0.0%
40	Canadian Dollar	33,187	CAD	1.00	33,187	33,187	1.0%
					Total	3,223,331	100%

Source: Bloomberg L.P.

Strategist Review

Thomas Di Stefano
Alpha Squared Strategist



Zhaoxin (Jo) Li
Alpha Squared Strategist



Karim Chaitani
SRI Strategist



Xavier Fu
SRI Strategist



Xavier Keating
Market Strategist



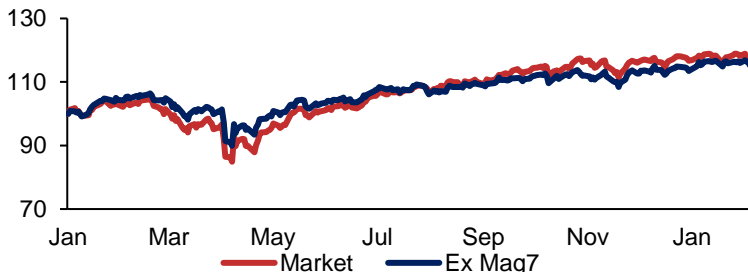
STRATEGIST REVIEW

2025 Market Recap

2025 S&P500 Performance

In 2025, the US large-cap equity market (proxied by the S&P 500) navigated a regime defined by trade-policy volatility, an emerging monetary-easing cycle, and a structural re-rating around artificial-intelligence adoption. The tariff shock associated with the 2 April “Liberation Day” announcement heightened risk premia and underscored the sensitivity of equity valuations to policy uncertainty, while subsequent Federal Reserve rate cuts in September, October and December contributed to a more supportive discount-rate backdrop.

Figure 1: Market Performance, Normalized, 2025



Market leadership remained highly concentrated in AI-linked mega-capitalization names. The Magnificent Seven: Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta Platforms and Tesla represented approximately one-third of index market capitalization during 2025, with Broadcom effectively displacing Tesla in the “largest-constituent” rankings, reinforcing the degree to which performance and valuation were driven by a narrow AI-adjacent cohort.

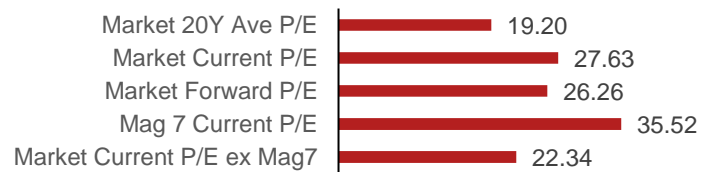
Figure 2: Market Concentration

Top Eight	Market Cap	P/E Ratio
NVIDIA	\$4.6T	43.76
Apple	\$4.1T	34.97
Alphabet	\$4.0T	35.66
Microsoft	\$2.9T	26.41
Amazon	\$2.4T	33.23
Meta	\$1.7T	23.09
Broadcom	\$1.5T	58.60
Tesla	\$1.5T	327.93

Source: Bloomberg L.P.

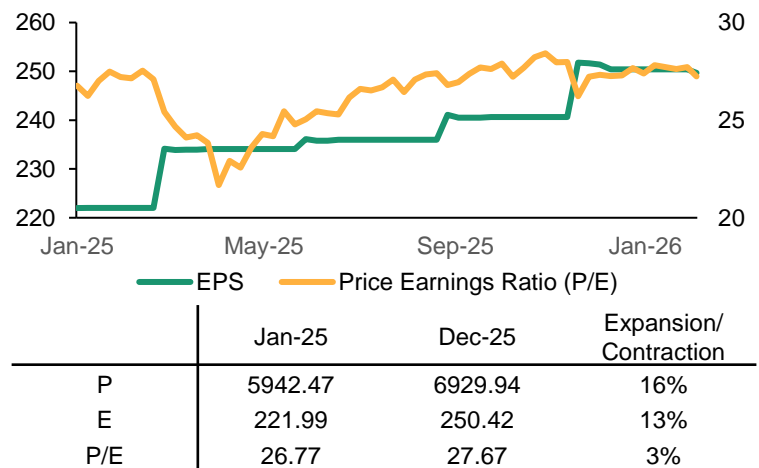
Valuation dispersion remained pronounced. As of late December 2025, forward multiples for the Mag 7 were materially higher (c. 35.52x next-year earnings) than the rest of the index (c. 22.34x for the S&P 500 excluding the Mag 7), indicating that headline market valuation was substantially influenced by the mega-cap leadership premium; moreover, the broader market also screened above normalized valuation anchors, suggesting elevated pricing beyond the mega-cap complex alone.

Figure 3: Valuation Ratios



Finally, return attribution indicates that 2025’s market advance was principally fundamentals-driven: roughly 13% of the S&P 500’s 16% total return were explained by EPS growth, with only a modest contribution from P/E expansion and the remainder from dividends, consistent with an earnings-led year rather than one dominated by multiple inflation.

Figure 4: Price Decomposition, 2025

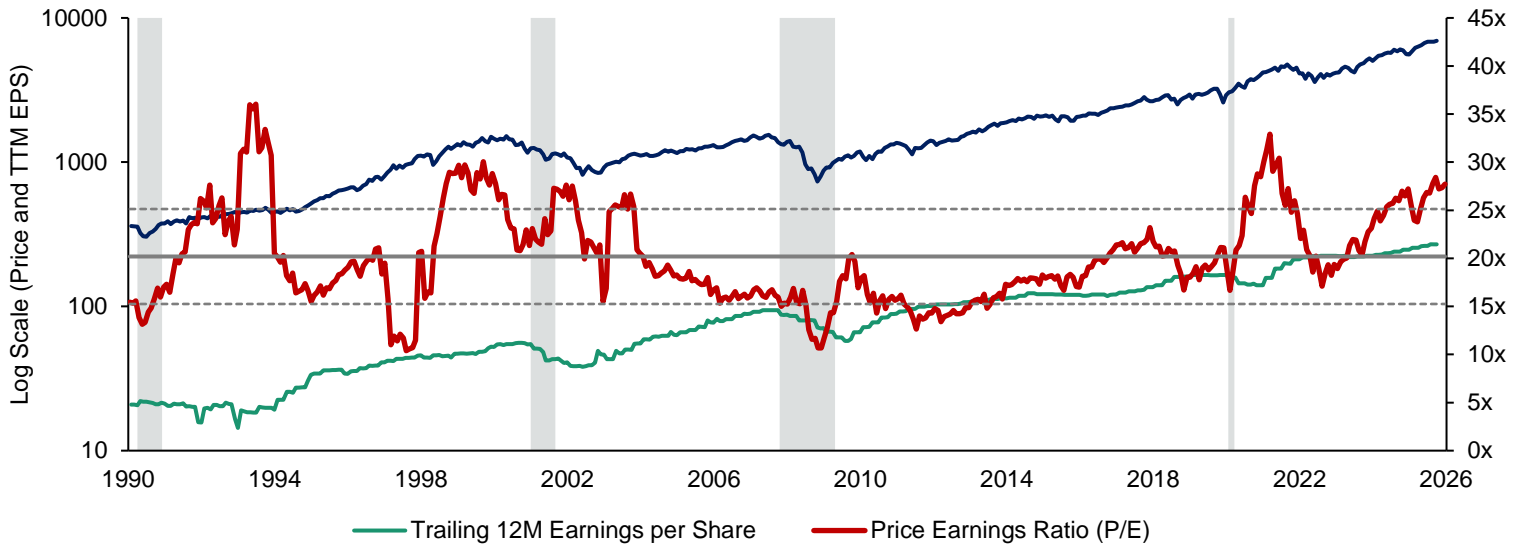


STRATEGIST REVIEW

2025 Market Recap

S&P 500 P/E Valuation

Figure 5: S&P 500 P/E Decomposition with Long-Term Average and Standard Deviation Bands



An analysis of the S&P 500 Price-to-Earnings (P/E) ratio since 1990 reveals a distinct structural pattern. Excluding the Dot-Com bubble, every instance where the index P/E exceeded one standard deviation above the historical mean was driven by market recovery dynamics following a macroeconomic shock. During these periods, equity prices predictably rebounded at a faster pace than trailing twelve-month earnings could recover. The current multiple expansion breaks from this post-event mathematical anomaly and closely resembles the structural premium expansion observed in the Dot Com Bubble.

Another characteristic reminiscent of the Dot Com era is that the recent move above the one standard deviation threshold is heavily skewed by unprecedented market concentration. Seven largest Cap stocks now account for approximately one-third of the total index weight. This specific cohort trades at a weighted P/E of 36.7x, which significantly elevates the aggregate index valuation. This premium is

overwhelmingly concentrated in the "AI enablers" theme, reflecting elevated market expectations for artificial intelligence infrastructure growth and subsequent downstream adoption.

However, While the current valuation trajectory invites comparisons to the Dot-Com era, the underlying financial profiles of the market leaders differ substantially. The technology firms driving the current market exhibit exceptionally strong financial returns, established economic moats, and robust free cash flow generation. These fundamentals provide them with the balance sheet capacity required to sustain aggressive capital investments in AI infrastructure. This distinguishes the current leadership cohort from the highly speculative, low-cash-flow entities that characterized the Dot Com era firms.

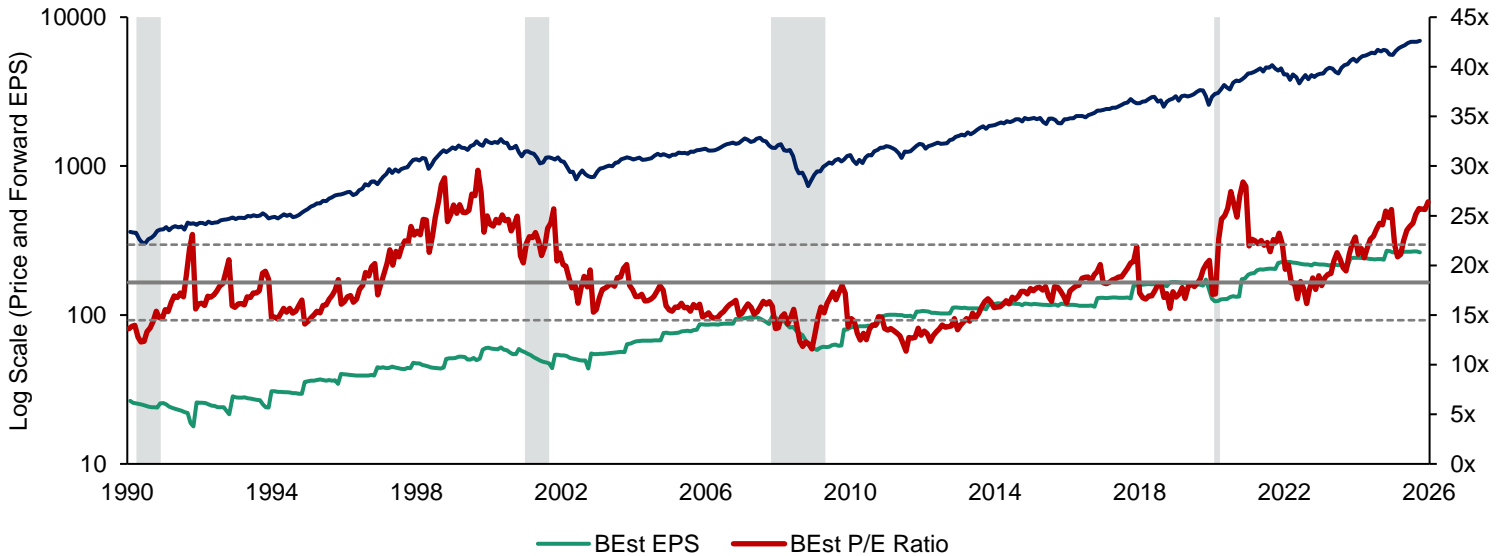
Given this key difference, despite the market being undoubtedly expensive, we are not very concerned about an imminent AI bubble bursting and causing a major market crash in 2026.

STRATEGIST REVIEW

2025 Market Recap

S&P 500 Forward P/E Valuation

Figure 6: S&P 500 Forward P/E Decomposition with Long-Term Average and Standard Deviation Bands



An examination of the forward price-to-earnings ratio highlights a distinct divergence between equity pricing and near-term earnings projections. The market has demonstrated notable resilience and continued upward momentum. In contrast, one-year forward earnings expectations remain relatively subdued. The mathematical outcome of a resilient pricing environment coupled with low short-term earnings growth estimates is the elevated forward P/E multiple currently observed in the market.

The willingness of the market to support higher forward multiples indicates that investors are pricing in earnings growth over a horizon that extends well beyond the standard twelve-month window. Equity prices are currently supported by anticipated cash flows projected further out the time horizon.

This extended discounting mechanism aligns well with the current artificial intelligence investment theme driving the market. The infrastructure build-out and capital expenditures associated with AI are immediate,

but it is highly unlikely that these investments will drive corresponding earnings growth within a strict one-year timeframe. Investors are actively looking past the near-term capital intensity of the AI transition, applying a premium multiple to short-term earnings to account for a longer-term profitability payoff.

To make sense of these expectations, in the next sections we breakdown growth expectations and their historical track record to better understand if the current market valuation is justified by growth in the current market context.

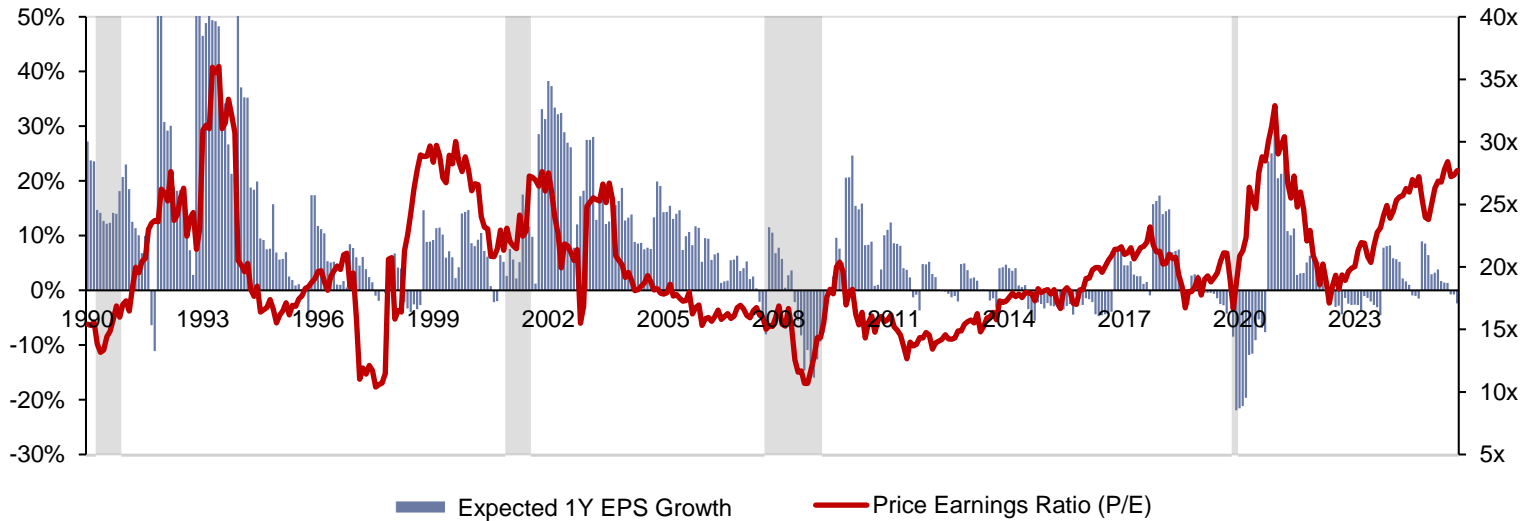
Source: Bloomberg L.P., St. Louis Fed FRED

STRATEGIST REVIEW

2025 Market Recap

S&P 500 Growth Expectations

Figure 7: S&P 500 Earnings Growth Expectation and P/E Ratio



The above chart graphs earnings growth expectations from forward P/E and is overlaid by the current trailing P/E ratio. An analysis of expected earnings growth derived from forward multiples reveals a significant divergence from the current trailing P/E ratio. The aggregate market valuation multiple has expanded aggressively while one-year earnings per share growth expectations remain notably subdued. This disconnect is highly characteristic of capital expenditure cycles where anticipated productivity gains and cash flow generation require an investment horizon extending beyond the standard twelve-month forecasting window.

While the current multiple expansion draws optical parallels to the Dot-Com bubble, the underlying mechanics are fundamentally distinct. Today's artificial intelligence investments are largely self-funded by firms possessing robust balance sheets, and the capital is being deployed into tangible, physical assets. The current phase of AI development resembles a classic capital cycle rather than a purely technological race. Hyperscale cloud providers are executing unprecedent-

-ed investments in multi-year GPU procurement agreements, purpose-built data center campuses, and long-term reservations of power and cooling capacity.

As market focus shifts toward the economic payback of these capital deployments, valuation risks transition from technology adoption to execution and capital efficiency. Infrastructure investments embed significant fixed costs, including depreciation and continuous operational expenses. The primary downside risk for the broader market multiple is under-monetization, where intense competition and pricing pressures prevent higher utilization rates from translating into stronger earnings.

As the capital cycle matures, the physical constraints of scaling infrastructure become the primary bottlenecks to growth. With baseline technology adoption largely priced into the market, the outcome of this divergence depends on the success of firms monetizing the AI story, either in the enablers or adopter camp.

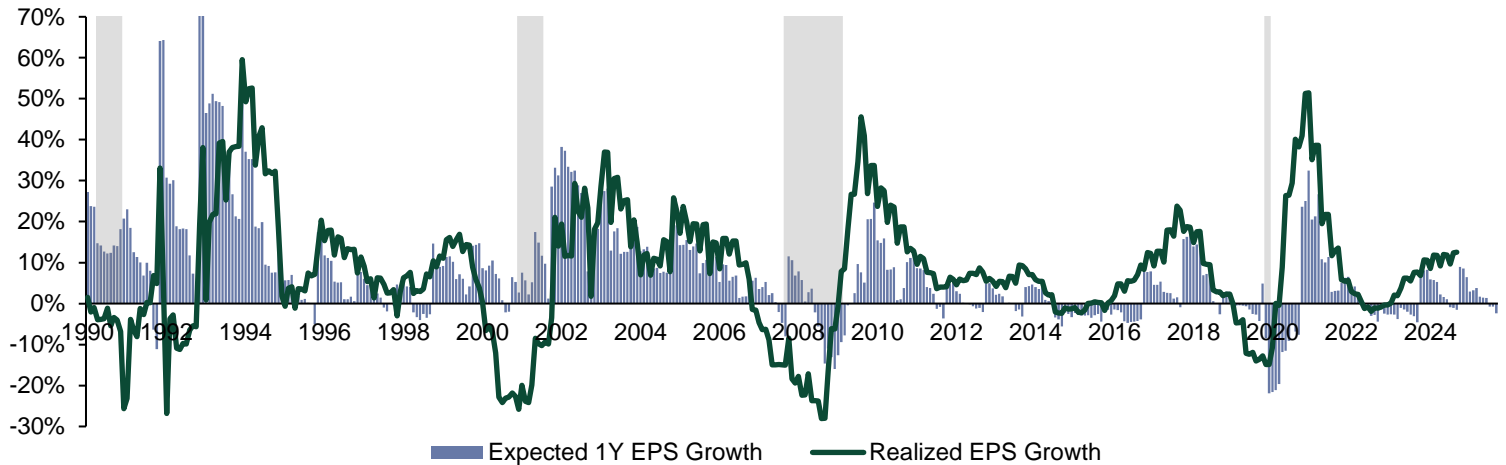
Source: Bloomberg L.P., St. Louis Fed FRED

STRATEGIST REVIEW

2025 Market Recap

S&P 500 Growth Expectations Track Record

Figure 8: S&P 500 Earnings Growth Expectation Against Realized Growth



The above chart graphs earnings growth expectations and compared it to the realized growth in that same date-matched 1Y period. The analysis comparing expected one-year earnings per share (EPS) growth against realized EPS growth over date-matched periods highlights the inherent limitations of consensus estimates. While forecasted EPS growth metrics provide baseline directional information, historical tracking demonstrates they lack reliability regarding both the precise magnitude and the specific timing of earnings inflection points.

Historical data reveals a persistent pattern of behavioral stickiness within analyst modeling. Consensus growth expectations consistently exhibit excessive optimism immediately preceding corporate earnings downturns, failing to anticipate macroeconomic contractions. Conversely, these forecasts lag significantly during cyclical recoveries, remaining structurally conservative well after fundamental business conditions have begun to improve. Applying this historical tracking to the present environment highlights a distinct lack of strong conviction

in current one-year consensus forecasts. The relatively muted nature of present estimates makes it difficult to assess the definitive directionality of near-term corporate earnings growth. This lack of short-term forecasting clarity further reinforces the premise that current equity market valuations are structurally tethered to longer-duration thematic investments rather than immediate fundamental visibility.

To recap, current equity valuations exhibit a structural disconnect from near-term growth expectations. Aggregate market multiples have expanded aggressively despite subdued one-year forward EPS estimates, a dynamic typical of major capital expenditure cycles with multi-year payoffs. This extended discounting is supported by the historical unreliability of consensus forecasts, which routinely fail to anticipate cyclical turning points. Because current one-year estimates lack strong directional conviction, investors are actively looking past near-term ambiguity and tethering elevated P/E multiples directly to the long-term execution of the AI infrastructure buildout.

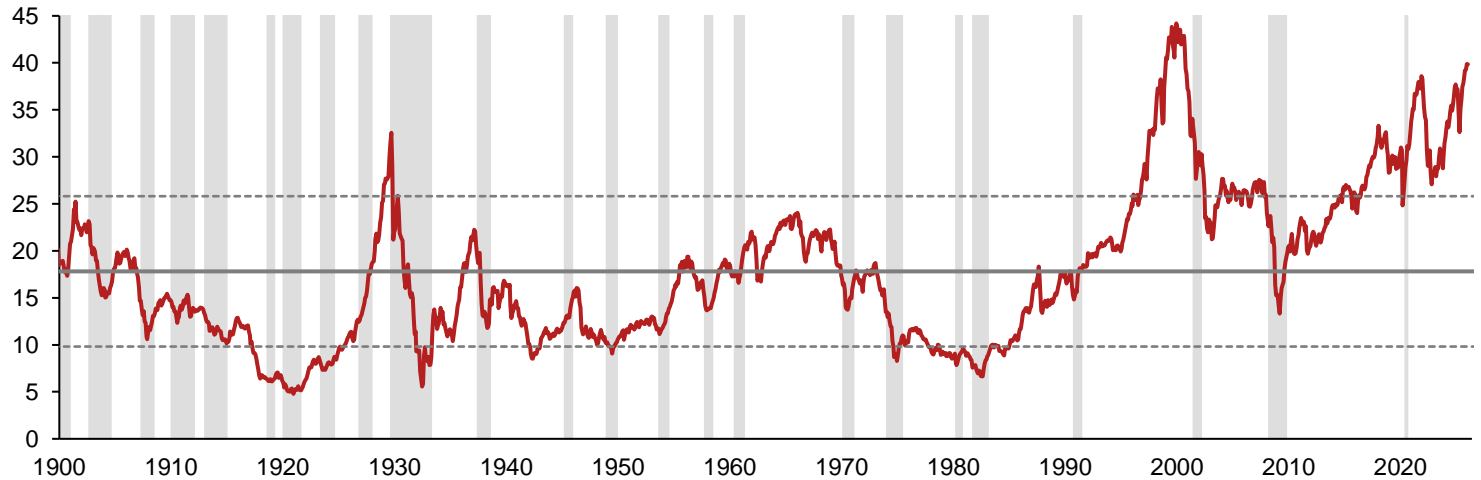
Source: Bloomberg L.P., St. Louis Fed FRED

STRATEGIST REVIEW

2025 Market Recap

CAPE Ratio Market Valuation

Figure 9: CAPE Ratio with Long-Term Average and Standard Deviation Bands



An examination of the Shiller CAPE ratio dating back to 1900 demonstrates a distinct historical pattern. Prior to the COVID-19 pandemic, every instance where the valuation multiple spiked beyond one standard deviation above its long-term mean was subsequently followed by an economic recession and a corresponding equity market drawdown. Consistent with this historical precedent, a highly elevated CAPE ratio has traditionally served as a strong indicator of constrained long-term annualized equity returns for capital deployed at those valuation peaks.

While historical century-long comparisons warrant caution, the data over the last few decades suggests a structural shift in baseline market valuations. The long-term average CAPE ratio since 1900 sits at approximately 18x. In contrast, the average CAPE ratio from 1990 to the present is significantly higher at 27x. Furthermore, the ratio has persistently remained above the century-long one standard deviation upper bound since 2016. This sustained elevation implies fundamental changes in underlying equity market dynamics rather than a temporary speculative

anomaly. The market's ability to maintain these elevated multiples likely reflects shifts in index composition toward asset-light, high-margin technology firms, alongside evolving macroeconomic conditions that differentiate the modern era from the pre-1990 historical record.

Even given the structural change in market dynamics since the 1900s, the currently very high CAPE ratio is congruent with P/E and forward P/E valuation metrics and tells a similar story about where the market is at. Despite operating on different analytical time horizons, all three metrics indicate a market trading at a historic premium that is driven by long duration growth expectations rather than immediate fundamental output.

In the next section we will explore the predictive power of these indicators in terms of 2026 returns.

Source: Robert Shiller - Yale University, St. Louis Fed FRED

STRATEGIST REVIEW

2025 Market Recap

CAPE Ratio Market Valuation

Figure 10: 1Y Returns on P/E Z-Score

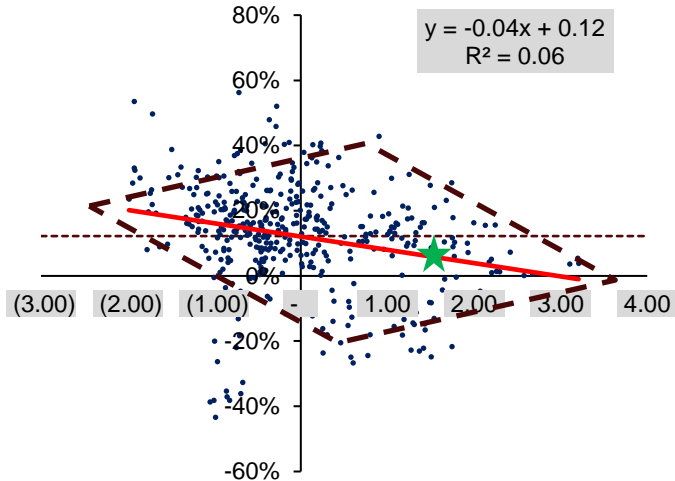
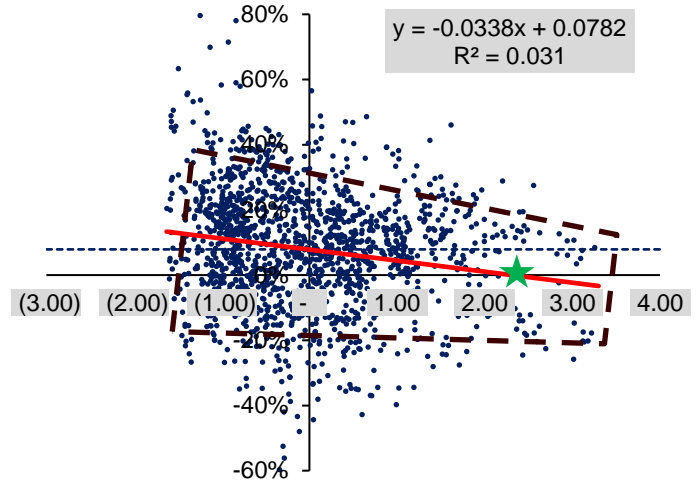


Figure 11: 1Y Returns on CAPE Z-Score



The graphs above are the residual charts of the regression of one-year returns on two valuation indicators, in the goal of evaluating their predictive power. The green star identifies where we are currently, and the shapes overlaid identify the approximate shape of the distribution. Both regressions are statistically significant.

Statistical analysis of historical one-year returns regressed against trailing P/E and CAPE Z-scores reveals a distinct negative correlation. While the overall explanatory power across all market environments is modest, the predictive utility of these metrics improves significantly at the tails of the distribution. At high positive standard deviations from the historical mean, both the trailing P/E and the CAPE ratio serve as somewhat reliable directional predictors. In high Z-score moments like currently, the distribution of potential outcomes narrows, and both indicators point towards lower-than-average market returns for 2026.

Forward P/E was deliberately excluded from this specific regression framework. Historical back testing demonstrates that forward multiples exhibit poor

predictive power for modeling one-year forward equity returns. This statistical weakness is a direct mathematical consequence of the unreliability and cyclical stickiness of consensus analyst EPS forecasts discussed in previous sections.

Considering our previous discussions and the outcome of the regression models, we have a cautiously bearish outlook on the market for 2026. The broader equity market is undoubtedly expensive. Current positioning on both the trailing P/E and CAPE regression curves maps directly to lower expected near-term returns. However, we firmly believe that the outcome of the market for 2026 strongly depends on how the AI story plays out, and more specifically on the timing of the monetization of AI for enablers/providers, and productivity improvements of AI for adopters.

Source: Bloomberg L.P., Robert Shiller - Yale University, St. Louis Fed FRED

STRATEGIST REVIEW

2025 Market Recap

CEO Confidence Index

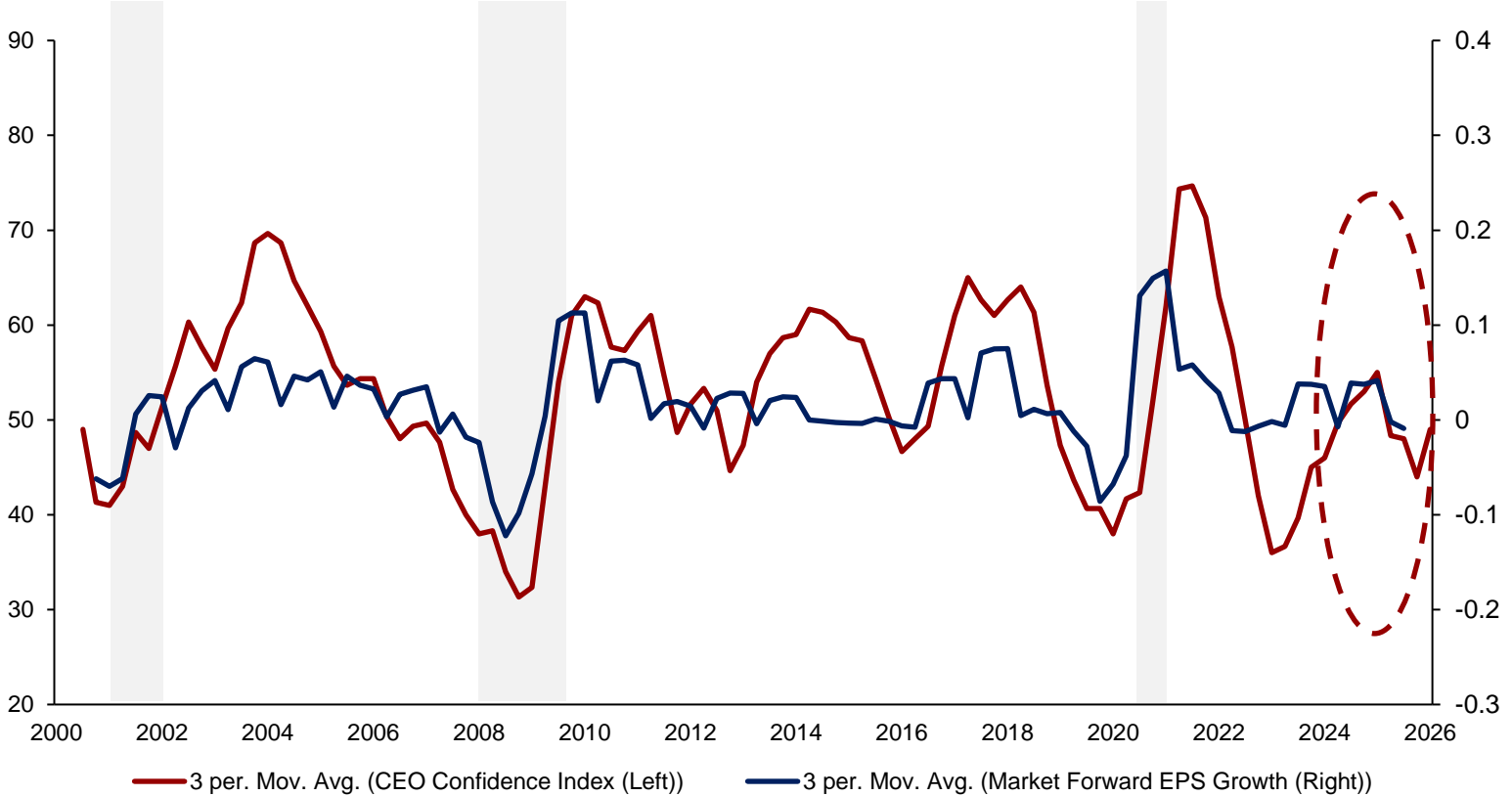


Figure 12: CEO Confidence Index

Note: Shaded area indicates recession

Empirically, CEO confidence has moved in tandem with forward earnings outlook. In late 2025, surveys showed CEOs growing more upbeat – echoing analysts’ upward revisions to corporate profit forecasts. For instance, EY reported its global CEO Confidence Index rose into the low-80s by late 2025, the highest level in years, as companies began “beat-and-raise” earnings guidance patterns. This executive optimism parallels S&P 500 forward EPS forecasts, which have been revised upward in 2025 amid robust corporate results.

Looking ahead, AI-driven investment is expected to shape CEO sentiment in 2026. Chief executives are planning sharply higher spending on AI technologies –

BCG reports firms plan to nearly double AI capex in 2026 (from roughly 0.8% to 1.7% of revenues) – in hopes of cutting costs and boosting efficiency. Such record capital commitments could underpin a return of CEO confidence to its historical norm. In other words, while near-term revenue-growth confidence has been modest (only ~30% of CEOs were confident about 2026 sales growth in a recent PwC survey), the massive AI investments may gradually restore CEO optimism. In sum, higher CEO survey readings in 2026 would reflect the combined effects of this new spending on operations and productivity.

Source: The Conference Board

STRATEGIST REVIEW

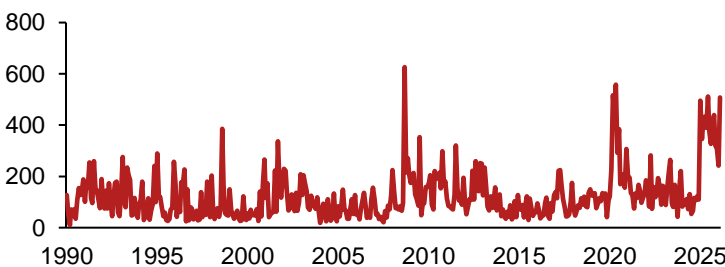
2025 Market Recap

US Economic Policy Uncertainty

The Baker–Bloom–Davis U.S. EPU index is scaled to an average of roughly 100 in normal times. In late 2024 and early 2025, U.S. policy uncertainty surged well above that norm: after the 2024 election and aggressive tariff news, daily EPU readings reached the 500–600 range. Broadly, analysts had expected the incoming Trump administration to pursue deregulation, tax cuts and new tariffs. These expectations were reflected in soaring uncertainty index. In past episodes, such spikes in EPU would typically lift the VIX as well.

Surprisingly, by late 2025 the VIX was still near its long-run mean around 15–20 rather than surging in tandem with EPU. Put differently, options markets were not pricing in a big near-term volatility spike despite high policy uncertainty. One interpretation is that investors had largely “priced in” the anticipated policy changes. As the St. Louis Fed observes, markets broadly expected Trump-era policies (deregulation, tariffs, etc.) and were already adjusting, so the *unexpected* component of uncertainty was smaller. Another view is that in a strong equity rally, volatility can stay muted even as uncertainty indicators rise. In short, traders saw little new fear to run to in late 2025.

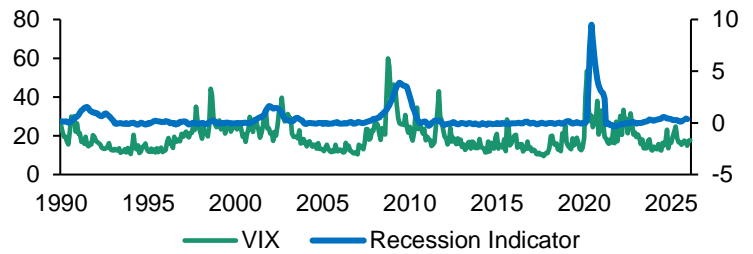
Figure 12: U.S. Economic Policy Uncertainty Index



VIX Futures

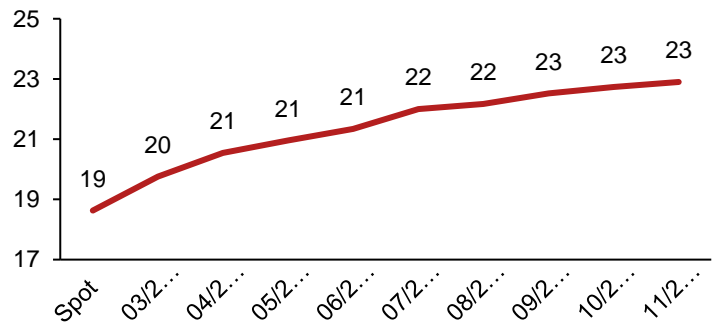
The VIX futures curve is currently in contango (near-term futures prices are below longer-term prices), which is the normal state when spot VIX is low.

Figure 13: VIX



The VIX futures curve is currently in contango (near-term futures prices are below longer-term prices), which is the normal state when spot VIX is low. Contango implies the market expects the VIX to rise gradually from its current low level, not suddenly spike. In fact, CBOE analysis notes that contango is present over 80% of the time and is steepest when the spot VIX is very low. The contango shape from now through late 2026 suggests only a modest increase in anticipated volatility ahead.

Figure 14: VIX Returns Term Structure, 2026



In sum, despite the late-2024/early-2025 jump in policy uncertainty, volatility markets did not price in an immediate crisis. The stable VIX and contango term structure suggest traders saw those events as largely anticipated. This does not guarantee calm forever, but it implies that options markets viewed the coming policy shifts as mostly “known risks.” The usual caveats apply unforeseen shocks could still change this picture, but as of late 2025 the implied-volatility curve was consistent with a low-volatility outlook.

Sources: Bloomberg L.P., St. Louis Fed FRED

STRATEGIST REVIEW

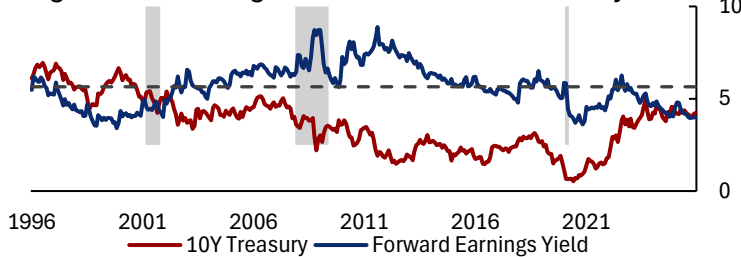
2025 Market Recap

Fed Model and The Buffett Indicator

The Fed Model compares the S&P 500 earnings yield to the 10-year Treasury yield and currently points to elevated equity valuations. The current spread stands at 0.25%, compared with a long-term average of roughly 2.0%, indicating that equities are trading at high valuations relative to historical norms. In this context, current prices imply strong expectations for future earnings growth.

To evaluate the model’s usefulness, we tested its predictive capability by running regressions over the past 30 years, examining whether the Fed Model spread could explain subsequent equity returns. The results suggest that while the spread provides valuation context, it does not reliably predict future returns, as the explanatory power of the regressions remains weak. One possible explanation for today’s elevated valuations is a structural growth narrative linked to the AI cycle, where investors may be pricing sustained productivity gains and accelerated earnings growth driven by large-scale AI-related capital expenditures and infrastructure buildout.

Figure 16: Earnings Yield vs 10-Year Treasury Yield

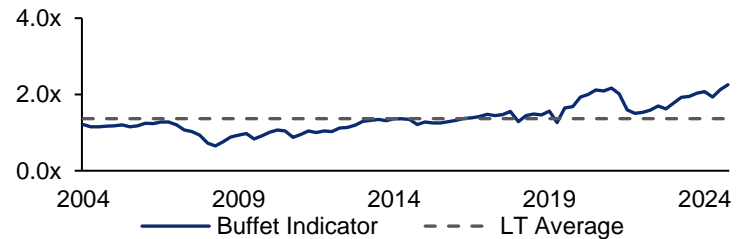


The Buffett Indicator, defined as total U.S. market capitalization divided by GDP, provides a broad measure of equity valuations relative to the size of the economy. Currently, the indicator stands near 2.25x GDP, close to all-time highs, suggesting that equity valuations remain elevated. To explore this relationship, we ran a regression examining whether

Sources: Bloomberg L.P.

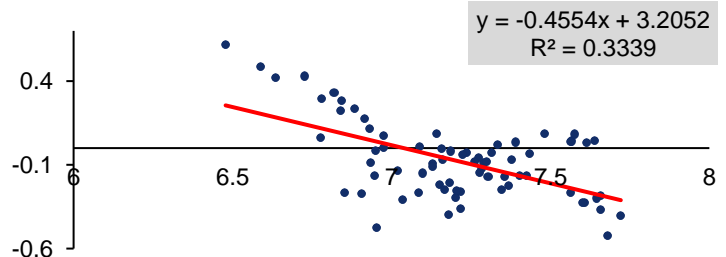
High starting valuations tend to be followed by valuation compression. Regressing the future change in the log of the Buffett Indicator on its current log level yields a negative coefficient, indicating mean reversion: higher starting valuations reduce the likelihood of further multiple expansion. Thus, future returns from current levels are more likely to depend on sustained earnings growth rather than valuation expansion.

Figure 17: Total U.S. MC Relative to GDP



However, the Buffett Indicator has several limitations. GDP is an imperfect denominator, as publicly traded firms account for only about 40% of U.S. economic activity, with the remainder generated by private businesses and sectors not represented in equity markets. Many large U.S. corporations also generate a growing share of revenues abroad, while GDP captures only domestic production. Structural changes further matter: asset-light and scalable business models, particularly in software and technology, allow firms to generate greater market value per dollar of GDP than in the past. As a result, while current levels suggest valuations are elevated relative to historical averages, the indicator should be interpreted as a broad valuation metric rather than a precise estimate of fair value.

Figure 18: Buffet Indicator Regression



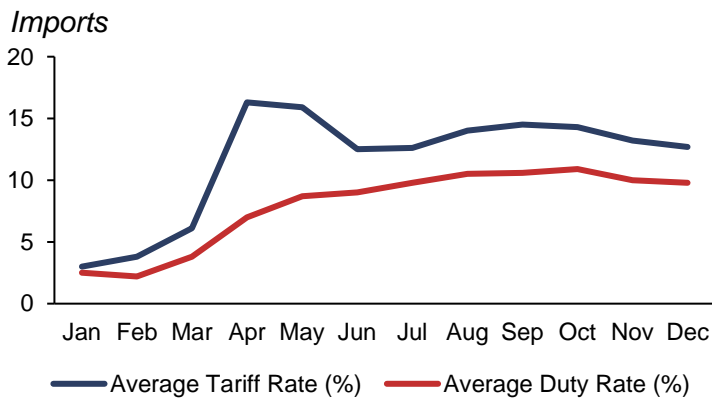
STRATEGIST REVIEW

Thematic Special Topic – Tariffs

Effective Tariff Rates vs Statutory Rates

A study by the New York Federal Reserve highlights the gap between the statutory tariff rate and the effective duty rate actually paid on imports. The statutory rate reflects the tariffs set by policy, while the duty rate measures the tariffs collected relative to total imports. The study finds that the duty rate is consistently lower, largely because of exemptions and shifts in trade patterns. For example, although the U.S. imposes a 35% tariff on Canadian imports, roughly 83% of those imports are exempt under the U.S.-Mexico-Canada Agreement (USMCA). The difference between the two measures widened in April and May, when importers shifted away from Chinese goods subject to higher tariffs, reducing the effective duties paid.

Figure 19: Statutory Tariffs vs Effective Duties on U.S. Imports



Tariffs as a Negotiation Tool

Historical evidence suggests that tariffs are often used primarily as a negotiation tool rather than a permanent policy measure. Data on past tariff threats shows that only about 27% were fully implemented, with roughly 20% remaining in place over time. In contrast, approximately 43% were ultimately withdrawn or never imposed, while around 16% led to concessions from the targeted country. This pattern indicates that tariff announcements frequently serve to create negotiating leverage and policy pressure, with final outcomes often softer or resolved through negotiation rather than full enforcement.

Figure 20: Outcomes of US Tariff Threats

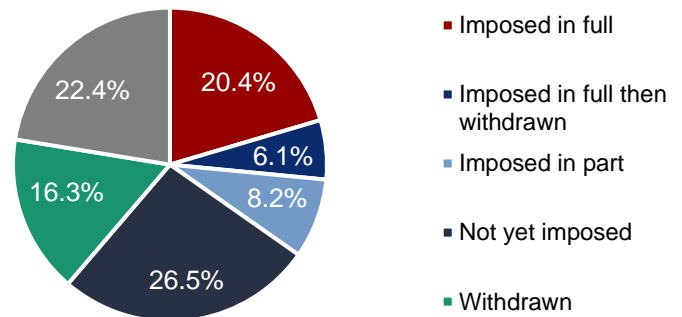
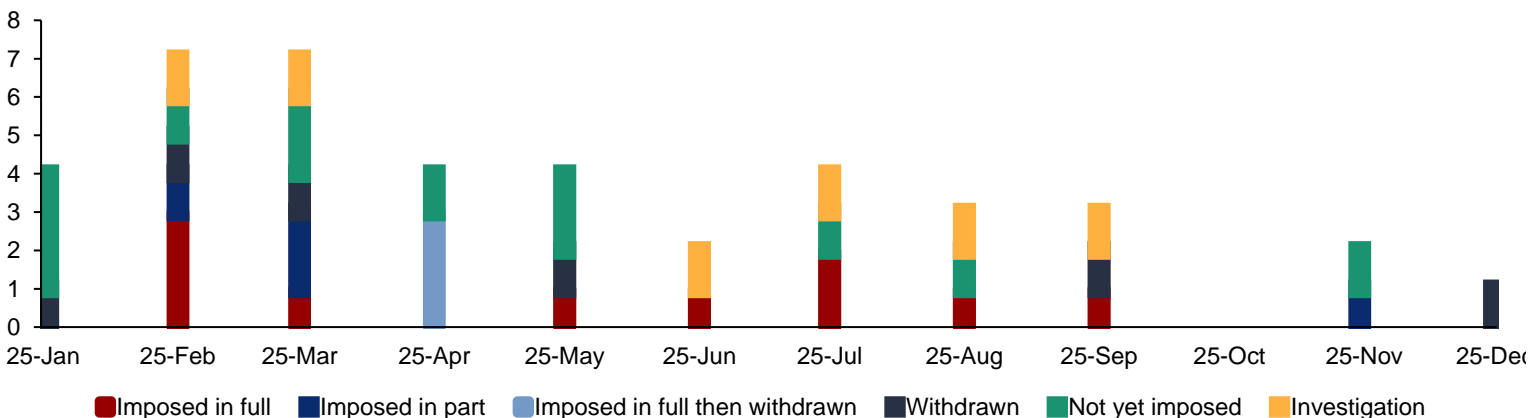


Figure 21: Timeline of Tariff Threats vs Implementation



Source: Bloomberg

STRATEGIST REVIEW

Thematic Special Topic – Tariffs

Tariff Pass Through

A recent New York Federal Reserve study examines the incidence of the 2025 tariffs using monthly HTS10 product–country level data from January 2023 to November 2025. The authors estimate how changes in tariffs affect foreign export prices by regressing the 12-month log change in import prices excluding tariffs (a proxy for foreign export prices) on the 12-month log change in 1 + tariff rates, controlling for product and country-time fixed effects. The results show that foreign exporters reduced prices only marginally, implying that most of the tariff burden was borne by U.S. importers rather than foreign producers.

Inventory Buffers and Earnings Resilience

In our previous letter, we argued that the full inflationary impact of tariffs could appear with a delay because firms front-loaded imports ahead of tariff implementation and accumulated inventory at pre-tariff prices. Trade data support this behavior: U.S. import volumes surged ahead of tariff announcements, and some companies increased inventories by roughly 20–25%, in certain cases holding up to 50% more stock than usual. This helps reconcile the New York Fed findings with the continued strength in corporate earnings. While new imports were subject to tariffs and therefore raised the cost of incoming goods for US importers, firms were simultaneously selling a large share of inventory that had been imported before tariffs were imposed. In practice, the proportion of goods sold from this pre-tariff inventory buffer exceeded the share of sales tied to new tariff affected imports, meaning that the average cost of goods sold remained relatively stable in the short term. As a result, the inventory buffer more than offset the immediate margin impact of tariffs. This dynamic helps explain why corporate earnings continued to grow strongly in 2025, with S&P

Source: Bloomberg

500 net income increasing by roughly 13%. Although the Magnificent 7 technology firms remained an important contributor; earnings growth was not limited to those companies. LSEG estimates cited by Reuters suggest the Magnificent 7 accounted for roughly 37% of total earnings growth, meaning that the other 493 companies still generated most of the aggregate profit expansion.

Outlook on Tariff Pass-Through

Tariff pass-through remains highly uncertain and will depend on both policy developments and firms' supply-chain adjustments. Earlier this year, the U.S. Supreme Court struck down key portions of the IEEPA-based tariff regime, and the administration is now pursuing alternative authorities, including Section 122 of the Trade Act of 1974, as well as potential use of Sections 232 and 301. At the same time, tariff refunds on previously collected duties are being contested in lower courts, adding uncertainty around the policy's final economic incidence.

If tariffs persist, pass-through could rise as pre-tariff inventories are depleted and firms rely more on newly imported goods subject to duties. The New York Fed already finds early evidence of adjustment, with importers shifting sourcing away from heavily tariffed countries toward lower-duty alternatives. Over time, firms may further mitigate the impact through supplier diversification and price renegotiation, though in sectors with sufficient pricing power, part of the cost burden may still be passed on to consumers.

STRATEGIST REVIEW

Thematic Special Topic – AI

AI Infrastructure Is Entering a Capital Cycle

The current phase of artificial intelligence development increasingly resembles a classic capital cycle rather than a purely technological race. Over the past two years, hyperscale cloud providers have announced unprecedented levels of investment in AI infrastructure, including multi year GPU procurement agreements, purpose-built data center campuses, and long-term reservations of power and cooling capacity. These commitments indicate that AI deployment is evolving from experimental capability expansion toward a large-scale industrial buildout of computational infrastructure.

Market reactions to hyperscaler capital expenditure guidance reflect this transition. Investor concern has focused less on whether artificial intelligence will be adopted and more on the scale, duration, and economic payback of the investments required to support that adoption. Unlike traditional software spending, which can often be adjusted quickly in response to demand conditions, infrastructure investments embed significant fixed obligations once capacity is constructed. Depreciation, energy consumption, financing costs, and the risk of underutilized capacity all become structural components of the operating cost base. As a result, capital guidance increasingly functions as a forward indicator of long duration financial commitments rather than discretionary growth spending. In this context, equity markets are gradually shifting their focus away from technological leadership alone and toward the durability of returns generated from the capital deployed.

Real Risk Is Under-Monetized Compute

Although AI adoption continues to expand rapidly, the composition of demand is evolving in ways that may

Tariffs as a Negotiation Tool

pressure unit economics. Early investment cycles were dominated by model training, which is episodic, concentrated among a small number of frontier laboratories, and highly compute intensive. As AI moves into production environments, however, incremental demand is increasingly driven by inference workloads, where models operate continuously to support applications and enterprise services.

Inference demand is scalable and recurring, yet it is also more price sensitive and subject to constant efficiency improvements. Enterprises and platform providers are actively reducing compute costs through techniques such as model distillation, intelligent query routing, and prompt caching. At the same time, competition among cloud providers and model platforms is intensifying as firms compete for enterprise workloads through pricing incentives, service bundling, and migration credits. Under these conditions, compute volumes may continue to grow while revenue per unit declines. Because infrastructure costs remain largely fixed once capacity is built, higher utilization does not necessarily translate into stronger margins. The primary downside risk for the AI buildout therefore lies not in weak adoption but in under monetization per unit of compute.

Implications and Secondary Enablers

As the AI cycle matures, equity returns are likely to depend less on simple exposure to artificial intelligence adoption and more on execution, pricing durability, and capital efficiency. Many companies associated with the AI buildout already reflect expectations of sustained earnings growth and durable competitive positioning, yet technological diffusion typically intensifies competition and compresses unit economics over time,

STRATEGIST REVIEW

Thematic Special Topic – AI

leading to greater dispersion in outcomes across the ecosystem. At the same time, the physical constraints of scaling AI infrastructure are becoming increasingly important. Data center expansion depends on cooling capacity, the availability of electrical equipment such as transformers and switchgear, and reliable access to grid power, all of which can create meaningful bottlenecks to deployment. These dynamics suggest that the next phase of value creation may extend beyond the most visible AI platforms toward secondary enablers that support the expansion of power infrastructure, electrical equipment supply chains, cooling technologies, and grid connectivity. As AI adoption becomes increasingly assumed by markets, the key investment question shifts from whether the technology will scale to where durable monetization can be achieved along the infrastructure that supports it.

Why the 2026 Midterms Matter for Markets

The 2026 U.S. midterm elections arrive at a time when Congressional control is unusually narrow, making the House the key swing variable for the policy outlook over the remainder of the presidential term. Republicans currently hold slim majorities in both chambers, which increases market sensitivity to incremental shifts in vote margins and legislative feasibility. In practice, midterms matter less because they directly cause market returns and more because they determine whether Washington moves toward legislative alignment or toward divided government. Legislative alignment raises the probability of material fiscal and regulatory change, while divided government typically limits large policy resets but can still produce episodic volatility around fiscal deadlines and political

negotiations.

What History Suggests and What It Does Not

Historically, markets often experience elevated volatility ahead of midterm elections as investors reassess fiscal priorities, regulatory direction, and sector level policy risk. The period leading into the election has frequently been characterized by more cautious positioning, while the post election period has often coincided with improved risk appetite once the policy outlook becomes clearer. This pattern, however, should not be interpreted as a reliable forecast. Election cycles often overlap with broader macroeconomic forces that ultimately drive earnings, discount rates, and asset prices. For DCM, the more relevant takeaway is that midterm elections tend to increase dispersion across sectors and raise the importance of selectivity, particularly in industries that are more sensitive to policy developments.

The Policy Calander Before November

A notable feature of the current cycle is that a major tax cliff previously expected in 2026 was largely addressed in 2025 through the One Big Beautiful Bill Act, signed into law on July 4, 2025, as Public Law 119-21. This reduces the likelihood of a broad expiration of Tax Cuts and Jobs Act provisions immediately ahead of the election, though it does not eliminate policy-driven volatility. Government funding deadlines remain a recurring catalyst, and continued reliance on short term funding measures has kept shutdown risk visible, which can elevate near term uncertainty even when economic conditions remain stable. In addition, several targeted tax credits and deductions retain timelines that fall before the midterms, particularly within energy and

STRATEGIST REVIEW

Thematic Special Topic – AI

electrification related provisions. IRS guidance following Public Law 119-21 modifies multiple energy related credits and deductions, including changes affecting clean vehicle incentives and limits on the Section 179D deduction for projects beginning after June 30, 2026. While these provisions are unlikely to drive broad index level outcomes, they may still influence sector level expectations and investment activity.

Industries sensitive to regulation, taxation, or government incentives. The investment focus therefore remains on identifying companies capable of sustaining pricing power, margins, and free cash flow through periods of policy uncertainty.

Why House Control is Influential

Control of the House plays a particularly important role in shaping fiscal outcomes because revenue legislation must originate there under the Constitution's Origination Clause. If Democrats were to gain control of the House while Republicans retain the presidency, legislative gridlock would likely increase. Tax legislation would remain possible, but the threshold for partisan fiscal packages would rise and compromise would become more necessary. Major fiscal initiatives are often advanced through the budget reconciliation process, which allows certain tax and spending changes to bypass the Senate filibuster but still requires House approval and operates within strict procedural constraints. As a result, a shift toward divided government after the midterms would likely reduce the probability of large incremental tax changes and move policy outcomes toward narrower, negotiated adjustments rather than sweeping fiscal revisions.

Portfolio Framing for DCM

For DCM, midterm elections should be viewed primarily as a source of volatility and sector dispersion rather than a directional market event. Policy uncertainty can temporarily raise risk premia in

Looking Ahead

Thomas Di Stefano
Alpha Squared Strategist



Xavier Keating
Market Strategist



LOOKING AHEAD

A Review of 2025-2026 Cohort Activities

Moving Forward

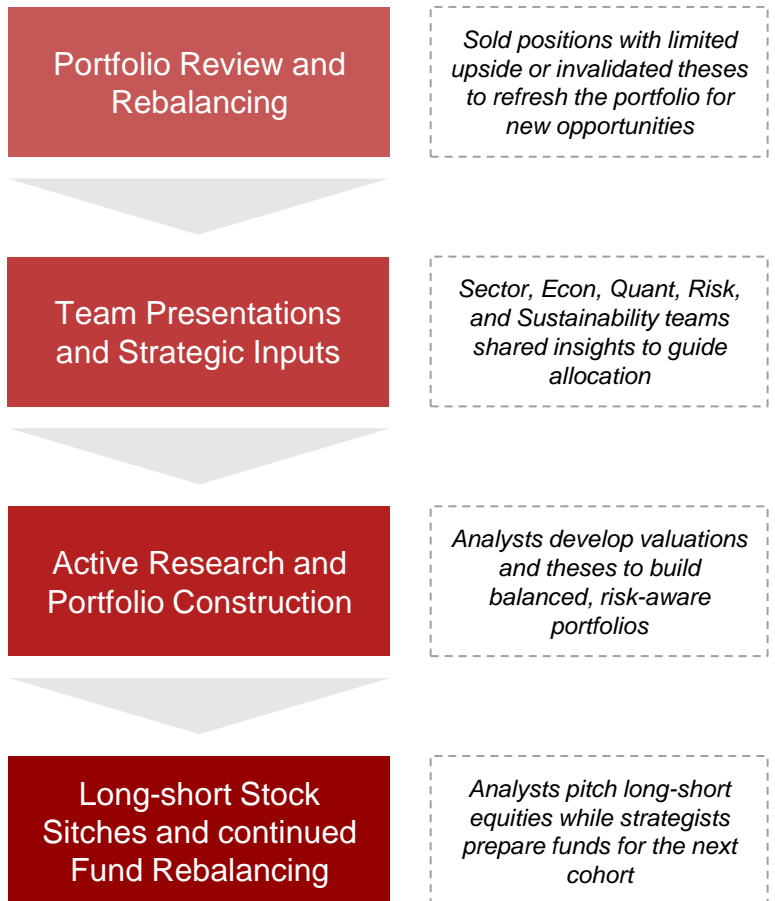
As the 2025-2026 cohort of MMF students joined the program in June, we formally reviewed all our fund holdings. We sold positions where we felt there was only limited upside potential left, either because our valuation targets had been met and investment theses had been realized, or because our investment theses were no longer valid due to changing market or company conditions. Sell details are provided in the Alpha Squared and SRI Fund performance sections.

Following the formal holdings review, analysts presented their sector outlooks, including recommendations on which sector and subsectors to consider over and underweighting (details on next page). Next, the class heard presentations from our cohort’s special teams: the Econ team provided a recap and their outlook on monetary and fiscal policy, as well as economic activity, inflation and the labor market; the Quant team explained how they will be developing a new machine-learning based strategy to be used as a screen for the Alpha Squared Fund; the Risk Management team highlighted our funds’ absolute and relative-to-benchmark risk exposures; finally the Sustainability team presented the process that will be used to screen stocks for the Socially Responsible Investing Fund.

Then, in the Fall semester, our analysts were hard at work researching companies, developing investment theses, and building valuation models to identify undervalued companies. Our goal is to build a portfolio that is balanced, research-driven, and risk-aware, one that seeks to capture opportunities through high-quality stock selection rather than broad thematic calls. By trusting our analysts’ sector expertise, reinforcing process discipline, and integrating risk controls, we aim

to deliver sustainable alpha while staying true to DCM's mission: active management rooted in fundamentals, guided by collaboration and data-driven decision making.

Now, going into the final months of the program, DCM analysts are preparing a second round of stock pitches in a long-short format where sector teams are joined so that two teams pitch the same stock, one pitches a long and the other a short. This exercise allows to more thoroughly challenge our investment theses and serve as an idea generator for the funds. In addition to the stock pitches, the strategists will do a final round of trading to continue our efforts to align funds with our analyst recommendations to prepare the fund for the next cohort.



LOOKING AHEAD

A view into the the rest of our mandate

Overweight - Quality Growth and Structural Themes

We recommend overweighting Communication Services, Consumer Staples, Health Care, and Industrials for their resilient earnings and structural catalysts. Focus is on subsectors with durable pricing power: telecoms, food producers, pharmaceuticals, and construction engineering.

Market Weight - Selective Participation

We recommend market-weight positions in Information

Technology, Materials, and Renewables, recognizing long-term potential while maintaining valuation discipline.

Underweight - Macro and Credit Sensitivity

We recommend underweighting Energy, Financials, and Consumer Discretionary due to uncertain earnings visibility and high sensitivity to rates, credit, and tariffs.

Note: our sector views may change as valuations and market conditions change

Overweight	Strategic Outlook		Sub-sectors of interest
Communication Services	A2: Increase to OW SRI: Maintain OW	➔	<ul style="list-style-type: none"> Diversified Telecom Interactive Media
Consumer Staples	A2: Maintain OW SRI: Increase to OW	➔	<ul style="list-style-type: none"> Food, Beverage, and Tobacco
Health Care	A2: Maintain OW SRI: Increase to OW	➔	<ul style="list-style-type: none"> Pharmaceuticals Biotechnology
Industrials	A2 : Maintain OW SRI: Increase to OW	➔	<ul style="list-style-type: none"> Construction & Engineering Machinery
Market Weight			
Information Technology	A2: Increase to MW SRI: Maintain MW	➔	<ul style="list-style-type: none"> Hardware and Electronics
Materials	A2 and SRI: Increase to MW	➔	<ul style="list-style-type: none"> Containers and Packaging
Renewables	SRI: Decrease to MW	➔	<ul style="list-style-type: none"> Wind
Underweight			
Energy	A2: Maintain UW	➔	<ul style="list-style-type: none"> Midstream
Financials	A2 and SRI: Maintain UW	➔	<ul style="list-style-type: none"> US Large Banks Financial Exchanges & Data
Consumer Discretionary	A2 and SRI: Decrease to UW	➔	<ul style="list-style-type: none"> Bearish Automobiles and components

Macroeconomic Themes

2025 REVIEW & 2026 OUTLOOK

Cezar Musharrafiyyah
Analyst



Jayden Huang
Chief Economist



Eric Tran
Analyst



Noah-Lou Casey
Analyst



Thomas Lalande
Analyst



Thibault Lanoe
Analyst

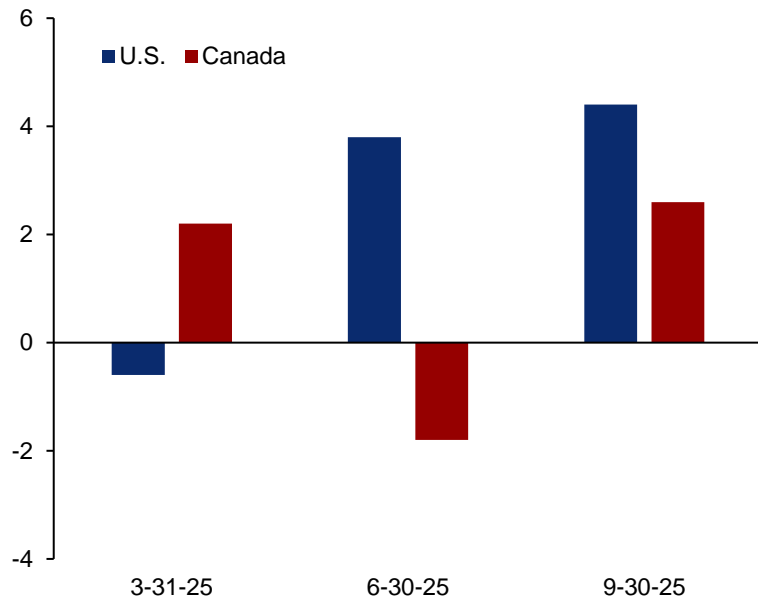


MACROECONOMIC THEMES

Selected Economic Indicators

Gross Domestic Product (GDP)

Figure 1: U.S. vs Canada (SA QoQ % Change, 2025)



Economic growth in 2025 showed diverging trajectories between the United States (U.S.) and Canada, a trend expected to persist into 2026. U.S. activity remained primarily supported by resilient domestic consumption and business investment, while Canada’s performance was more sensitive to external demand and trade dynamics. On a quarterly basis, U.S. growth strengthened through mid-year, whereas Canada experienced greater volatility, reflecting fluctuations in exports and business investment.

Looking ahead, U.S. GDP growth is projected at approximately 2.3% in 2026, driven by AI-related capital expenditure, productivity improvements, and the lagged effects of past and potential future rate cuts, alongside supportive fiscal policy that increases after-tax income. Canada’s growth is expected to be more moderate at around 1.1%, with consumer spending remaining the primary catalyst for expansion, complemented by public infrastructure investment and energy sector development. However, Canada

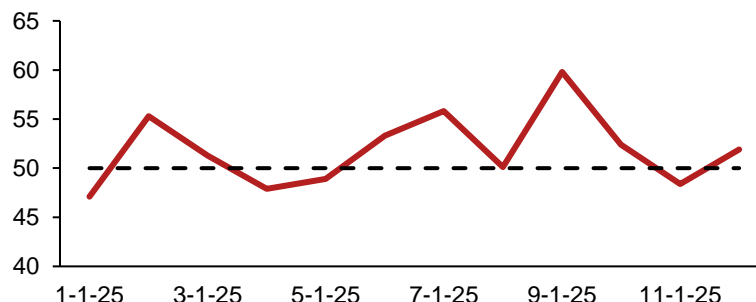
remains more exposed to trade uncertainty, including the upcoming USMCA renegotiations, given its higher reliance on exports to the U.S.

Purchasing Managers’ Index (PMI)

PMI data in 2025 pointed to stronger and more consistent business activity in the United States than in Canada. U.S. manufacturing and services remained largely in expansionary territory, reflecting resilient domestic demand, with only a temporary slowdown linked to softer export orders and inventory adjustments. In contrast, Canada experienced alternating periods of expansion and contraction, highlighting weaker underlying demand and greater sensitivity to commodity price volatility and policy uncertainty.

The 2026 outlook suggests continued expansion in the U.S., supported by solid consumer and business services activity and rising AI- and technology-related investment, although tariff risks, input cost pressures, and uneven labour market gains could moderate momentum. In Canada, PMI is expected to remain more volatile, with growth constrained by soft demand, commodity price fluctuations, and ongoing policy uncertainty.

Figure 2: Canada’s PMI



Sources: Bureau of Labour Statistics (BLS), Bloomberg L.P.

MACROECONOMIC THEMES

Selected Economic Indicators

Figure 3: U.S. Manufacturing & Services PMI, 2025

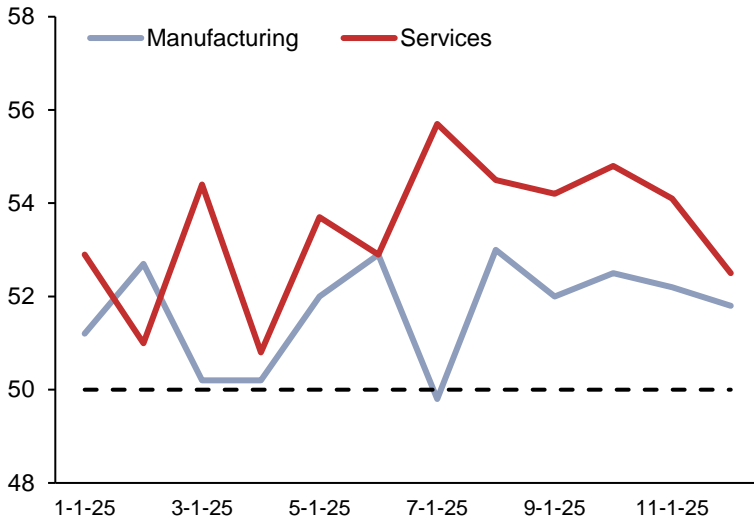
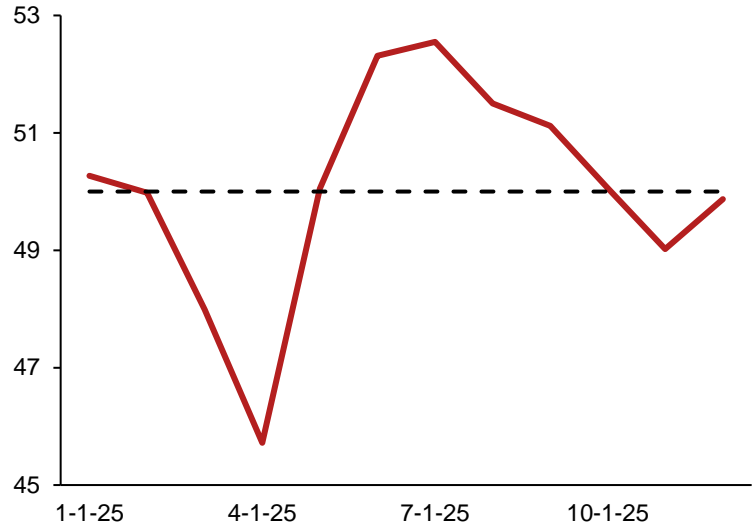


Figure 4: Canada's Consumer Confidence, 2025

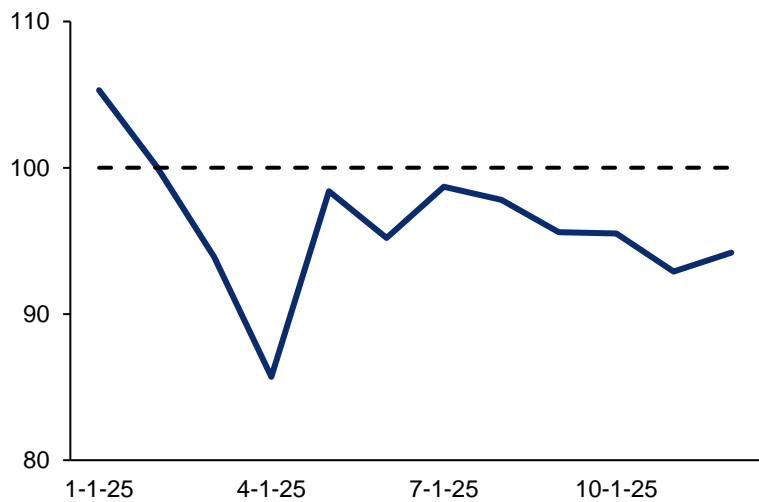


Consumer Confidence

Consumer sentiment in 2025 diverged between Canada and the United States. In Canada, confidence weakened early in the year due to persistent cost-of-living pressures and inflation above target, before recovering alongside resilient GDP growth, a stable labour market, and easing inflation. However, volatility in commodity prices and geopolitical uncertainty continued to weigh on households. In the United States, confidence declined more sharply and remained subdued, reflecting concerns about business conditions, income prospects, and policy uncertainty.

The outlook for 2026 suggests a modest improvement in Canadian confidence as inflation stabilizes near target and labour market conditions remain supportive. In contrast, U.S. sentiment is expected to stay cautious, with consumers remaining sensitive to labour market dynamics, inflation persistence, and the broader policy environment.

Figure 5: U.S. Consumer Confidence, 2025



Sources: Bureau of Labour Statistics (BLS), Bloomberg L.P.

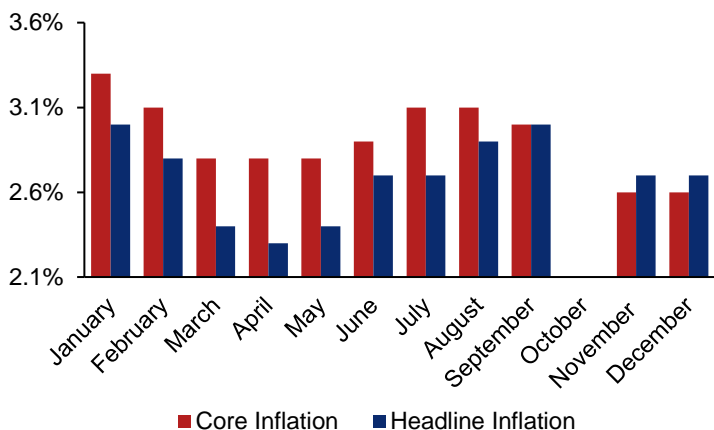
MACROECONOMIC THEMES

Inflation

United States

In the US, inflation was uneven throughout the year, falling from January to April, then ramping up until September, and finally easing into year-end.

Figure 1: Core and Headline Inflation (2025)



In 2025, the main inflation drivers were the following:

Tariffs:

The biggest driver of inflation in 2025 was Trump’s tariffs act. While tariffs directly increased prices, their net effect is not straightforward as they can also slow the economy, adding downward pressure. When the One Big Beautiful Bill Act first came in April, inflation dropped (Figure 1) before ramping up from May to August. Even though this rise shows an initial pass-through, many companies built inventories before tariffs took effect, delaying their impact on inflation.

Shelter Prices:

While new-lease rents softened across the country, shelter prices for existing tenants kept rising, maintaining steady upward pressures.

Services Inflation:

Lower immigration from Trump’s policies pushed wages up as less-expensive foreign labor became scarcer. The services sector was especially affected,

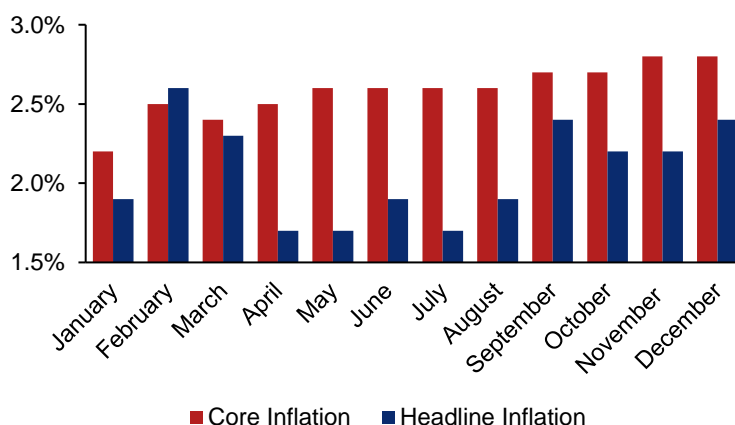
as wages are its main cost.

Government Services:

In October–November 2025, the US experienced its largest government shutdown. October data are unavailable, and November figures only include partial-month data.

Canada

Figure 2: Core and Headline Inflation (2025)



In Canada, core inflation consistently rose throughout the year, ending up higher than in the US in November (while it had remained lower for the whole year).

Inflation was measured through CPI. This year, the main drivers of inflation were:

End of GST Tax Holiday:

From December 2024 to February 2025, Canada ran a tax holiday on products such as food, beverages, and children’s clothing. The end of this exemption in February 2025 lifted YoY inflation for both core and headline.

Shelter Prices:

As in the US, shelter remained a key source of upward pressure throughout the year, though it eased as the

Sources: Bureau of Labour Statistics (BLS), Bloomberg L.P., Statistics Canada

MACROECONOMIC THEMES

Inflation

Bank of Canada cut rates, directly affecting the mortgage market.

Energy Crash:

In April, Canada removed its carbon tax, causing a drop in energy prices (though this was not reflected in core inflation, which excludes food and energy).

2026 Outlook

United States

Considering the current economic state of the country, US inflation presents high uncertainty going forward. This is due to a mix of opposing pressures: while companies' ability to pass through tariffs appears more limited than initially expected, fiscal incentives from the OBBBA and the growth of artificial intelligence are expected to support economic activity, keeping inflation relatively sticky. At Desautels Capital Management, we see inflation remaining stickier than anticipated by most analysts, although we do not hold strong conviction on this view and acknowledge that uncertainty is high.

Canada

Considering the deceleration of GDP growth and expected easing of trade-related pressures in Canada, we see downward pressures on inflation for 2026, bringing it closer to the Bank of Canada's 2% target. This view is aligned with the market, as no major new upward pressures on prices are expected in 2026. Here, we hold a stronger stance than for the US, as uncertainty appears lower.

Sources: Bureau of Labour Statistics (BLS), Statistics Canada

MACROECONOMIC THEMES

Labor Economics

Labor Markets

United States:

The US labor market demonstrated notable resilience in 2025, with the employment picture stabilizing by Q4. The unemployment rate settled near the target of ~4.5%, and private job vacancies normalized to a historical average of ~6.6M. Furthermore, continuing jobless claims have shown signs of easing early in 2026. However, this surface-level equilibrium masks underlying fragility. As evidenced by the convergence of gross hiring and separation rates, the current environment is defined by a “low hire, low fire” dynamic (Figure 1). Gross hiring rates have fallen to levels not seen since 2013, a period when the aggregate unemployment rate was significantly higher. The market’s current stability is highly dependent on historically low separation rates rather than robust job creation.

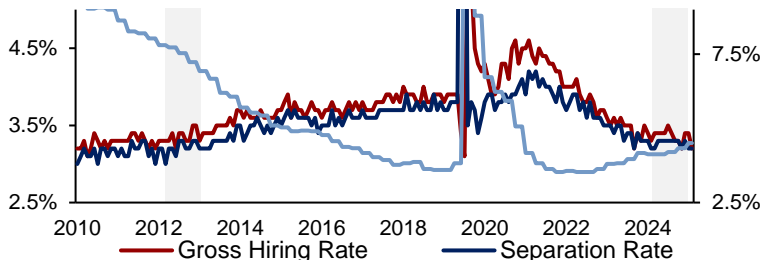
Canada:

The Canadian labor market demonstrated stronger relative resilience than the US in late 2025, consistently beating fourth-quarter unemployment forecasts. While sluggish cross-border trade and tariff uncertainties muted organic job creation, this lower labor demand was perfectly offset by engineered reductions in labor supply via aggressive cuts to federal immigration targets. Consequently, plunging job vacancy rates are not an immediate structural concern; the market has remained fundamentally tight simply because the influx of new workers was deliberately restricted to match the slower economic pace.

2026 Outlook

United States

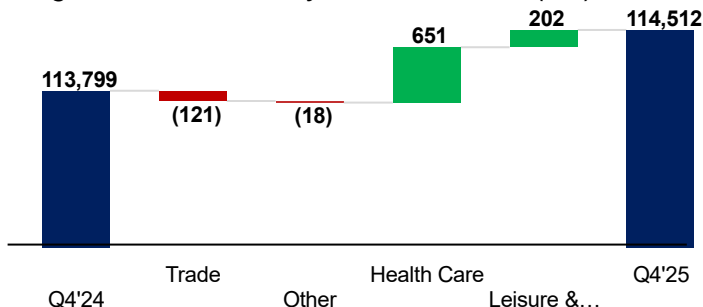
Figure 1: “Low Hire Low Fire” U.S. Market



Looking ahead, the traditional labor cushion is essentially gone. The labor market differential (the spread between consumers viewing jobs as plentiful versus hard to get) has contracted sharply. Because a narrowing spread indicates slowing hiring and eroding worker leverage, this inversion has historically served as a reliable leading indicator for an impending rise in unemployment. However, structural shifts are currently distorting this historical relationship.

Job growth has become severely bifurcated. Goods-producing sectors are effectively stagnant, leaving the services sector to drive all headline numbers. The service sector resilience is not broad-based; it is disproportionately propped up by demographic tailwinds. In 2025, healthcare alone accounted for over 91% of the total net job growth in the services sector. (Figure 2) This highly concentrated growth is actively masking underlying cyclical weakness. Notably, contractions in the trade sectors serve as clear bellwethers for softer business activity.

Figure 2: Nonfarm Payrolls in Services (SA)



Sources: Bureau of Labour Statistics (BLS), Bloomberg L.P., RBC, JP Morgan Chase, OECD

MACROECONOMIC THEMES

Labor Economics

Because this historical buffer is gone, any future acceleration in broad economic growth will bypass a normal absorption phase and immediately drive a structural labor undersupply. Going forward, standard cyclical employment indicators must be weighed against the demographic shift that will continue to hold the headline labor market intact.

Canada:

Looking ahead, these aggressive immigration cuts have drastically lowered Canada's breakeven employment threshold (the volume of job creation needed to absorb new workforce entrants and keep the unemployment rate stable). Because the labor supply is artificially constrained, the unemployment rate is positioned to fall further even if economic growth remains modest. However, this engineered balance introduces a critical upside risk: with the available labor pool restricted, any unexpected acceleration in job creation will bypass a normal absorption phase. This would trigger a severe structural undersupply, heavily increasing the probability of sharp wage inflation in the near term.

MACROECONOMIC THEMES

Fiscal Policy

Fiscal Policy

United States:

In contrast, the United States continues to follow a more structurally expansionary fiscal path. Federal debt rose to roughly \$37.6 trillion in 2025, reflecting persistent deficits and elevated spending commitments. Unlike cyclical deficits associated with downturns, the U.S. fiscal imbalance increasingly appears structural, driven by entitlement obligations, defense spending, and rising interest costs. Recent credit rating downgrades have further reinforced concerns over long-term fiscal sustainability and may gradually increase borrowing costs, particularly if higher interest rates persist.

Trade policy has also become a more prominent instrument of economic and geopolitical strategy. Despite tighter tariff policies, the U.S. trade deficit widened further in 2025 as import growth continued to outpace exports. This suggests that tariffs are being used less as revenue tools and more as instruments of industrial policy, strategic competition, and negotiation leverage. At the same time, ongoing conflicts in Ukraine and the Middle East, together with intensifying rivalry with China, have reinforced higher defense spending and industrial subsidies. As a result, U.S. fiscal policy is becoming increasingly aligned with national security, supply-chain resilience, and strategic reindustrialization, implying that elevated federal spending is likely to remain a medium-term feature of the macro environment.

Canada:

Canada's fiscal outlook in 2025 reflects a balance between fiscal credibility and structural spending pressures. Relative to most G7 peers, Canada still

maintains a comparatively moderate federal debt burden, supporting investor confidence and preserving a degree of policy flexibility. However, debt levels remain structurally higher than before the pandemic, gradually narrowing fiscal space and raising concerns that persistent deficits could eventually attract rating pressure.

Federal spending remains concentrated in social programs and intergovernmental transfers, limiting short-term fiscal flexibility because much of this expenditure is politically difficult to reduce. At the same time, the 2025 fiscal framework points to a gradual shift toward strategic priorities such as defense, infrastructure, and housing, aimed at improving resilience and addressing supply-side constraints.

Externally, Canada remains highly trade dependent, with exports accounting for roughly 30% of GDP. Although the United States remains Canada's dominant export market, recent data suggests modest diversification toward other regions. Even so, North American trade integration continues to define Canada's economic structure, leaving the economy sensitive to U.S. demand, trade policy, and broader geopolitical developments.

2026 Outlook

United States:

The U.S. fiscal outlook for 2026 is expected to remain expansionary, supported by persistent structural spending pressures and a more politically charged policy environment ahead of the mid-term elections. Large fiscal deficits, elevated interest costs, and ongoing industrial-policy commitments suggest that fiscal policy will continue to support aggregate demand

MACROECONOMIC THEMES

Fiscal Policy

Fiscal Policy

even as inflation moderates. This backdrop is likely to limit the pace of Federal Reserve easing, as strong fiscal support may keep underlying inflation more persistent and delay a full normalization of monetary policy.

Political dynamics will be central to the outlook. As the election cycle intensifies, fiscal policy is likely to become more targeted toward voter-sensitive areas such as cost of living, healthcare, and infrastructure. However, increasing polarization may also reduce the likelihood of meaningful deficit consolidation, while raising uncertainty over the timing and composition of future budget measures. As a result, policy-sensitive sectors may face greater volatility.

Spending priorities are likely to remain focused on defense, domestic manufacturing, clean energy, infrastructure, and technology investment. These priorities reflect not only domestic economic goals but also broader geopolitical considerations, including strategic competition with China and efforts to strengthen supply-chain resilience. Overall, the U.S. outlook points to continued fiscal support for growth, but at the cost of wider deficits, heavier borrowing needs, and rising long-term fiscal sustainability concerns.

Canada:

Canada's fiscal outlook for 2026 is expected to remain more disciplined than that of the United States, though still moderately expansionary in response to domestic structural pressures and external trade uncertainty. Canada retains stronger fiscal credibility and somewhat greater policy flexibility than many advanced economies, but its room to maneuver is

constrained by the composition of public spending, particularly transfers, social programs, and other politically difficult-to-reduce commitments.

Externally, Canada remains highly exposed to U.S. trade policy and broader geopolitical developments through its deep integration under CUSMA. Trade frictions and tariff risks may increase export and currency volatility, although Canada's resource base, energy linkages, and gradual export diversification should provide some resilience. Overall, Canada's 2026 fiscal outlook suggests cautious expansion, balancing structural support with a continued emphasis on fiscal credibility.

MACROECONOMIC THEMES

Monetary Policy

Monetary Policy

United States:

In 2025, the Federal Reserve navigated a careful transition from peak restrictiveness toward gradual normalization, constrained by persistent services inflation and a labour market that softened only gradually. Policy choices reflected an effort to reduce the risk of over-tightening without undermining inflation credibility.

Early to mid-2025, the Fed held rates at restrictive levels to contain inflation that remained above the 2% target, with services and shelter costs proving sticky even as goods price pressures eased. While labour market conditions showed early signs of moderation, demand remained resilient enough to warrant patience. Fed communication emphasized data dependence and the need to avoid premature easing, reflecting concern that easing too early could entrench inflation persistence. Policymakers also acknowledged that trade-related price pressures complicated the inflation outlook; Chair Jerome Powell indicated that, absent tariff-related inflation risks, the case for easing would likely have emerged earlier.

In September 2025, the Fed delivered its first 25 bp rate cut of the year, framing the move as a reduction in restrictiveness rather than a shift to stimulus. The decision reflected slowing growth momentum and a softening labour market, even as inflation remained above target. The Fed emphasized that policy remained restrictive and that further easing would be conditional on continued progress on inflation.

Late 2025, additional cuts brought the policy rate closer to neutral as downside risks to employment became more visible and the cumulative effects of past

tightening weighed on activity. With forward-looking inflation indicators showing gradual improvement, the Fed judged that maintaining peak restrictiveness risked unnecessary economic slack. Throughout, policymakers emphasized flexibility and data dependence, signaling that normalization would proceed cautiously rather than mechanically.

Canada:

In 2025, the Bank of Canada managed the transition from peak restrictiveness toward normalization under tight constraints. While inflation had fallen meaningfully from its highs, disinflation was uneven across components, and the domestic economy proved highly sensitive to interest rates. Policy choices reflected a continual rebalancing of inflation risks against growing evidence of demand-side weakness.

Early to mid-2025, the Bank extended the easing cycle begun in 2024 as falling inflation mechanically tightened real interest rates, raising the risk of unintended over-tightening. Weakness in consumption, housing, and business investment argued for reducing restrictiveness, but sticky shelter and services inflation limited the scope for rapid easing. Early cuts were framed as recalibration rather than stimulus.

Mid-2025, the Bank paused as inflation progress slowed and growth remained subdued, intensifying the policy trade-off between preserving inflation credibility and avoiding excessive economic slack. External uncertainties tied to trade frictions and fragile global demand reinforced a cautious, data-dependent approach while the Bank assessed the transmission of prior tightening.

Sources: USA Today, Federal Reserve Bank St Louis, BOC

MACROECONOMIC THEMES

Monetary Policy

Late 2025, the balance of risks shifted toward growth as labour market conditions softened further and household debt-servicing pressures persisted. With forward-looking inflation indicators improving, the Bank resumed easing, judging policy to be overly restrictive in real terms. Throughout, rate cuts were framed as normalization toward neutral, aimed at stabilizing growth while preserving inflation credibility.

2026 Outlook

Canada:

Looking ahead to 2026, the baseline outlook for the Bank of Canada is one of extended policy stability, reflecting a narrow path between contained inflation and subdued growth. With inflation expected to remain within the 1–3% target band and economic momentum modest, the policy bias is best characterized as wait-and-see rather than directional.

Market consensus clusters around a steady policy rate near current levels. TD Bank and Royal Bank of Canada both anticipate the overnight rate to remain around 2.25% through 2026, citing balanced inflation risks and limited justification for either renewed easing or a pivot toward tightening. In contrast, National Bank of Canada sees scope for modest tightening if trade uncertainty fades and growth firms, particularly if Canada emerges relatively unscathed from upcoming trade negotiations.

The macro backdrop reinforces a neutral policy bias. 2026 is likely to remain a transition year, as firms reconfigure supply chains and investment plans in response to a shifting trade landscape, while labour reallocation weighs temporarily on productivity and growth. These structural adjustments point to

restrained near-term momentum, limiting the case for rate hikes even if inflation remains contained.

Trade policy represents the dominant risk to the outlook. The upcoming USMCA review introduces asymmetric risks to both growth and inflation expectations. A benign outcome would allow the Bank to maintain rates near neutral, while adverse trade developments could tilt policy back toward support, particularly if confidence and investment weaken.

Our base case is for policy to remain on hold through 2026, with the Bank prioritizing stability as the economy digests structural adjustment to the new trade environment. The next sustained policy move is more likely to be dictated by trade outcomes and growth persistence than by near-term inflation dynamics, which appear contained within the target range.

The baseline outlook for 2026 is for a cautious continuation of normalization by the Federal Reserve, with policy remaining restrictive in the first half of the year before limited easing in the second half, conditional on inflation dynamics and labor market developments. Inflation is somewhat contained but has not fully converged to target, while unemployment shows gradual signs of easing, supporting a data-driven, patient approach.

Market expectations broadly point to a prolonged hold through early 2026, followed by modest easing in the second half totaling roughly 50 basis points. Rate path estimates cluster in the low-to-mid 3% range by year-end: Goldman Sachs and UBS expect policy near 3.00–3.25% as inflation cools, while J.P. Morgan sees a higher range around 3.50–3.75%, reflecting expectations of more persistent inflation and a resilient

MACROECONOMIC THEMES

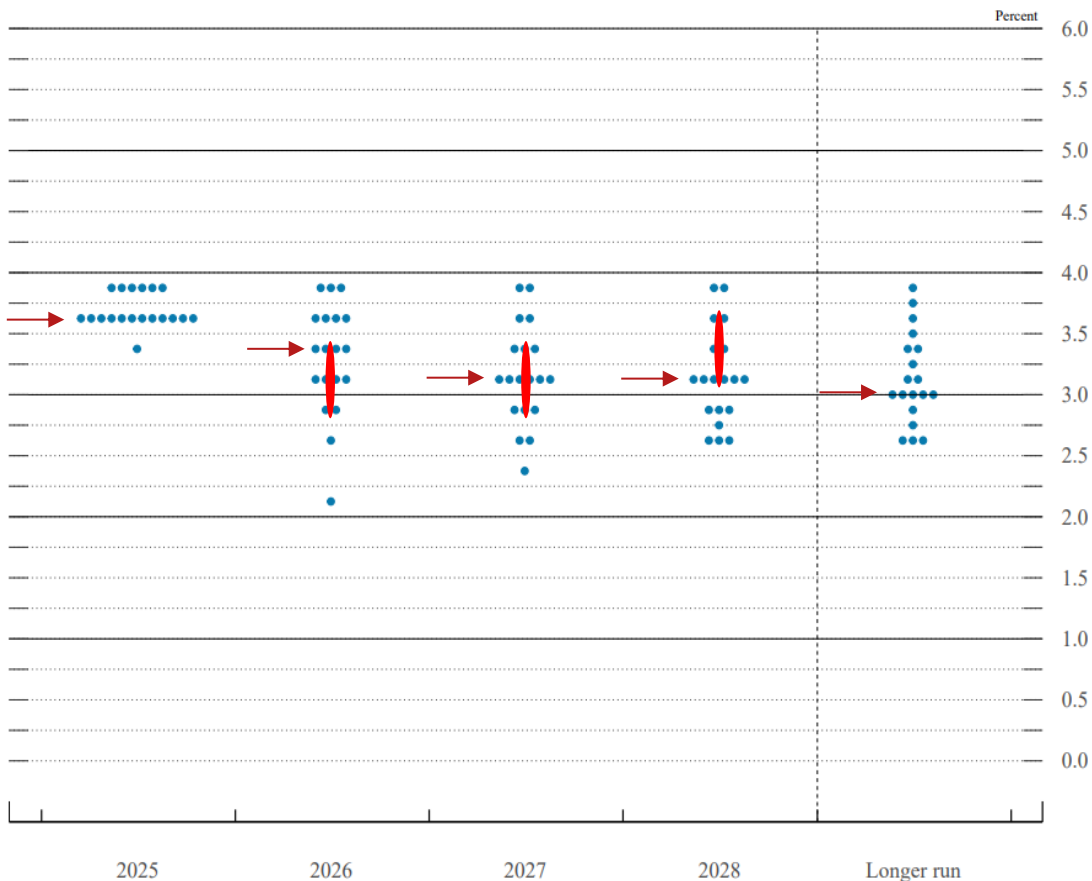
Monetary Policy

labor market. Our base case also assumes roughly 50 bps of easing, skewed to the second half of 2026. Tariff-related price pressures are expected to peak in the first half, temporarily complicating the inflation outlook and reinforcing the case for policy patience. As these transitory pressures fade and disinflation resumes, the Fed is likely to have scope for one to two modest rate cuts in the latter half of the year, consistent with a gradual return toward neutral policy.

Leadership transition adds an additional dimension to

the outlook. In the second half of 2026, Kevin Warsh is expected to take the reins. While historically considered hawkish, Warsh has signaled conditional support for lower rates in the current environment, introducing a modest dovish tilt. This increases the likelihood of back-half easing, even as the Fed remains committed to data dependence and inflation credibility. Some experts have raised questions about Warsh’s independence given his prior hawkish reputation, but overall, the leadership shift is expected to reinforce a cautious but slightly more dovish policy stance.

FOMC Participant’s assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate (Dot Plot)



Red arrow indicate the median projection. Data is based on the economic projections published on December 10, 2025. Red dots indicate the effective rate implied by the year-end Fed Fund future price

Sources: Bloomberg L.P., Federal Reserve

MACROECONOMIC THEMES

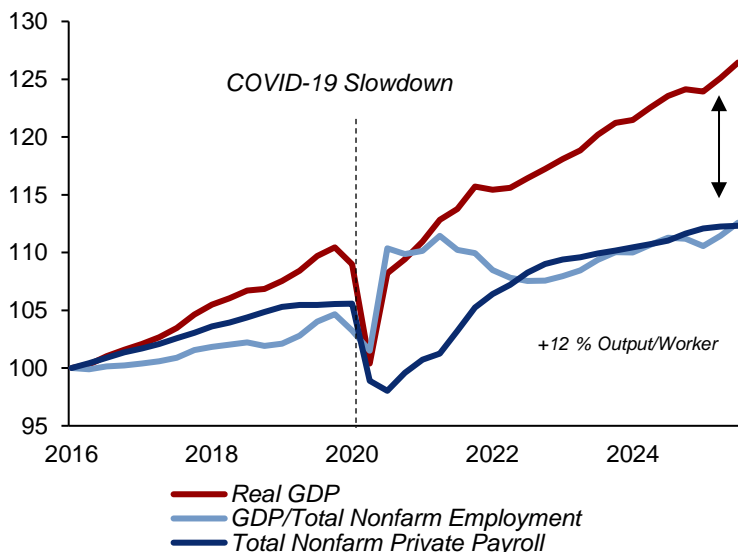
Special Topics

The AI-Driven U.S. Productivity Shock

In this report, we examine two special topics: one contemporary and one persistent. The first is the recent U.S. productivity surge, driven largely by AI investment, and its growing divergence from Canada’s productivity performance. The second is the continuation of the China Shock theme and its evolving role in increasingly volatile global supply chains.

The U.S. began experiencing a level shift and a noticeable steepening in aggregate labor productivity (output per worker) following post pandemic recovery.

Figure 1: Output Expands Faster than Labor Demand (Real GDP; Rebased 2016 =100)

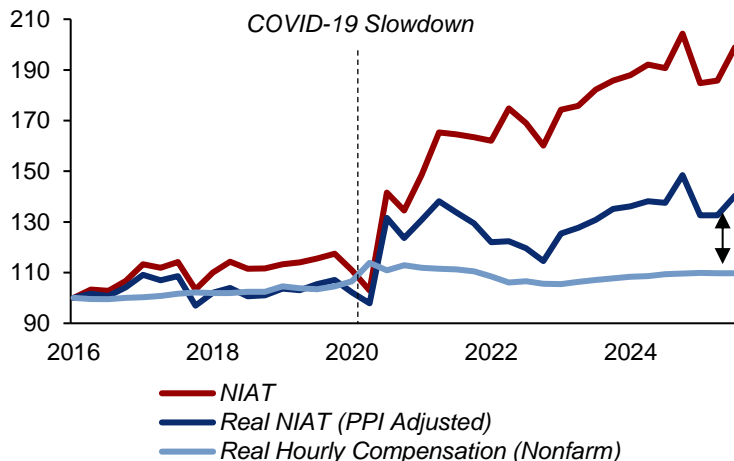


The most prominent driver of this efficiency gain has been artificial intelligence. Since the commercialization of generative AI in 2022, firms have accelerated investment in digital infrastructure. Even within what can be characterized as a J-curve dynamic, where large upfront infrastructure spending precedes the full realization of productivity gains, labor demand, especially within the services sector, is already slackening. Figure 2 shows that real corporate profits have diverged away from real hourly wages, suggesti-

Sources: Bloomberg L.P., FRED

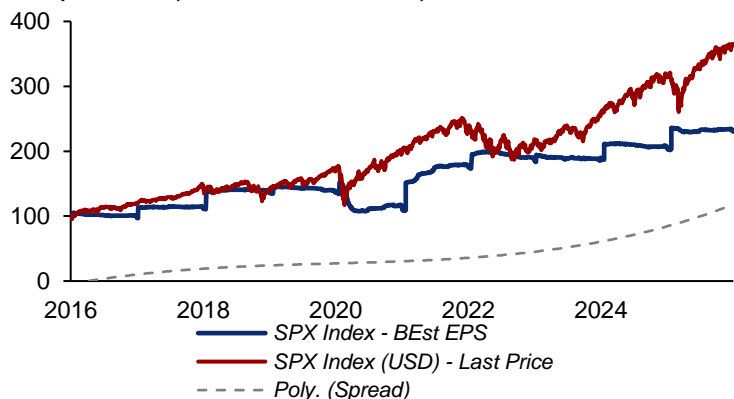
-ng a transfer of income from workers to firms as profits boom.

Figure 2: Corporate Profits Growth Outpace Wage Inflation (Real GDP, Rebased 2016 = 100)



The resulting economy is experiencing a multiple expansion as prices outpace earnings, partly because the AI cycle remains in its capital expenditure stage while the consumer adoption phase is still developing (Figure 3). Markets are therefore pricing in future profitability. Ceteris paribus, the resulting squeeze in labor demand may exert disinflationary pressure as unemployment rises, placing monetary policy in a somewhat unusual position.

Figure 3: U.S. Equities Are Experiencing Multiples Expansion (Based 2016 = 100)



MACROECONOMIC THEMES

Special Topics

By contrast, the Canadian labor market has only marginally diverged from the labor demand implied by GDP growth and, after a period of weak economic expansion, has recorded only modest improvement relative to the United States (Figure 4).

Figure 4: Output-Labor Gap is Less Deviated (Rebased 2017 = 100)

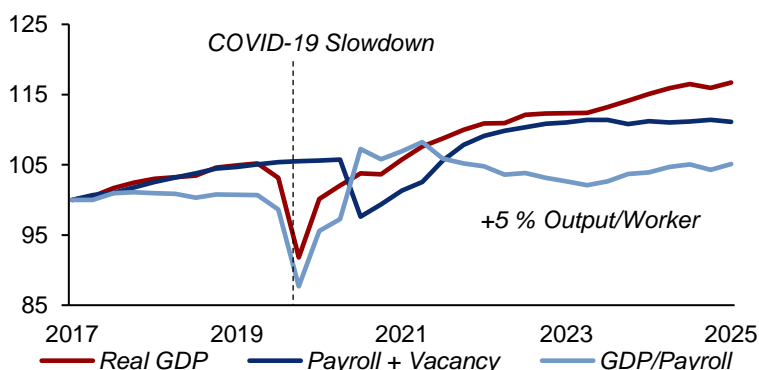
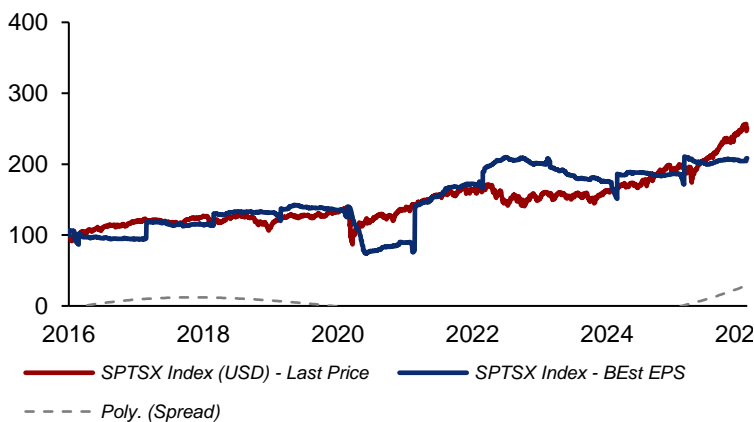


Figure 5: Canadian Equities Are Experiencing Low-Level Multiples Expansion (Based 2016 = 100)



The Third China Shock

Throughout the 2000s, North American markets were shaped by the availability of cheap Chinese labor, with the manufacturing sector bearing much of the impact. Today, China's policy priorities have shifted toward economic security, driven by import localization, import substitution, and the pursuit of technological leadership.

China's early liberalization model relied heavily on property-led growth, with highly leveraged developers such as Evergrande using pre-completion sales to fund expansion. After Evergrande's collapse, China's weak domestic demand left many firms with excess capacity, forcing producers to cut prices to keep factories running and inventories moving. With limited pricing power, this surplus increasingly led China to export deflation abroad. In early 2025, the second Trump administration introduced a new 20% across-the-board tariff on Chinese imports. By year-end, the effects were visible in bilateral trade flows, with Chinese exports to the U.S. down roughly 30% year over year in December, although, import diversification started in early years.

Figure 5: Chinese Exports to U.S. (USD Billions)

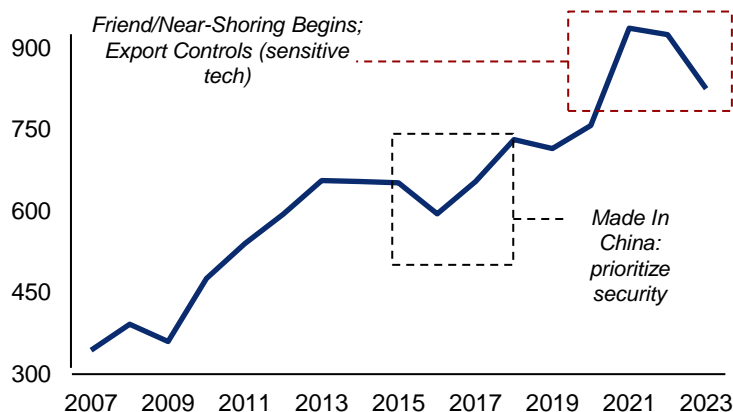
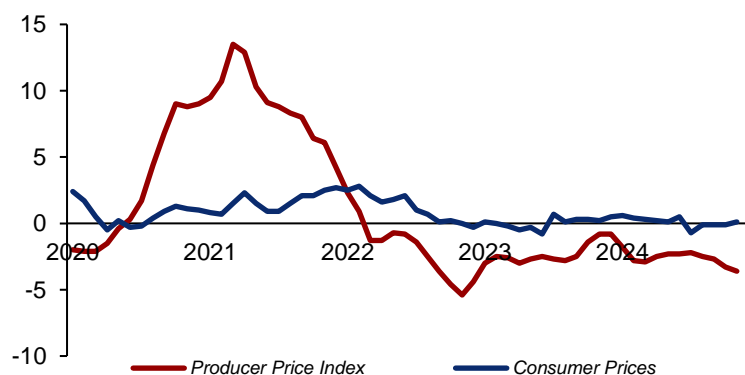


Figure 6: Chinese PPI and CPI (YoY% Change)



MACROECONOMIC THEMES

Special Topics

2026 Outlook

AI Productivity Shock:

The divergence in shock outcomes between the U.S. and Canada largely reflects Canada's weaker technological base and lower AI R&D intensity. Lower expected returns have redirected capital toward the U.S., where higher prospective ROI continue to attract foreign investment, reinforcing the gap. In our view, current AI spending should be understood as a pre-profitability investment phase characteristic of a broader structural economic transition and, despite near-term volatility, is likely to persist for the foreseeable future. Thus, under a contained AI theme and in a vacuum, we seek to investigate the evolution of the following outlook: *long U.S. innovations and base metals and underweight Canada domestic cyclicals.*

Third China Shock:

China recently released its 15th Five-Year Plan which focuses on development, security, and domestic demand. Notably, China is attempting to shift from a factor-driven growth model toward an innovation-led economy, while simultaneously investing in technological self-sufficiency to reinforce economic security and supply-chain resilience. Via the "Beijing Put," authorities are likely to rely on countercyclical policy support to manage growth volatility. In parallel, policymakers aim to expand the middle-income cohort, reduce precautionary savings, and upgrade domestic consumption toward higher-quality goods. The main implication for U.S. and Canadian equities is that shifting trade dynamics and China's export strategy are likely to create both winners and losers across sectors. On the trade side, supply-chain security could tighten Canadian and U.S. iron ore export flows, while U.S.

imports are increasingly being concentrated in strategic necessities, with the top 25 product categories now accounting for a larger share of total imports. At the same time, China continues to export deflationary pressure abroad: although Chinese imports to the U.S. fell sharply in 2024, they have been gradually recovering, and China still appears to prioritize export volumes over pricing, particularly in consumer goods and machinery. In this environment, the relative winners are likely to be agri-commodities and base metals, while consumer discretionary and machinery remain more exposed. Overall, tariff uncertainty remains elevated despite the Xi-Trump accord, even if the risk of immediate escalation has eased. We therefore explore the following: *long agri-commodities and base metals, and an underweight in consumer discretionary and machinery for 2026 (net Middle Eastern oil implication).*

Risk Management

Silas Needler

Head of Risk Management



Huixuan Huang

Analyst



Zhihua Huang

Analyst



Nikolaus Zuffer

Analyst



RISK MANAGEMENT

2025 Overview

SRI Performance

In 2025, the SRI Fund achieved strong outperformance, with a 36.8% return versus 16.1% for the benchmark, and with a beta of 1.25. While the portfolio's standard deviation was more elevated than that of the benchmark, maximum drawdown remained broadly in line with the benchmark.

Figure 1: SRI Risk Metrics

Portfolio Metrics 2025	Portfolio	Benchmark
2025 Return	36.79%	16.12%
Standard Deviation	14.57%	10.36%
Beta	1.25	--
Alpha	10.55%	--
Sharpe Ratio	1.40	--
Sortino Ratio	1.88	--
Tracking Error	2.04%	--
Downside Deviation	20.41%	5.58%
Max Drawdown	-16.01%	-16.04%

SRI is slightly overexposed to the USD, 90%, versus 80% for the benchmark. In terms of market-cap, the portfolio remains mainly allocated to large-cap holdings.

Figure 2: SRI FX

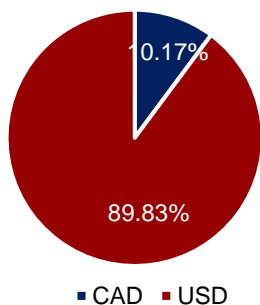
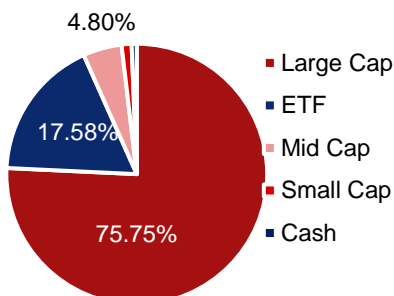


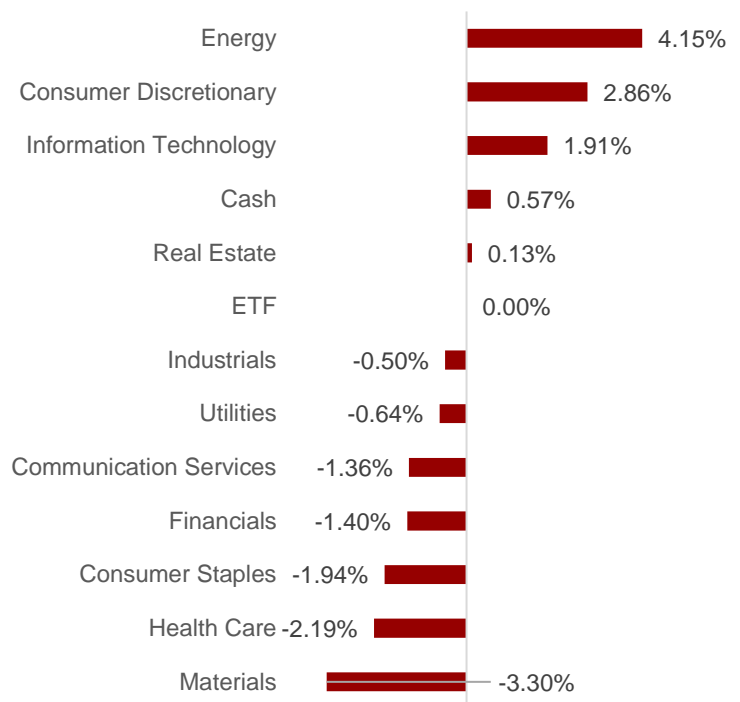
Figure 3: SRI Market Cap



SRI Fund Risk Overview

Looking at SRI's sector positioning, the portfolio's most notable active tilts were an overweight in Energy (non-fossil fuel) and underweights in Materials and Health Care. Given 2025 sector performance, this positioning was mixed. The portfolio also benefited from broader strength in U.S. technology-related leadership.

Figure 4: SRI Sector Weights



We also note that the Fund's overall outperformance came despite an underweight exposure to the high flying materials sector.

RISK MANAGEMENT

2025 Overview

Sector Valuation and Performance

In 2025, Alpha Squared delivered a positive return of 11.1%, compared with 23.8% for the benchmark. The portfolio maintained a risk profile broadly comparable to the index, with standard deviation and maximum drawdown remaining largely in line. Overall, downside risk remained relatively well contained over the year.

Figure 1: Alpha Squared Risk Metrics

Portfolio Metrics 2025	Portfolio	Benchmark
2025 Return	11.1%	23.8%
Standard Deviation	13.5%	12.8%
Beta	1.03	--
Alpha	-9.56%	--
Sharpe Ratio	0.54	--
Sortino Ratio	1.91	--
Tracking Error	4.89%	--
Downside Deviation	18.69%	--
Max Drawdown	-12.09%	-12.33%

Alpha Squared remains mainly exposed to the USD, which represents 62.35% of the portfolio, versus 40% in the benchmark. This implies a moderate sensitivity to adverse USD moves. For market-cap, the portfolio remains primarily positioned in large-cap holdings, with additional exposure to small-cap equities and ETFs. Overall, Alpha Squared remains focused on larger, more liquid positions while carrying a modest USD overweight. %.

Figure 2 : Alpha Squared FX

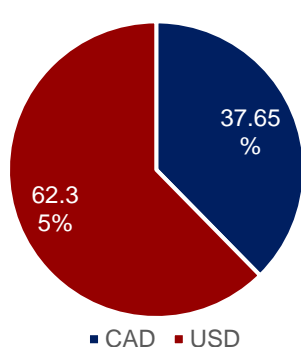
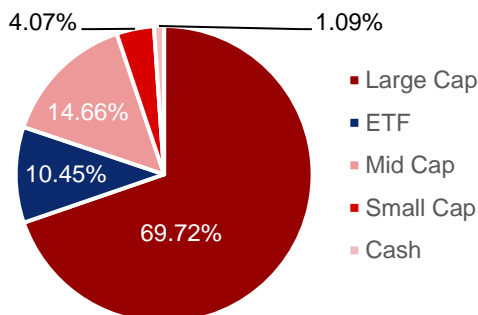


Figure 3: Alpha Squared Market Cap

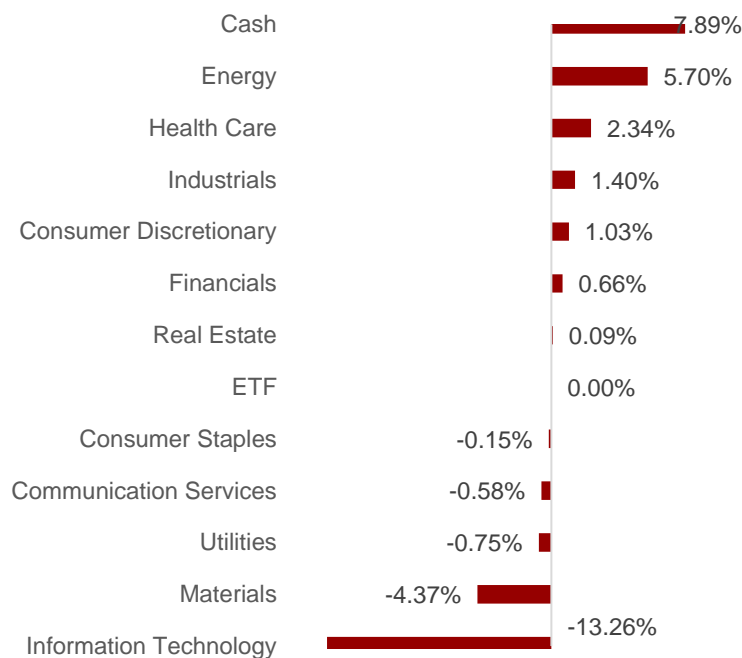


Source: Bloomberg L.P.

Alpha Squared Fund Risk Overview

Looking at Alpha Squared’s sector positioning, the portfolio’s most notable active tilts were an underweight in Information Technology and Materials, alongside an overweight in Energy and elevated cash. Given 2025 sector performance, this mix was defensive but uneven. The overweight in Energy was supportive, but the large underweight in Information Technology likely reduced participation in one of the strongest areas of the U.S. market.

Figure 4: Alpha Squared Sector Weights



From a relative-performance perspective, the underweight in Materials may also have limited upside, as the sector was a major driver of Canadian equity returns in 2025. Higher cash reinforced the portfolio’s cautious stance. Overall, this positioning appears consistent with Alpha Squared’s weaker relative performance, as it captured less of the benchmark’s leadership in U.S. technology and Canadian materials

RISK MANAGEMENT

Scenario Analysis

Alpha Squared & SRI Sensitivity Analysis

To assess our funds' sensitivity to major market factors, we ran single-factor regressions using annual returns as the dependent variable. The factors selected for 2025 were SPX, VIX, USD/CAD, Oil, Gold, and AI. For both funds, the main sensitivities remain linked to equity markets, volatility, and AI exposure.

For SRI, the fund shows stronger sensitivity to SPX (0.92) and AI (0.54), together with more pronounced exposure to USD/CAD (0.63). Similar to Alpha Squared, SRI is negatively exposed to VIX (-0.10). Overall, both funds remain pro-cyclical, with SRI showing greater sensitivity to equity, AI, and currency factors.

For Alpha Squared, the fund shows positive sensitivity to SPX (0.71) and AI (0.42), while remaining negatively exposed to VIX (-0.08). This suggests that Alpha Squared tends to benefit from stronger equity markets and AI-related themes, but may face pressure in more volatile environments.

Figure 1: SRI Sensitivity Analysis

Factors	BETA	BETA Differential	STD-Annualized	STD-Deviation
SPX	0.71*	0.01	0.17	0.15%
VIX	-0.08*	0.00	1.52	-0.74%
USD/CAD	0.14	-0.11	0.05	-0.58%
Oil	-0.09	-0.04	0.16	-0.64%
Gold	0.10	0.02	0.29	0.68%
AI	0.42*	0.02	0.26	0.48%

Figure 2: Alpha Squared Sensitivity Analysis

Factors	BETA	BETA Differential	STD-Annualized	STD-Deviation
SPX	0.71*	0.01	0.17	0.15%
VIX	-0.08*	0.00	1.52	-0.74%
USD/CAD	0.14	-0.11	0.05	-0.58%
Oil	-0.09	-0.04	0.16	-0.64%
Gold	0.10	0.02	0.29	0.68%
AI	0.42*	0.02	0.26	0.48%

Source: Bloomberg L.P.

Relative Scenario Analysis

We also assessed each fund's relative sensitivity to its benchmark using the beta differential ($\Delta\beta$) for each factor. Applying $\Delta\beta \times \sigma$ allows us to estimate the expected relative performance impact from a one standard deviation move in the factor. An asterisk (*) denotes significance at the 95% confidence level.

Focusing on the statistically significant factors, SRI shows a more pronounced relative profile. The fund shows stronger upside to SPX (0.81%) and AI (1.21%), indicating greater participation in growth-oriented and risk-on environments. At the same time, VIX (-1.53%) represents a larger relative downside, implying that SRI is more exposed to volatility shocks.

For Alpha Squared, the same significant factors point to a more moderate relative profile. The fund shows limited relative upside to SPX (0.15%) and AI (0.48%) under a one standard deviation positive move, while its most meaningful relative downside comes from VIX (-0.74%). Overall, relative to their benchmarks, both funds retain a pro-cyclical structure, while SRI exhibits higher conviction and higher sensitivity across the key significant factors.

RISK MANAGEMENT

2025 Sector Drivers & Key Outlook

Rolling VaR and Expected Shortfall

Using a 16-week rolling window and a 95% confidence level, we computed Rolling VaR and Expected Shortfall to assess SRI’s tail-risk profile relative to the benchmark. Both metrics remained broadly in line with the benchmark for most of the period, aside from the sharp spike during the 2020 stress window. Since then, tail-risk measures have generally normalized, although SRI still showed slightly higher CVaR in selected periods. This suggests that while the portfolio largely tracked market tail risk, loss severity in worst-case scenarios remained somewhat higher than the benchmark. Overall, SRI appears to carry a modestly higher tail-risk profile, consistent with its portfolio positioning and periods of increased concentration in large-cap technology names.

Figure 1: SRI Rolling VaR

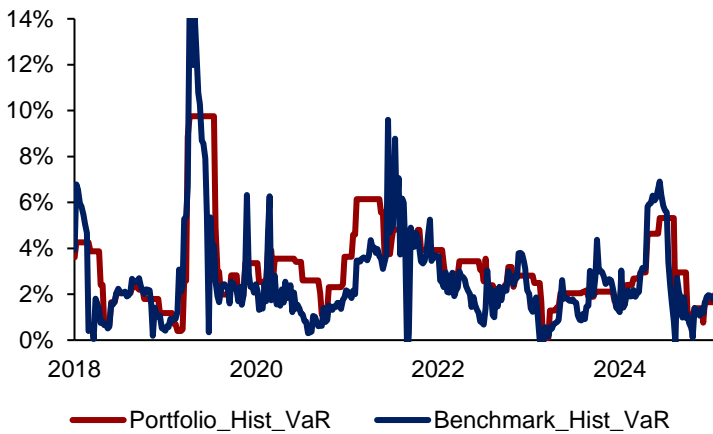
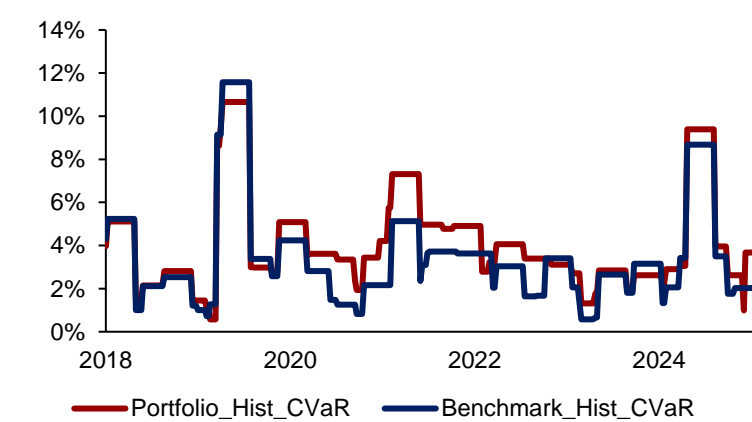


Figure 2: SRI Rolling CVaR



Source: Bloomberg L.P.

Using a 16-week rolling window and a 95% confidence level, we computed Rolling VaR and Expected Shortfall to assess Alpha Squared’s tail-risk profile relative to the benchmark. Both metrics broadly tracked the benchmark for much of the period, aside from the sharp spike during the 2020 stress window. From 2021 to 2022, Alpha Squared at times showed a wider gap versus the benchmark, and a similar divergence re-emerged in H2 2025. This suggests that while overall tail risk remained manageable, loss thresholds and worst-case losses were somewhat higher than the benchmark in selected periods. Overall, Alpha Squared appears to carry a modestly elevated tail-risk profile, consistent with periods of greater concentration in Industrials and Health Care and lower exposure to the large-cap technology names that anchored the benchmark.

Figure 3: Alpha Squared Rolling VaR

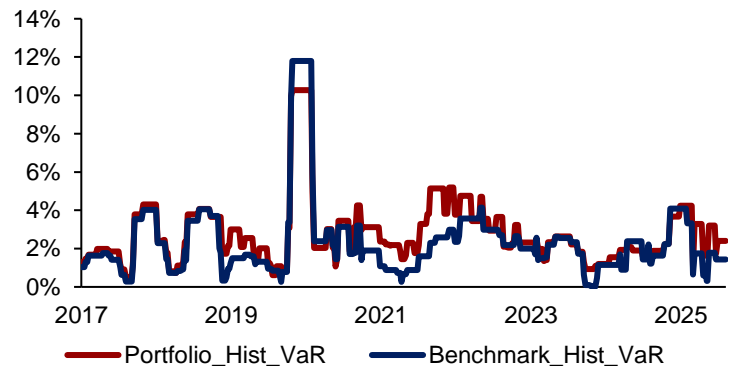
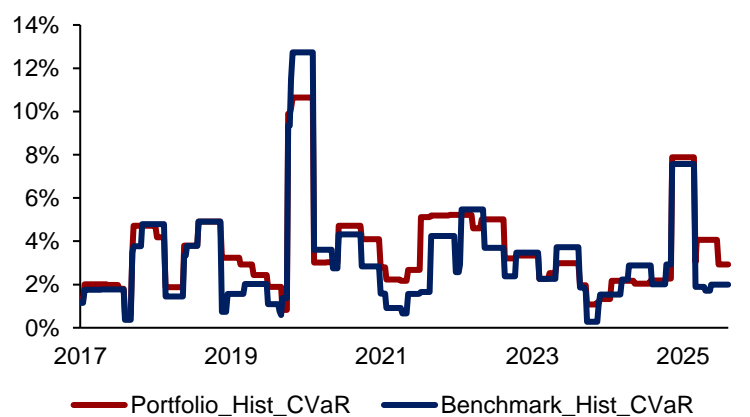


Figure 4: Alpha Squared Rolling CVaR



RISK MANAGEMENT

2025 Sector Drivers & Key Outlook

Global Geopolitical Risk

Geopolitical tensions in the Middle East, particularly involving Iran, represent a growing risk to the sustainability of the current AI-driven market rally, particularly through their impact on energy markets and capital allocation. An escalation in conflict would likely push oil and electricity prices higher, increasing input cost, compress margins for technology firms and delay capacity expansion. This introduces a structural vulnerability to the AI investment cycle, which has thus far been supported by abundant capital and declining cost assumptions.

Beyond energy markets, prolonged conflict introduces broader financial instability through heightened volatility, risk premia, and delayed monetary easing. A prolonged or escalating Iranian conflict could potentially trigger a reassessment of the AI premium. Given the high index concentration in AI-linked equities, a sharp repricing would likely lead to substantial equity market drawdowns, reduced household wealth, and tighter financial conditions, weakening consumption and investment and amplifying downside risks to global growth. Spillovers could extend into credit markets, particularly if leveraged positions unwind, further increasing volatility and risk aversion across asset classes.

Finally, inconsistent U.S. domestic and foreign policies introduce an additional layer of uncertainty. Shifts in trade policy, fiscal direction, or geopolitical positioning—particularly toward the Middle East and China—could exacerbate market volatility and undermine investor confidence. Policy unpredictability may also disrupt capital flows, supply chains, and corporate planning, increasing the risk premium demanded

by investors. In combination, geopolitical conflict, elevated equity valuations, and policy inconsistency point toward a more fragile macroeconomic environment, where downside risks to both financial markets and global growth remain materially elevated.

Source: Bloomberg L.P.

Sustainability

2025 REVIEW & 2026 OUTLOOK

Sebastian Stanculescu
Head of Sustainability



Rohan Rastogi
Analyst



Yamila Bawa
Analyst



SUSTAINABILITY

2025 Review

Global Sustainable Funds

2025 saw sustainable investment funds experience record net global outflows of \$62 billion, following a 3-year sustainable fund withdrawal trend in the United States. Notably, this was the first year where the trend affected Europe, with \$70 billion pulled from sustainable funds by European investors. This is attributable to changes in U.S. policy associated with the Trump administration, including executive orders against D.E.I policies and an antagonistic approach to climate change initiatives, with European investors feeling an undermining of global alignment on sustainability goals thus reducing appetite for such sustainable funds. Contrarily, Canada recorded net inflows into sustainable investment funds. Globally, sustainable investment funds' AUM rose 4%, associated with general appreciation in the stock market.

Regulations and Reporting

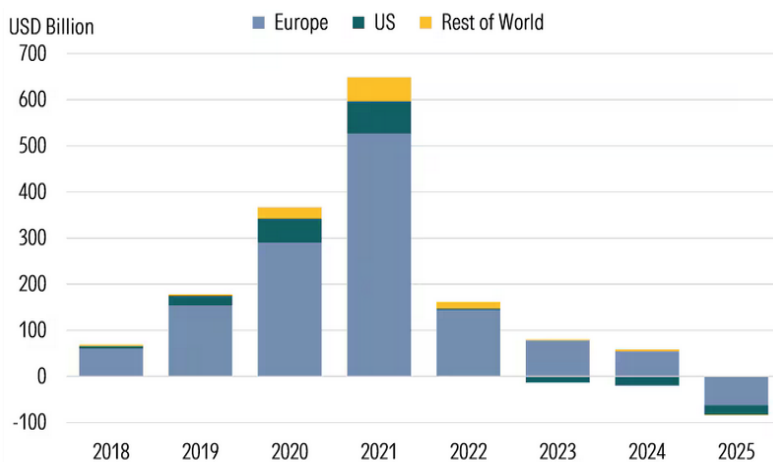
In 2025, in the United States, climate disclosure momentum at the federal level weakened. The SEC's climate disclosure rule, which would require public companies to disclose climate related risks and scope 1 and 2 emissions at the federal level, had been

passed in 2024 and then challenged in court. In March 2025, the SEC voted to end its defense of the rule in litigation, rendering the climate disclosure rule effectively dead in the water. California law SB 261, which requires companies doing business in the state with revenues over \$500 million to publish climate-related risks for their business, was legally challenged in 2025, resulting in its enforcement being paused, with an appeal still pending. On a positive note, California's SB 253 act, which requires both public and private companies with over \$1 billion in revenue that do business in the state to report their Scopes 1, 2, and 3, GHG emissions, came into effect this year with first disclosures set for 2026. Globally, 36 new jurisdictions announced they will be adopting IFRS S1 and S2 standards, highlighting the trend of global convergence on ISSB standards.

A Disappointing COP30

2025's COP30 exposed how fractured global climate diplomacy had become by late 2025. The most visible symbol was the absence of a formal U.S. delegation, as the Trump administration prepared to withdraw from the Paris Agreement again, leaving the world's largest historical emitter largely outside of negotiations. This absence weakened political momentum and emboldened countries with strong fossil-fuel interests to resist stronger language on emissions and energy transition. The EU further failed to pressure members on a formal roadmap for transitioning away from fossil fuels. However, following COP30 negotiations, the EU launched the Open Coalition on Compliance Carbon Markets with Brazil, Canada, the United Kingdom and other players to strengthen cooperation on standardizing carbon pricing and accounting systems.

Figure 1: Annual Global Sustainable Fund Flows (USD B)



Sources: Morningstar, Baker Tilly, BBC, SEC.gov, Government of Canada, Reuters

SUSTAINABILITY

2026 Outlook

Policy and Regulation: Increased Enforcement

While sustainability will play in a mixed picture in terms of an outlook for 2026, the overall trajectory seems to suggest a shift towards greater financial materiality and operational integration of ESG indicators and metrics, transitioning away from value-driven initiatives.

Regulatory momentum continues to strengthen globally, particularly through the expansion of ISSB-aligned sustainability reporting frameworks, which are expected to improve consistency and comparability in sustainability disclosures across countries and jurisdictions. As well, regulators and investors are placing greater scrutiny on greenwashing and “pinkwashing”. Companies will face higher expectations to substantiate sustainability claims with measurable data and verifiable performance metrics.

Meanwhile, in the European context, enforcement of the Corporate Sustainability Reporting Directive (CSRD) will significantly raise disclosure requirements for large corporations while reducing requirements for smaller companies. Whereas beforehand 50,000 EU and some non-EU companies were required to disclose detailed ESG information, the December 2025 update reduced requirements to companies with over 1,000 employees and 450 million in net turnover to reduce administrative burden for smaller companies. As such, while these rules aim to increase transparency and accountability, some regulatory adjustments may ease compliance burdens for smaller businesses, and we’d exercise caution in claiming this amendment can only be a benefit for this reason.

Corporate Strategy

Within corporations, sustainability is increasingly framed as a risk management and resilience issue rather than a moral obligation. Boards and executive teams are prioritizing the financial integration of climate transition risk, embedding sustainability considerations into risk management and capital allocation processes.

Operational priorities are also evolving. Companies are focusing on efficiency improvements and supply chain security, recognizing that climate risk, geopolitical instability, and resource constraints can materially affect long-term business performance. Phenomena such as extreme weather volatility and supply-chain fragility have made climate exposure a core financial variable.

Capital Markets

Capital markets are undergoing a recalibration in how ESG factors influence investment decisions. Investors are increasingly focused on transition readiness, particularly outside the U.S.. Within the U.S., the market has experienced notable ESG fatigue, illustrated by approximately \$19.47 billion in outflows from U.S. ESG ETFs despite the wider U.S. ETF market growing 20% annually in AUM. Political polarization around ESG labeling has contributed to this divergence, and investors are becoming more selective, favoring transition-aligned incumbents with credible decarbonization strategies over companies relying on hype-driven ESG narratives. An example is Ford, which decided to electrify its core model the F-150 through massive battery plant investments and a genuine shift to embracing the electric model, leading to great success in that department. A company that has prioritised hype might be Beyond Meat, which experienced a massive boom in 2019, but has lost over 99% of market value since then as ESG-related vegan food hype has faded.

Sources: Bloomberg L.P., PubMed, Statista

Quantitative Strategies

2025 REVIEW & 2026 OUTLOOK

Huixuan Huang
Analyst



Lillian Chiu
*Co-Head of Quantitative
Strategies*



Zhihua Huang
Analyst



Kush Patel
*Co-Head of Quantitative
Strategies*



Zhaoxin Jo Li
Analyst



Teerthraj Patel
*Co-Head of Quantitative
Strategies*



Prad Lucas
Analyst



Kamil Benchekroun
Analyst



Kexin Yang
Analyst



Karim Chaitani
Analyst



QUANTITATIVE STRATEGY

Introduction

Quant Screens at DCM

Quantitative screening is a key component of DCM's investment process for the Alpha Squared Fund. Rather than evaluating the entire investable universe, quant models distill a broad set of equities into a focused shortlist, which sector teams then refine through fundamental judgment to identify the highest-conviction names.

Our approach has evolved over time. The fund's earliest iteration used a multi-signal framework, favoring names with low P/E ratios, limited price volatility, and strong margin-based profitability, with the goal of surfacing undervalued companies with durable earnings quality. We subsequently shifted to a momentum-based screen, restricting eligibility to stocks finishing in the top third of their sector over the trailing twelve months.

Building on this foundation, the fund's current screen reflects the broader evolution of quantitative finance toward AI and machine learning. LLM-based approaches have gained traction in the industry for their ability to process large volumes of unstructured data, surface non-obvious patterns, and generate predictions that complement traditional factor-based methods. Our current screen draws directly on research by Desautels Finance Professor Ruslan Goyenko, whose work applies Large Language Models (LLMs)¹ to corporate filings, specifically MD&A sections and other disclosures, to estimate the probability that a company will beat earnings in the upcoming quarter.

Screener Performance vs Benchmark

The LLM-based screen has delivered a mixed but encouraging track record relative to the A² benchmark. On a long-run basis from Q1 2020, the strategy generated an annualized return of 22.18% against 17.13% for the benchmark, a spread of roughly 500 basis points. Over the most recent screen period from July 2025 through February 2026, the strategy returned 28.24% on a holding period basis versus 15.65% for the benchmark, a meaningful outperformance in a short window.

The picture is more nuanced in the intermediate period. From Q2 2023 onward, the strategy underperformed on a compounded quarterly basis: 2.3% per quarter against the benchmark's 4.6%. This period coincides with the post-publication window following Prof. Goyenko's paper, which raises a natural question about whether text-based signals have begun to be arbitrated away as LLM tools become more widely adopted in the industry.

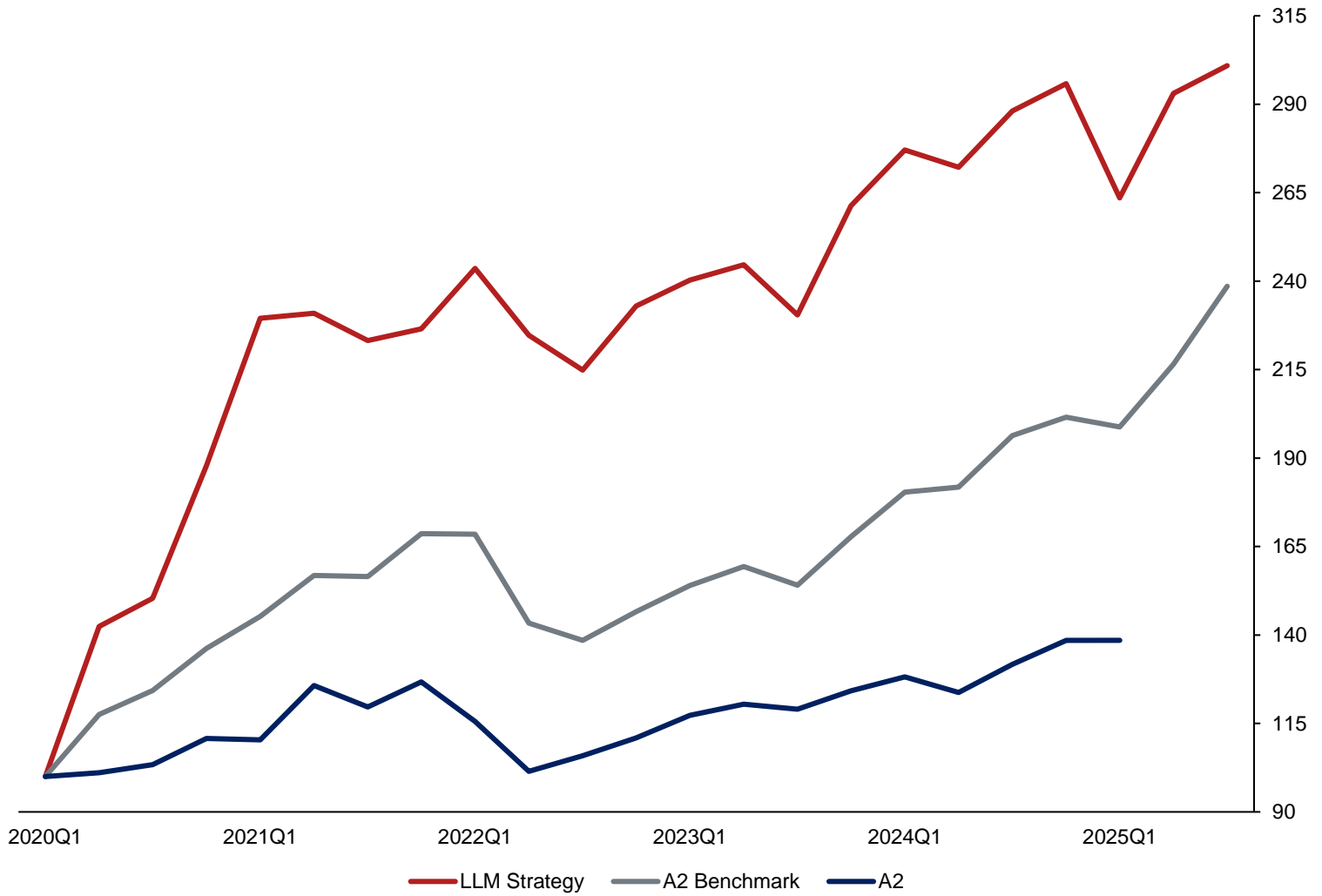
Taken together, the evidence suggests the screen may carry genuine structural signal, but that signal strength is not constant over time. The long-run and most recent results are encouraging; the intermediate period is a useful check on overconfidence. This is part of the motivation for developing a complementary factor-based model, which would diversify the strategy's signal sources and reduce dependence on any single data modality.

Sources: Florentin Belfio – MMF Final Project, Chapados et al. "Can AI Read the Minds of Corporate Executives?" (2023), Bloomberg L.P.

QUANTITATIVE STRATEGY

Backtest Results

Figure 1: Screener Backtest Results vs A2 Fund and Benchmark, Normalized, 2020-2025



Sources: Florentin Belfio – MMF Final Project, Chapados et al. “Can AI Read the Minds of Corporate Executives?” (2023)

QUANTITATIVE STRATEGY

Analysis and Future Work

Alternative Methods & Implementation

To complement the existing text-based screen, the team is evaluating two modeling families as the engine for a factor-based model.

Neural networks offer strong scalability: performance tends to improve as more data becomes available, and pre-trained models can be fine-tuned with relatively modest effort. The tradeoffs are meaningful, however. These models are prone to overfitting when training data is limited, and their weights are difficult to interpret, making it harder to explain outputs to sector teams or diagnose failures.

Tree-based models such as random forests and gradient-boosted trees are less compute-intensive, more robust to noisy data, and produce interpretable outputs via feature importance scores. The main limitation is that performance tends to plateau as data volume grows. Both families can take the same factor inputs, so the choice of engine is separable from feature selection. The team's current lean is to prototype with a tree-based model first, given lower data requirements and faster iteration cycles.

Whichever approach is selected, implementation follows a five-phase pipeline: (1) Data Collection, (2) Feature Engineering, (3) Model Training, (4) Stock Ranking, and (5) Shortlist Generation, producing a sector-based shortlist of approximately 20 candidates ranked by predicted return for sector team review.

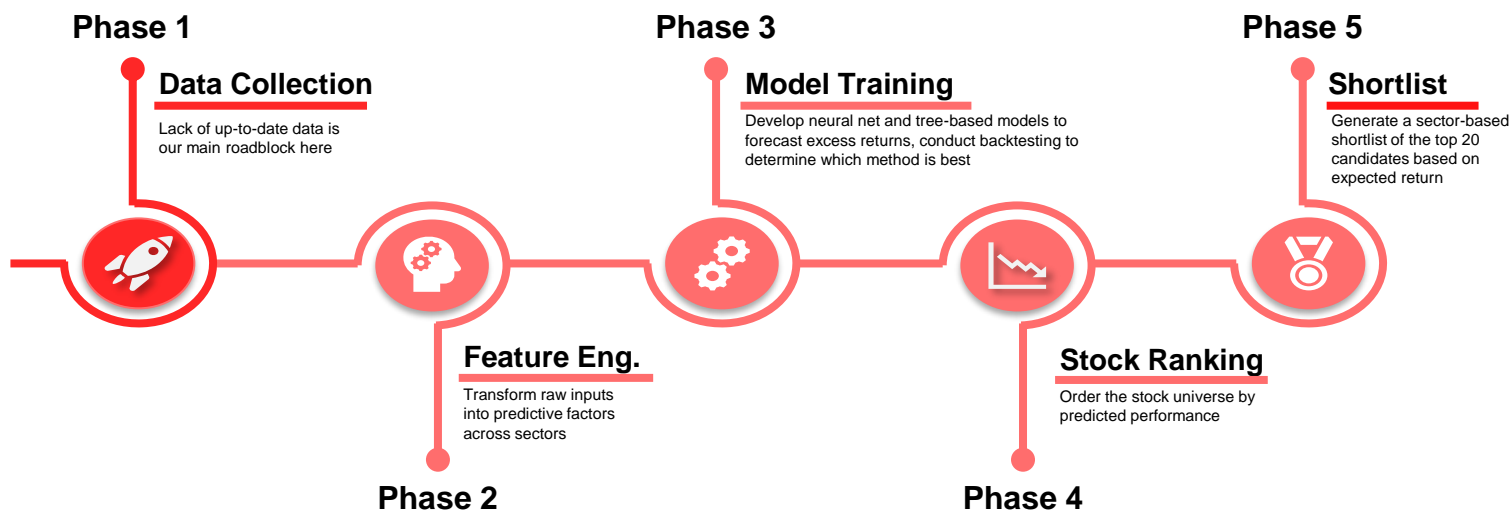
Data Access and Near-Term Priorities

All five phases remain not yet started. The primary bottleneck is data access. Three paths are being evaluated:

1. Agentic EDGAR Scraper: Free, covers all US public equities via XBRL financials, near-real-time. The team's top near-term priority.
2. WRDS + EDGAR Hybrid: WRDS Compustat (6-month lag) for historical training; EDGAR for live factor inputs. Workable for quarterly rebalancing.
3. Vendor Outreach: Academic trial access via Refinitiv or FactSet; leverage Prof. Goyenko's network.

Near-term recommendations: expand to Canadian equities; start with a lean 4–5 factor set (P/E, D/E, ROE, momentum, earnings revision); and prototype a random forest baseline before neural networks.

Figure 2: Proposed Factor-based Model Implementation Plan



Sources: Florentin Belfio – MMF Final Project, Chapados et al. "Can AI Read the Minds of Corporate Executives?" (2023), Bloomberg L.P.

Communication Services

Karim Chaitani
Analyst



Thibault Lanoe
Analyst

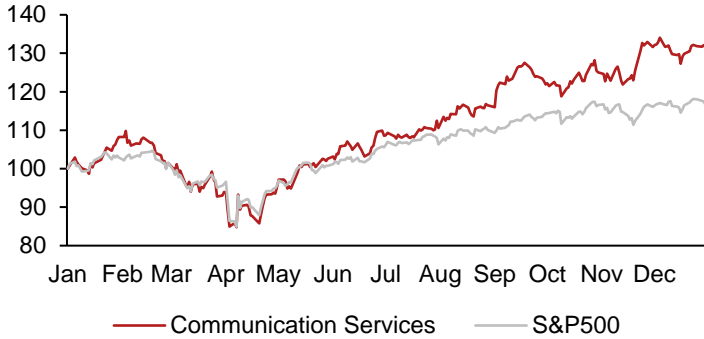


COMMUNICATION SERVICES

2025 Review

Sector Valuation and Performance

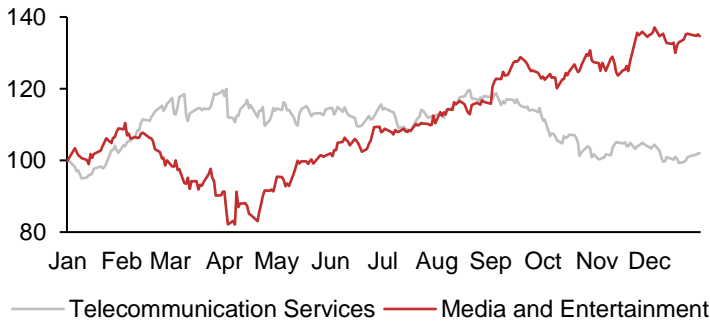
Figure 1: Communications Sector Performance (Rebased Jan = 100, 2025)



In 2025, the Communication Services Sector was the strongest performer of the market, delivering a 31.57% performance mainly driven by AI optimism and the outstanding performance of major players such as Google or Meta.

Subsectors Performance

Figure 2: Communications Subsectors Performance (Rebased Jan = 100, 2025)



The Communication Services Sector is composed of two subsectors: Media and Entertainment, which is high growth and central to the AI rally that was observed in 2025 (notably including giants such as Google and Meta), and Telecommunication Services, which is a more defensive, low-growth subsector with steady cash-flows. The following figure highlights the performance of both subsectors in 2025.

Telecommunication Services

In early 2025, the Telecommunication Services subsector experienced a significant surge, primarily

driven by AT&T's positive earnings release and a broader market rotation toward defensive sectors amid heightened uncertainty. When U.S. tariffs were announced, the subsector demonstrated remarkable resilience as the broader market declined sharply. However, as the market began to recover, the subsector started to underperform, largely because it remained relatively stable while capital rotated back into higher-beta segments. Around September, the subsector began to decline meaningfully. This was mainly driven by a rotation out of defensive sectors into more AI-centric players, combined with Deutsche Telekom's announced plan to sell part of its stake in T-Mobile for liquidity purposes, which applied downward pressure on the stock price.

Media & Entertainment

The Media & Entertainment subsector was far more central to the overall performance of the Communication Services sector in 2025. While it underperformed in the first half of the year due to tariff-related pressure, it significantly outperformed the broader market in the second half, driven by renewed AI optimism.

Several companies benefited from this enthusiasm, but the Interactive Media & Services industry (which delivered a 45.59% return) was the primary driver. More specifically, Google, which represents over 40% of the subsector, led that momentum. The strong outperformance began in September, when Google prevailed in court regarding the Apple search deal. Under this agreement, Apple sets Google as the default search engine on Safari in exchange for approximately \$20 billion per year.

Source: Bloomberg L.P.

COMMUNICATION SERVICES

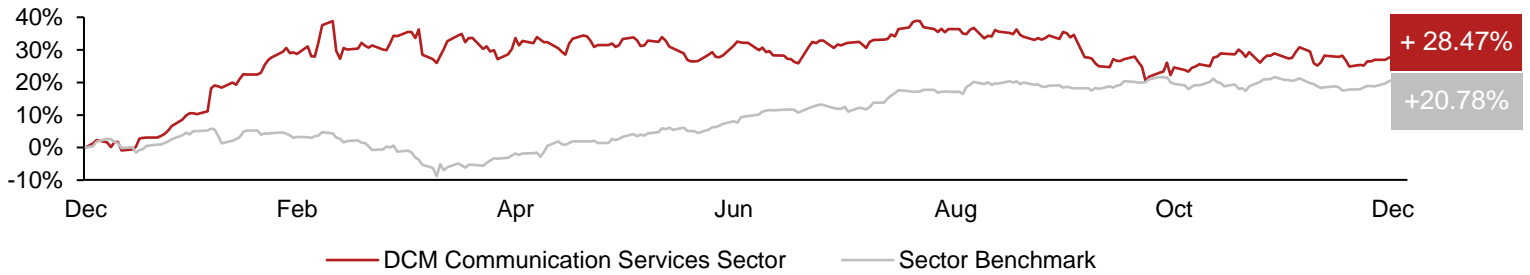
2025 Review

The contract had been challenged as anti-competitive and potentially reinforcing a search monopoly, creating substantial regulatory uncertainty. Google’s victory reassured investors, and the stock rose approximately 9% in a single day. In October, Google reported record-breaking earnings, surpassing \$100 billion in quarterly revenue. This momentum was reinforced in November with the launch of Gemini 3 Pro, which preceded an 11.6% return within the following week. These tailwinds resulted in an outstanding 64% performance for Google in 2025, outperforming most of the MAG7 and driving the broader Media & Entertainment

subsector. Regarding the other two industries within the subsector, Media declined sharply (-28%) due to its structurally challenged profile, as traditional cable models continue to be replaced by streaming platforms. Entertainment remained relatively stable (+7%). While Netflix supported performance in the first half of the year (largely driven by its password-sharing crackdown and the expansion of its ad-supported tier) M&A uncertainty, particularly speculation surrounding a potential acquisition of Warner Bros. by either Netflix or Paramount, weighed on sentiment and ultimately pressured the industry’s performance in 2025.

Desautels Capital Management Performance VS Benchmark

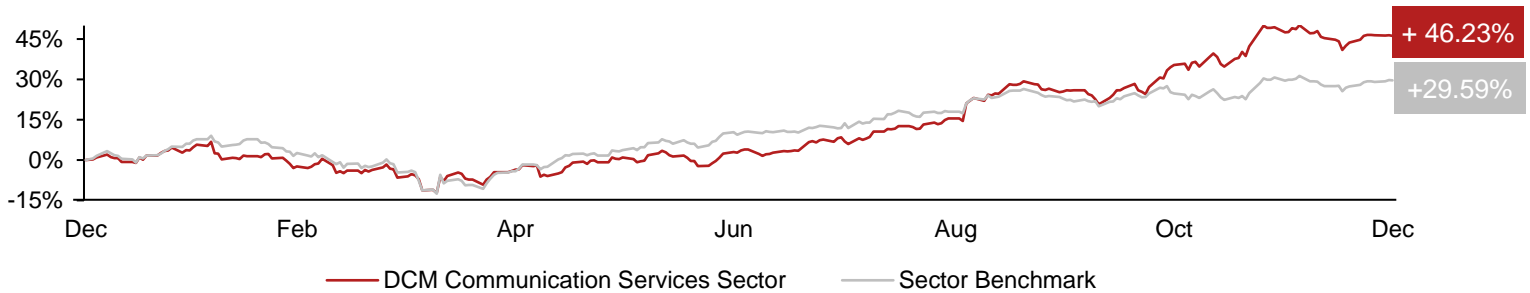
Figure 3: A2 Fund Communication Services Sector Performance, Normalized, 2025



In 2025, the A2 fund of Desautels Capital Management delivered a 28.47% performance, 7.69% above benchmark. During the first half of the year, our outperformance was due to our sale of Spotify in February after a 45% YTD return.

Afterwards, our position in Verizon provided resilience when the tariffs hit and the broader market crashed. However, as it recovered, we started underperforming, especially during the AI rally when investors were rotating out of defensive sectors.

Figure 4: SRI Fund Communications Sector Performance, Normalized, 2025



In 2025, the SRI fund of Desautels Capital Management delivered an outstanding 46.23% performance, 16.64% above benchmark

Those strong results were primarily driven by our strong stock selection and notably our position in Google, which delivered a 64% return.

Source: Bloomberg L.P.

COMMUNICATION SERVICES

2026 Performance Drivers and Outlook

2026 Performance Drivers

In 2026, performance in the Communication Services Sector will be driven by different factors, as investors' expectations and minimal requirements concerning artificial intelligence are starting to shift. Indeed, while 2025 was already the year when investors started to require return on investment for all AI-centric players (including Google), 2026 will further require those giants to show tangible returns and concrete unit economics regarding their unprecedented investments. Amid high remaining market uncertainty and unclarity concerning the monetization of Artificial Intelligence, we see 4 main performance drivers to watch closely for the Communication Services Sector in 2026.

AI-related earnings:

As Tech giants from the Mag7 reach all-time high Capital Expenditure levels, investors are growing increasingly concerned about returns and tend to punish companies that do not show a clear and tangible path to monetization. For this reason, AI-related earnings will be the single most important performance driver for the Communication Services Sector in 2026. This is true for both AI sellers (Tech giants selling cloud computing services and model builders) and AI buyers: companies from all sectors that purchase AI services to improve their processes and reduce costs. Investors will no longer be satisfied by simple disclosures of efforts being made; they now want to see results and a direct impact on the bottom line.

Scaling:

While the monetization path of AI investments is one of the main sources of uncertainty across the market

questions also arise concerning the sustainability of demand. While Amazon, Microsoft and Google are selling hundreds of billions of dollars of cloud computing services to model builders like OpenAI or Anthropic, it is not obvious that this demand will sustain and that those giants will be able to keep scaling. Their ability to do so will be a key determinant of their 2026 performance.

AI Buyers:

Beyond the direct monetization question, AI will also meaningfully transform the operations of the companies buying it. The extent to which AI buyers can reduce costs and boost efficiency through process optimization will be a major performance driver in 2026 and one that is often overlooked, as AI sellers tend to dominate the conversation given their scale and media coverage.

Interest Rates:

While less central to the story of the Communication Services Sector, interest rates remain an important factor to consider, especially as most companies in the sector carry high-duration cash flows, given that subscriptions are often billed on an annual basis.

DCM Positioning

After our sale of Spotify in February 2025, we now hold 3 positions in the Communication Services Sector: Google, Netflix and Verizon. In our view, these holdings form a coherent balance, consistent with our vision of Artificial Intelligence detailed in the Information Technology section above.

COMMUNICATION SERVICES

2026 Performance Drivers and Outlook

2026 Performance Drivers

Google: Our investment in Google reflects our belief in AI productivity gains and the critical importance of cloud computing leadership. The company already demonstrated strong AI-related earnings in 2025 and benefits from its proprietary TPU chips, which reduce its reliance on Nvidia and provide a unique competitive advantage in AI infrastructure.

Verizon: The company offers stable cash flows and exposure to a highly resilient industry where AI is not a central part of the story. This resilience was on display in April, when tariffs rattled the market and Verizon's defensive profile drove the outperformance of our Communication Services branch. While the sector is known for being capital intensive, Verizon's CapEx cycle peak is now behind us.

Netflix: The entertainment giant sits between these two poles: it leverages AI for content optimization but is not considered a core AI play. Its strength lies in its ability to produce proprietary content rooted in local cultural traditions, combined with its deep entrenchment in the streaming industry. This was best illustrated by its password-sharing crackdown, which sharply boosted revenue at near-zero incremental cost, monetizing an empire that had already been built.

Outlook and Investment Opportunities

With this current balance, we believe it will now be interesting to explore investment opportunities where AI is not at the center of the narrative.

Going forward, we would like to focus either on AI buyers or on companies where AI is not central to operations. Accordingly, we have identified two

sub-industries of interest for future stock pitches. These ideas are not binding and are not guaranteed to result in imminent investment decisions.

Interactive Home Entertainment: Also known as the video game industry, most players are shifting toward a gaming platform business model (e.g., Roblox), which provides more stable and recurring revenues. As the industry has long been considered too volatile due to its hit-driven nature, this transition may not yet be fully acknowledged by the broader market for every company. Additionally, those companies are a prime example of AI buyers.

Wireless Telecommunication Services: While we already have exposure to Verizon in this sub-industry, we view the satellite-to-cell technology as potentially disruptive and believe that interesting investment opportunities could emerge from this development.

Source: Bloomberg L.P.

Consumers

Xavier Devedeux Delorme
Analyst



Teerthraj Patel
Analyst



Rohan Rastogi
Analyst



CONSUMER STAPLES

2025 Performance Drivers

General Overview

The S&P 500 Consumer Staples sector delivered a return of approximately 1.75% in 2025, sharply underperforming the broader S&P 500 index, which gained roughly 16.6% on the year. The divergence was not driven by an earnings collapse - EPS across the sector remained broadly stable - but rather by a failure to participate in the AI-led valuation re-rating that lifted the broader market through the second half of the year.

The year unfolded in two distinct phases. In Q1, elevated tariff uncertainty prompted a rotation into defensive sectors, briefly lifting Staples relative to the index. That tailwind reversed sharply when reciprocal tariff announcements materialized in April, resetting risk appetite across the market. While the broader S&P 500 subsequently rebounded on AI earnings revisions and expanding multiples, Staples were treated as a funding leg for higher-growth exposures and failed to re-rate accordingly.

From a sub-sector perspective, Food & Staples Retailing was the standout performer, benefiting from stable foot traffic, superior procurement scale, and the ability to absorb cost pressures more effectively than peers. Food & Beverages held up reasonably well, supported by international diversification and brand pricing power. Household & Personal Products was the laggard, as pricing momentum eroded, consumers traded down to private labels, and the market increasingly discounted category headwinds tied to GLP-1 drug adoption and a structural reset in alcohol consumption patterns. Taken together, the sector demonstrated earnings resilience but was constrained by multiple compression, as investors reweighted portfolios toward higher-growth, AI-adjacent exposures throughout the year.

Source: Bloomberg L.P.

Consumer Staples underperformed the S&P 500 for the full year 2025 by approximately 1,490 basis points, with the sector posting only marginal positive returns against a strong broad market advance. Performance was marked by persistent defensive positioning that ultimately capped upside as the post-tariff recovery became increasingly concentrated in AI-driven names.

The sector's P/E ratio remained range-bound throughout the year, trading between 20x-23x NTM earnings. While this represented a modest compression from the 22x-23x range observed entering 2025, the more material dynamic was the widening multiple gap relative to the S&P 500, whose P/E expanded from approximately 25x to over 25.6x by year-end on the back of earnings upgrades in Communications and Technology. Staples' inability to re-rate reflected both a compression of the traditional "stability premium" and the emergence of structural overhangs: most notably GLP-1 demand concerns, which weighed on sentiment across Food & Beverage and Household Products names, and a reset in consumer alcohol purchasing behavior.

Earnings themselves provided downside protection: sector EPS held at approximately \$38-\$41 per share throughout the year, with no material deterioration. Companies demonstrated cost discipline as input cost normalization and logistics improvements supported margins. However, the transition from price-led revenue growth to volume-led growth proved challenging as consumers grew increasingly price-elastic following successive years of price increases, volume catalysts were limited.

CONSUMER STAPLES

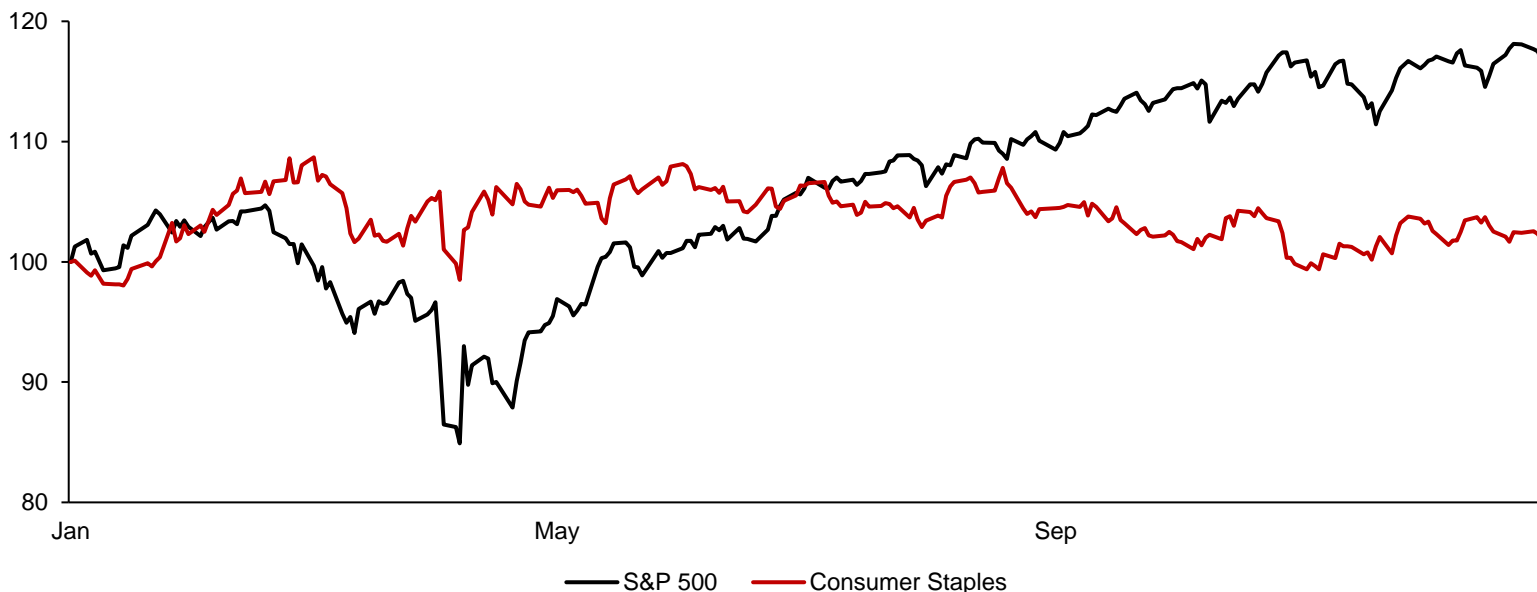
2026 Performance Drivers

General Overview

The market's shift in attention toward earnings revision cycles in high-growth sectors further diminished the relative appeal of stable but low-growth Staples franchises.

Food Retailing remained the most defensible sub-sector, benefiting from non-discretionary demand, private-label margin advantages, and resilient foot traffic. Personal Products faced the sharpest de-rating within the sector as the trade-down narrative intensified and competition from value-oriented alternatives accelerated.

Figure 1: Consumer Staples Sector Performance, Normalized, 2025



Source: Bloomberg L.P.

CONSUMER STAPLES

2026 Outlook

General Overview

The 2026 outlook for the consumer staples will be influenced by through several tailwinds and trends that we believe are set to propel it into outperformance.

Consumer demand is expected to stabilize in 2026, driven from forecasts in easing of inflation stabilizing real disposable income and purchasing power. In addition, purchasing preferences have been shifting away from in-person shopping in favour of e-commerce platforms. For example, groceries within the U.S. and Canada have experienced significant growth in their online shopping segments throughout the past year, continuing a trend occurring for the last 5 years. We foresee this trend continuing, supported by the adoption of AI in key areas such as inventory management and supply chain tracking to make supply-side processes more efficient as well as enhance customer engagement.

As well, policy measures across North America pave the way for disposable income increases, with 2026 being the first full year in which the benefits from legislation signed in 2026 will start to realize. This includes federal tax adjustments, minimum wage increases, and the rollout effects of recent income-support legislation such as the U.S' "No Tax On Tips" Act. Together, this should fundamentally support take-home pay in lower and middle-income categories into 2026, and since consumer staples is a more defensive sector, it is set to benefit more than other sectors from this as people will continue to go purchase staples-oriented products before those from other sectors. budgets into 2026. For staples categories, this creates a favorable backdrop for both demand resilience and selective pricing power recovery.

Source: Bloomberg L.P., S&P Global Intelligence, JP Morgan, Fidelity, McKinsey

Personal Care & Household Products

We expect the Health & Wellness segment to outperform the benchmark in 2026. Health-oriented consumption patterns have proven durable through 2025, with consumers demonstrating sustained interest in lower-sugar, reformulated, and "clean label" products. Label scrutiny continues to rise, particularly among younger demographics who view excessive sugar consumption as harmful. This generational shift is not merely a temporary trend but reflects a broader redefinition of baseline product expectations.

In response to this shift amongst consumers, food and beverage companies are accelerating reformulation efforts, transitioning from marketing-driven health claims toward tangible structural adjustments such as portion control, sugar reduction, and ingredient transparency. Emerging challenger brands such as Poppi and Koia have further intensified competitive pressure, forcing incumbents to innovate or pursue repositioning through internal R&D or strategic acquisitions such as PepsiCo's \$1.95B acquisition of Poppi in 2025. The success of low-sugar beverages underscores that consumers are willing to switch when products align with evolving health priorities.

Regulatory and policy developments add further support. Growing public health concerns and around sugar taxation and labeling requirements increase the probability of stricter guidelines over time. As well, some states are using the food stamps "SNAP" program to restrict purchases of sugar, reinforcing demand for health-forward offerings as we expect consumers to transition to healthier alternatives. Companies with transparent ingredient profiles and credible wellness branding are likely to benefit.

CONSUMER DISCRETIONARY

2025 Review

General Overview

The S&P 500 Consumer Discretionary sector delivered an approximate return of 6.6% in 2025, underperforming the broader S&P 500 by approximately 1,000 basis points over the full year. The sector's relative underperformance masked a wide intra-sector divergence between Consumer Services which proved materially more resilient, and Durables & Apparel, which bore the brunt of the April tariff shock and failed to achieve a complete recovery through year-end.

The year was characterized by two dominant macro narratives. In Q1, a resilient labor market and solid higher-income consumer spending sustained broad discretionary demand, with the sector tracking closely alongside the S&P 500. The tariff shock in April represented the defining inflection point: Consumer Discretionary, as a high-beta, import-dependent sector, underperformed the broader market acutely as multiple compression accelerated and supply chain uncertainty weighed on near-term earnings visibility. The sector's trough came in late April and early May, with some names in the Durables & Apparel space experiencing drawdowns in excess of 20%.

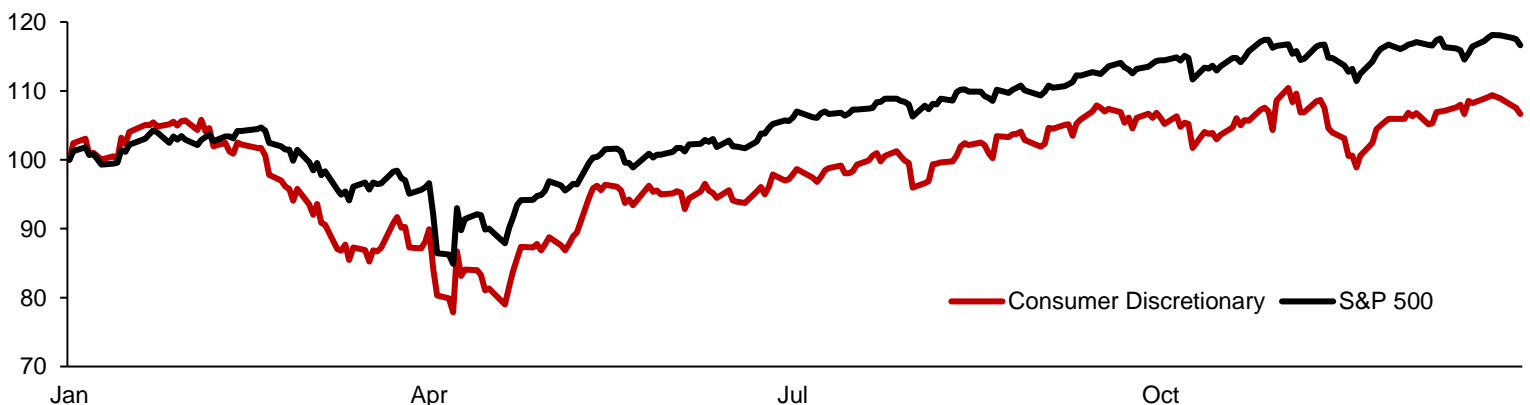
The subsequent recovery was uneven and services-led. Strong wage growth outpacing inflation and continued experience-based spending like travel, dining, entertainment supported Consumer Services throughout the summer months and into Q4. Goods-oriented names, particularly those with high import reliance, rebounded but lagged the index recovery as consumers continued to defer high-ticket purchases and pricing power remained constrained.

By Q4, AI-driven multiple expansion in Communications and Technology further crowded out discretionary re-rating, limiting the sector's ability to close the gap with the broader market despite broadly stable underlying earnings fundamentals.

2025 Sector Performance

Consumer Discretionary underperformed the S&P 500 by roughly 1,000 basis points in 2025, ending the year with a low-single-digit return against the S&P 500's approximately 16.6% advance. The sector's trajectory was defined by a sharp valuation-driven drawdown in April followed by a partial, fundamentals-led recovery, but one that was ultimately capped by the AI concentration effect at the index level.

Figure 2: Consumer Discretionary Sector Performance, Normalized, 2025



Source: Bloomberg L.P.

CONSUMER DISCRETIONARY

2025 Review

2025 Sector Performance (Continued)

The April tariff shock was the sector's defining event. Consumer Discretionary's P/E ratio de-rated swiftly from approximately 30x NTM earnings to the low-20s at the trough, reflecting the sector's high sensitivity to discount rate changes, supply chain disruption risk, and consumer confidence deterioration. Critically, the selloff was not fundamentals-driven: EPS across the sector held steady through the shock and subsequently grew, underpinning the recovery narrative.

This was particularly evident in higher-income consumer segments, where spending on experiences and services remained intact throughout the volatility. The sub-sector bifurcation was pronounced. Consumer Services demonstrated consistent resilience, buoyed by a strong labor market with wage growth outpacing inflation through most of the year and structurally durable demand for experiential spending. Durables & Apparel faced a more challenging environment: elevated interest rates continued to weigh on big-ticket purchase financing, inventory management challenges persisted for import-heavy brands, and consumer confidence among middle- and lower-income cohorts remained fragile following the tariff shock.

From a valuation perspective, the sector's P/E partially recovered to the upper 20s by year-end, supported by earnings growth in services-oriented names. However, multiples remained volatile and well below the 30x+ levels that prevailed pre-April shock, reflecting ongoing uncertainty around the rate outlook, trade policy trajectory, and the durability of goods consumption. Returns through the second half were primarily EPS-driven rather than multiple-expansion driven, marking a

shift from the AI-re-rating dynamic observed in higher-growth sectors of the market.

Source: Bloomberg L.P.

DCM-SPECIFIC PERFORMANCE

Performance strong in Discretionary, varied in Staples

DCM and the Consumer Discretionary Sector

The Consumer Discretionary sector performed very well in both portfolios. Alpha Squared generated a return of 18.34% and the SRI portfolio returned 54.15%, while the S&P 500 Consumer Discretionary benchmark returned 8.86%. This means both portfolios outperformed the sector benchmark. A major reason for this strong performance was the large gains from Tapestry and Callaway Golf. These companies experienced strong business growth and their stock prices increased significantly during the period.

Tapestry's (TPR) share price by 96.82% and was one of the largest contributors to performance. The company benefited from strong demand for luxury products, especially its Coach brand. After the pandemic, consumers started spending more on fashion and accessories again. Tapestry also improved profitability by reducing discounts, increasing prices, and controlling operating costs. These improvements helped increase profit margins and investor confidence, which pushed the stock price much higher.

Callaway Golf (MODG) rose by 79.36% and was another important contributor to the sector's outperformance. The company benefited from the growing popularity of golf and strong demand for golf equipment and apparel. In addition, its Topgolf entertainment business continued to expand and attract many customers. This part of the business helped increase revenue and made the company less dependent on traditional equipment sales. Because of this strong growth, the stock performed very well.

Overall, the Consumer Discretionary sector

outperformed the benchmark because the portfolio held a few high-performing companies that delivered very strong returns. These large gains were enough to offset weaker stocks and allowed the portfolio to beat the sector benchmark.

DCM and the Consumer Staples Sector

The Consumer Staples sector had weaker performance compared with the benchmark. The Alpha Square portfolio returned -0.49% and the SRI portfolio returned 0.67%, while the S&P 500 Consumer Staples benchmark returned 9.65%. This means the portfolios underperformed the sector benchmark. One reason for the underperformance is that the companies held in the portfolio had stable but slow growth. Consumer staples companies usually perform steadily because they sell everyday products, but they often do not grow as fast as other companies.

PepsiCo's (PEP) share price rose slightly by 0.67%. The company continued to generate stable revenue from its popular snack and beverage brands such as Pepsi, Lay's, and Gatorade. PepsiCo was able to increase prices to deal with higher costs, which helped maintain profitability. However, the company experienced slower growth in sales volumes because consumers were buying slightly fewer products due to higher prices and economic pressure. As a result, the stock had only a small positive return. In conclusion, the Consumer Staples sector underperformed its benchmark mainly because the companies in the portfolio generated only small returns and did not experience strong growth. While these businesses remained stable, they were not able to match the stronger performance of other companies included in the sector benchmark.

Source: Bloomberg L.P.

Energy

Lillian Chiu
Analyst



Jo Zhaoxin Li
Analyst



ENERGY

2025 Sector Overview

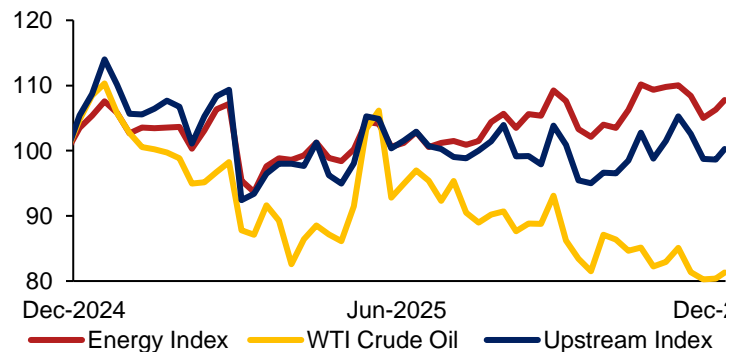
Oil

At the start of 2025, crude oil prices and energy index moved largely in tandem. Around “Liberation Day,” the broader energy index began to outperform the upstream sub-index as oil demand expectations softened amid weaker manufacturing activity, transportation demand, and consumer spending.

Meanwhile, non-OPEC+ supply from the US., Guyana, and Brazil remained robust. OPEC+, focused on defending market share, maintained elevated production levels. The combination of resilient supply and moderating demand created a persistent supply overhang, which weighed on crude prices throughout the first half of 2025. A temporary geopolitical shock occurred in late June when Israel’s strike on Iran briefly reintroduced a risk premium, lifting oil prices to approximately \$78 per barrel, though the rally proved short-lived.

In the second half of 2025, energy equities became less sensitive to spot crude price movements. Investor focus shifted toward free cash flow durability, balance sheet strength, dividend sustainability, and share repurchase capacity. As a result, integrated energy companies with diversified earnings across upstream, midstream, and downstream segments outperformed, while pure-play upstream producers lagged due to higher commodity price exposure and limited earnings diversification.

Figure 1: Energy Index vs Oil, Normalized, 2025 to YTD



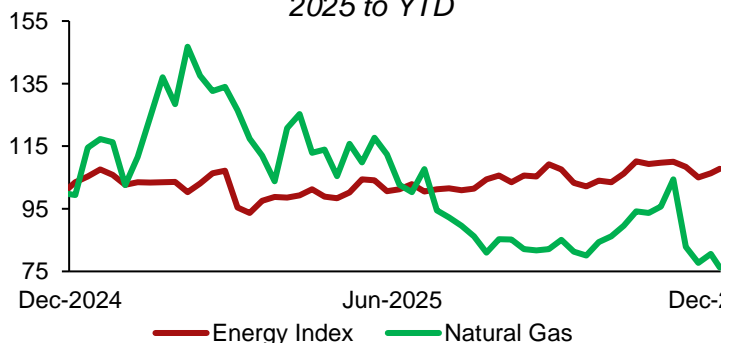
Sources: Bloomberg L.P., EIA

Natural Gas

Natural gas prices diverged notably from the broader energy index over the course of the year. Early in the year, prices strengthened, driven primarily by extreme cold weather that elevated heating demand. Markets priced in a more supportive U.S. LNG export policy following the Trump administration’s return to office in January 2025. The expiration of the Russia–Ukraine natural gas transit agreement further tightened European supply expectations, indirectly supporting U.S. LNG export demand and pressuring on gas prices. As freeze-offs ended in late April and weather-related demand faded, prices briefly rebounded in early May before resuming their downward trend. During the summer, U.S. production remained elevated, supported by resilient associated gas from oil-directed drilling. Simultaneously, growing solar and wind generation reduced gas-fired power demand. LNG export growth also underperformed expectations, while storage injections consistently exceeded seasonal norms. These factors reinforced downward pressure on prices throughout the summer months.

Toward year-end, a warmer-than-normal winter further weakened demand, pushing natural gas prices to new lows. In contrast, the broader energy index remained relatively stable, reflecting its lower sensitivity to gas prices and greater exposure to oil-linked and integrated business models.

Figure 2: Energy Index vs. Natural Gas, Normalized, 2025 to YTD



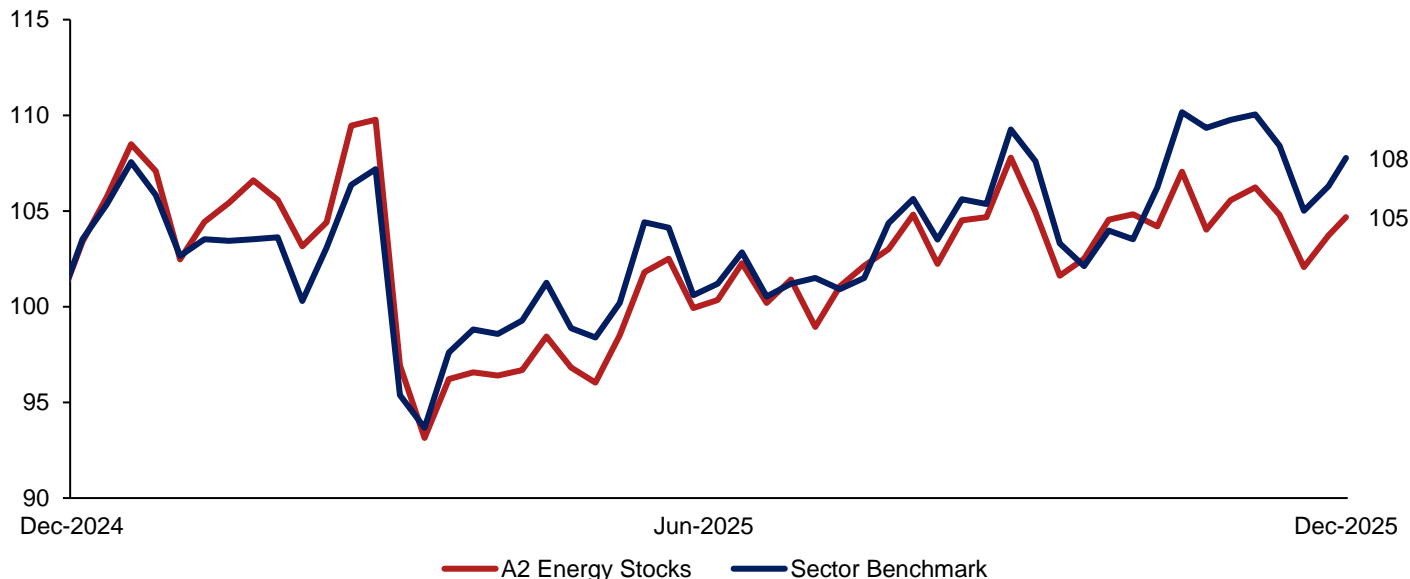
ENERGY

2025 Sector Overview

2025 DCM Energy Sector Performance

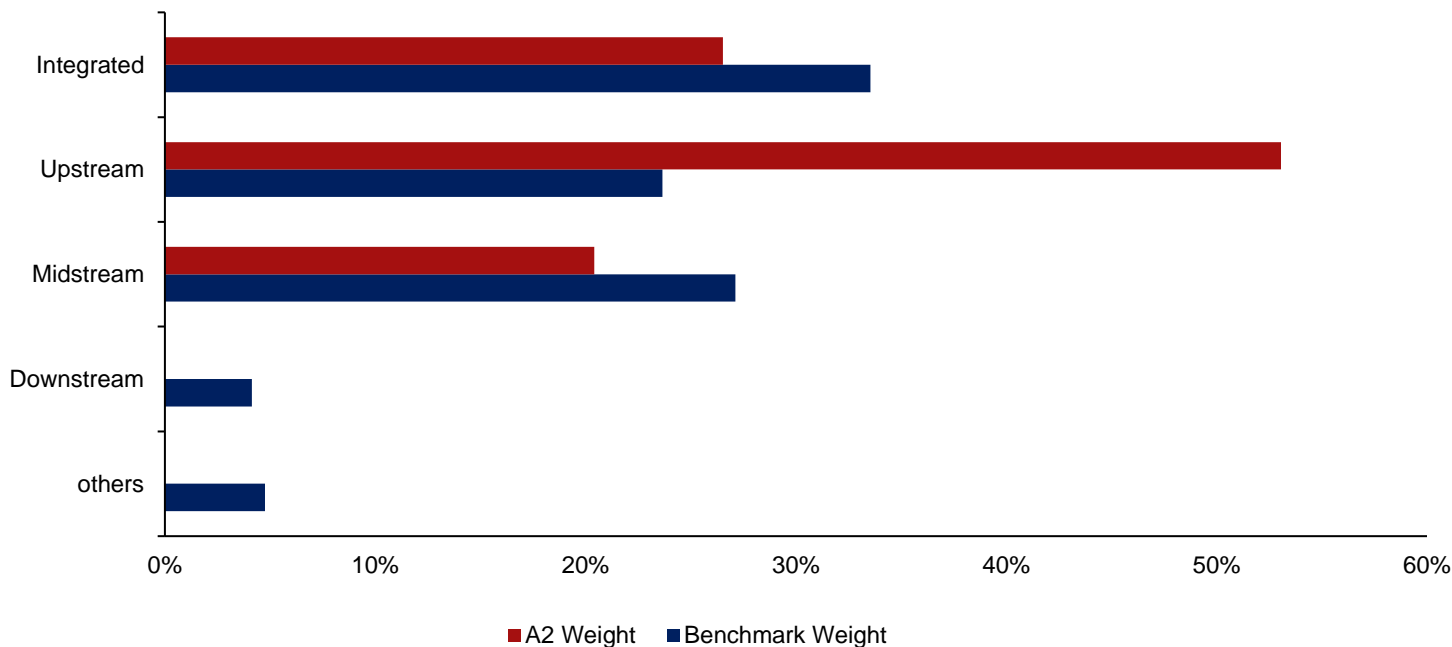
In the first half of 2025, the Alpha Squared (A2) energy portfolio outperformed its sector benchmark. However, following the April tariff announcement, the fund shifted into relative underperformance.

Figure 3: A2 Energy Holdings vs. sector benchmark performance, Normalized, 2025 to YTD



This reversal was largely driven by A2’s higher exposure to upstream producers compared to the benchmark, combined with an underweight position in cash-flow-stable midstream companies. Midstream holdings within A2 generated higher returns with lower volatility relative to other subsectors and demonstrated limited sensitivity to the macro and commodity price fluctuations observed throughout the year.

Figure 4: A2 Energy Sub-sector Weight Breakdown



Sources: Bloomberg L.P., EIA

ENERGY

2025 Sector Outlook

Global Demand

In early January 2026, our outlook for the global energy sector for the year was most strongly defined by electricity demand growth in digital infrastructure, EV adoption, electrification of heavy industries, economic growth in emerging markets, and rising temperatures-led cooling demand. Given the strides made in electrification and the strong supply growth in oil over the past few years, we predicted a global oil glut for 2026 and therefore a stagnating energy sector, which most highly correlates with its upstream subsector.

With the release of LLM-powered chatbots over the past few years, the Magnificent Seven have since doubled down on their investments in AI model training, causing significant power grid strain in hubs such as Data Center Alley in Loudoun County, VA, which is projected to account for 6,000 MW of data center capacity by 2026, up 500% from 2018. As electricity demand has outpaced supply in the PJM area and power grid infrastructure bottlenecks have created years-long backlog for grid connection capacity, data centers are forced to turn to natural gas for its flexibility and dispatchability to meet the 24/7/365 availability and 99.999% uptime criteria. On the other side of the pond, natural gas is also a hot commodity for quite different reasons.

At the time of editing and revision of our Annual Report, the US-Israel attacks on Iran have upended our original predictions for the year. In light of the conflict in the Middle East, our global energy outlook for this year will be significantly more defined by supply shocks rather than demand.

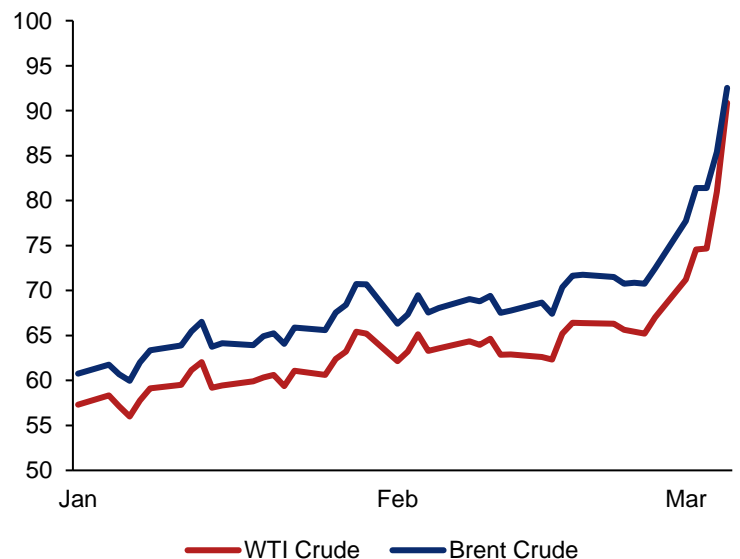
Oil

Oil markets opened on the evening of March 1st to price spikes up nearly 10% from pre-attack levels. As of March 6th, WTI crude and Brent crude reached 90 and 92 \$/barrel respectively, all-time highs not seen since 2023. Such military offenses have already sent major shockwaves throughout the economy, as the prices of petroleum-derived products will sharply increase costs for transportation, agriculture, and construction, but the duration and full scale of this impact has yet to be properly quantified.

The US and European markets are already seeing increases in the price of gasoline, diesel, jet fuel, and future delivery of crude. Asian markets will be less impacted in the short term, as Saudi Arabia is prioritizing its exports to Asia over Europe.

As Trump has decided not to refill the Strategic Petroleum Reserves previously depleted under Biden during the Russian invasion of Ukraine, the US only has the equivalent of 20 days worth of total US consumption, leaving them particularly vulnerable to price shock.

Figure 5: Crude Oil Prices YTD 2026

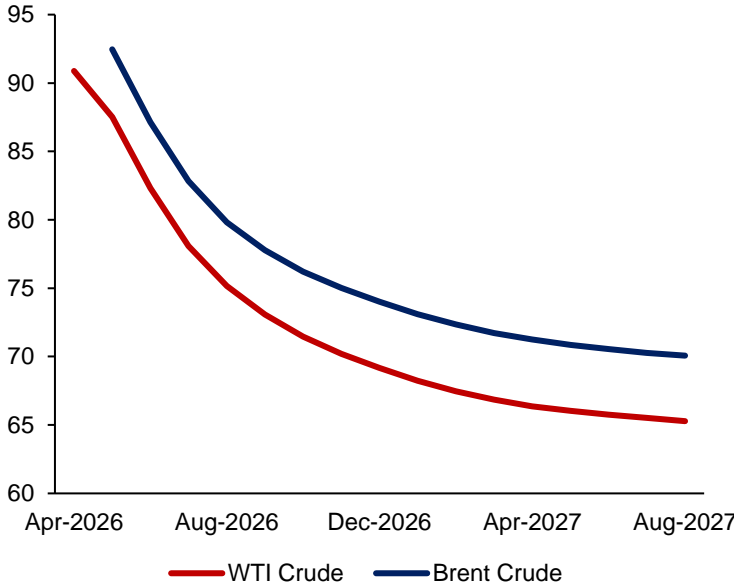


ENERGY

2025 Sector Outlook

Oil (Continued)

Figure 6: Crude Oil Futures, March 2026



The current crude futures curves show super-backwardation, indicating markets believe the disruptions in oil supply will only be temporary, as the spread between delivery contracts 1-month out and 6-months out has widened since February.

Outside the Middle East, the US, Brazil, and Guyana are currently still producing at record highs. If and once the bottleneck clears, there will be a surplus of 4 million bpd in the second half of 2026, as we had previously expected.

Natural Gas

As of March 6th, the price of Henry Hub natural gas and TTF natural gas were respectively 3 USD/MMBtu and 53 EUR/MWh. The floor price of natural gas in the US has risen due to demand pulls from Europe, and its major recent spike can be attributed to the US attacks on Venezuela. Europe is particularly sensitive to the price shocks, as it has now been cut off from its second major source of energy (the first one being Russia). The impacts of the US-Iran war will be felt well into 2028,

before prices will follow their usually seasonal cyclicity. Despite the upcoming LNG wave in North America, this additional supply won't be reaching Europe due to bottlenecks in natural gas liquefaction infrastructure in the US.

Figure 7: Natural Gas Prices, YTD

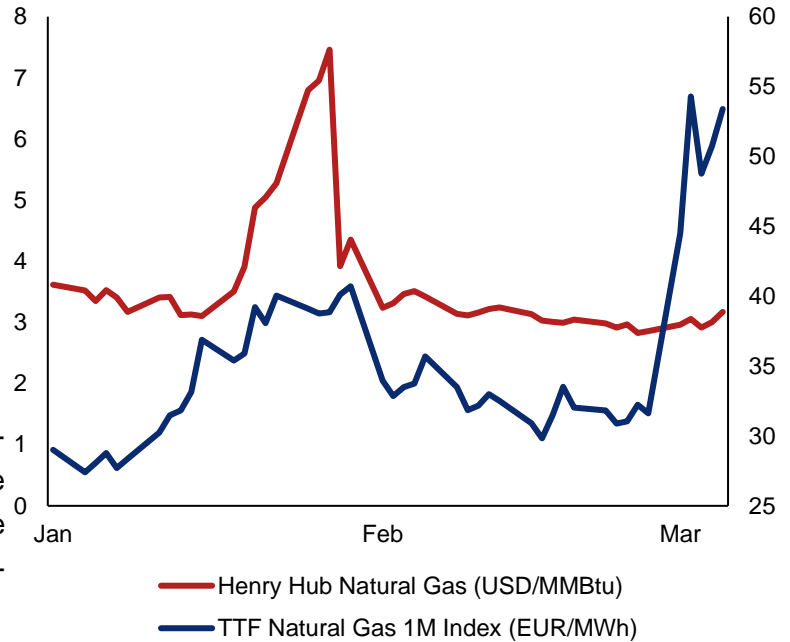
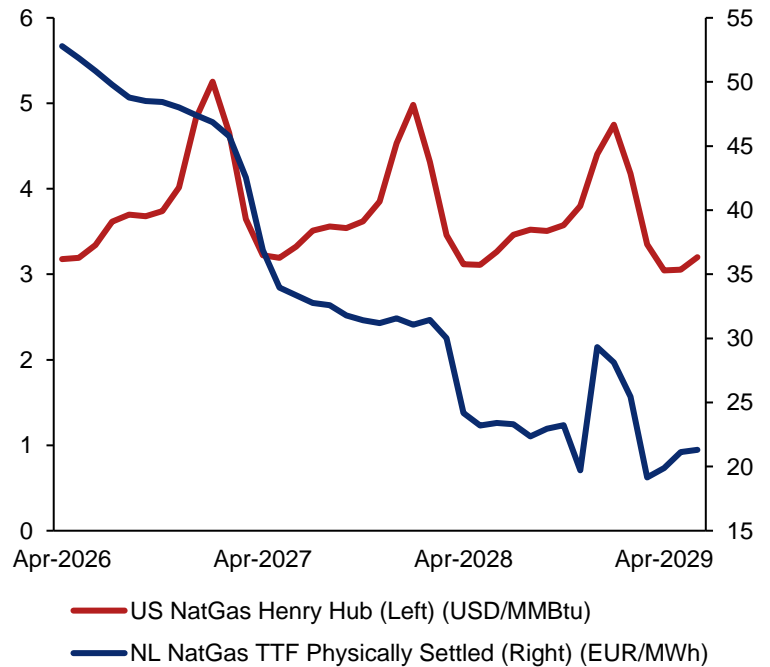


Figure 8: Natural Gas Futures in March 2026



Sources: Bloomberg L.P., Financial Times

Financials

Jad Baba
Analyst



Thomas Di Stefano
Analyst



Huixuan Huang
Analyst



Thomas Lalande
Analyst



FINANCIALS

2025 Sector and Subsectors Review

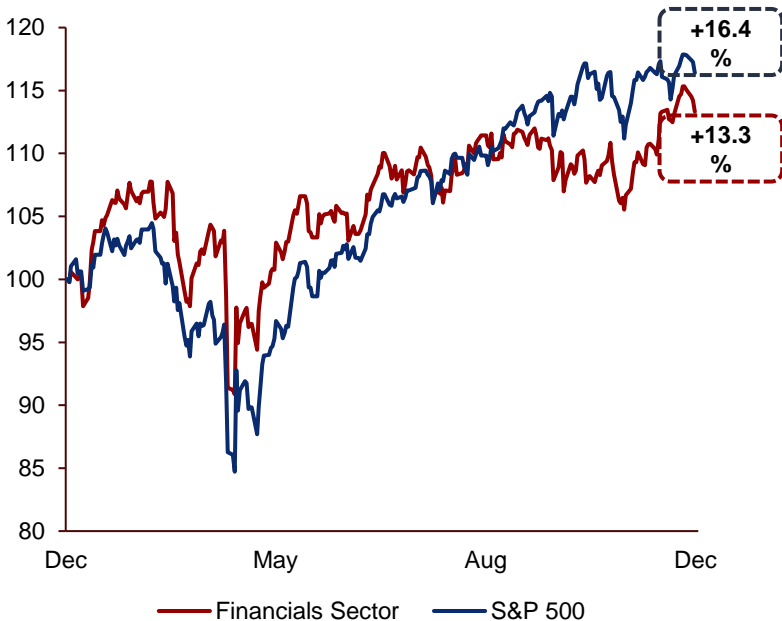
Sector Valuation and Performance

The financial sector outperformed early in 2025 as macro and policy uncertainty raised trading volumes, benefiting trading desks at major banks. The FED kept policy rates high through most of the year, which supported banks' net interest margins. Those two tailwinds, together with a relative trough in technology sector performance, produced the sector's initial lead.

The financials' outperformance faded after a large tech recovery that accelerated around midyear, and the sector underperformed through September amid uncertainty tied to the United States federal government funding impasse and questions over the timing of Fed rate cuts.

From mid-November into year end, a clearer path for interest rates, stronger-than-expected bank earnings, and market worry around high valuations of the tech names prompted a rotation back into financials and a substantial sector rally.

Figure #1: S&P 500 Financials vs S&P 500, 2025, Normalized

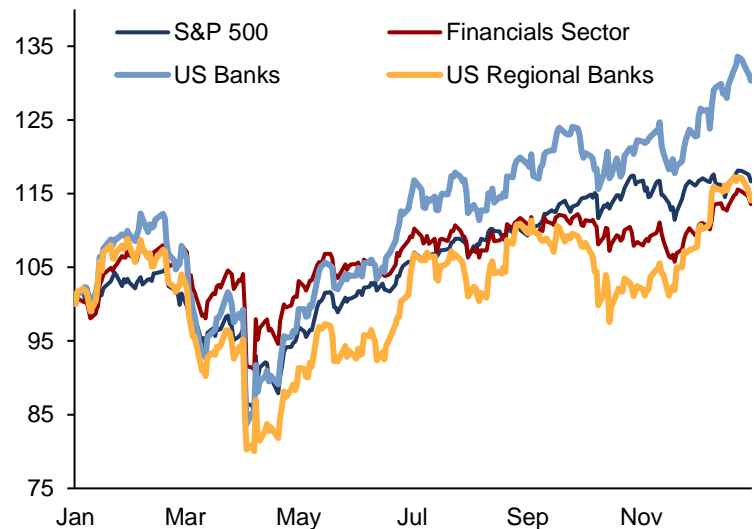


Source: Bloomberg L.P.

Subsector Performance – US Banks

The US Banking Subsector outperformed the Financials Sector, with an upside of 32% for large US Banks, while regionals came at 14%, modestly ahead of the broader sector (Figure #2). Early 2025, performance moved largely in line with Financials, before the first divergence in March as tariffs headlines triggered growth / credit scare. The broader Financials Sector proved more resilient due to the overperformance in the Insurance Sector.

Figure #2: S&P 500 Financials vs Banking Index, 2025, Normalized



In late June, strong stress-test results enabled banks to signal higher shareholder payouts and reduced capital requirements effective in October, supporting subsequent outperformance. The gap widened in mid-October following Q3 earnings: large banks beat expectations on the back of robust trading revenues, while regional banks faced net interest margin pressure and heightened credit concerns. As of year-end 2025, large U.S. banks were trading at a premium to their historical forward P/B multiples, as economic uncertainty led investors to favor their more diversified revenue streams and stronger capital buffers.

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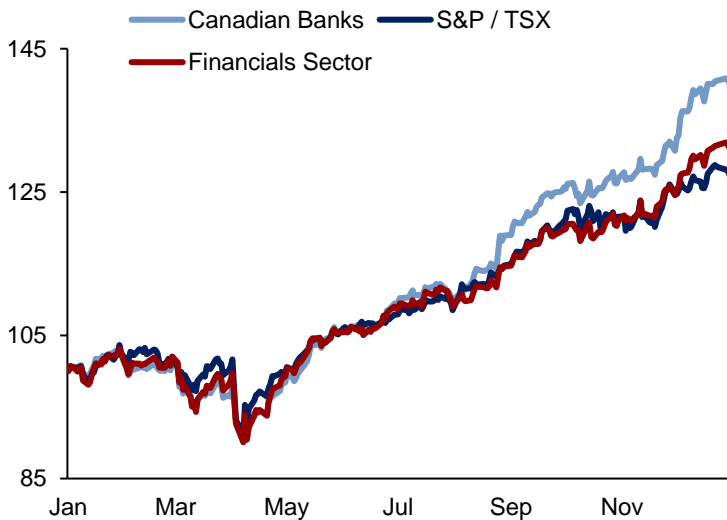
2025 Sector and Subsectors Review

Subsector Performance – Canadian Banks

Canadian banks delivered a strong 2025, outperforming the Financials sector and the S&P/TSX, with a 40% upside, compared to 31% and 16%, respectively (Figure #3). Canadian banks' 2025 performance unfolded in two distinct phases. Into mid-August, the group lagged the broader market and the Financials sector as investors priced a softer macro backdrop—expectations for BoC rate cuts raised concerns around net interest margin pressure, alongside rising scrutiny on consumer delinquencies and credit normalization.

The narrative shifted meaningfully in the second half as earnings results consistently came in ahead of expectations: margins proved more resilient than feared, and credit performance held up with limited deterioration across core mortgage and commercial portfolios.

Figure #3: S&P TSX Financials vs Banking Index, 2025, Normalized



From a valuation perspective, Canadian banks ended 2025 broadly in line with the Financials sector, which is reasonable given their heavy index weight, but to a premium versus historical averages.

Source: Bloomberg L.P.

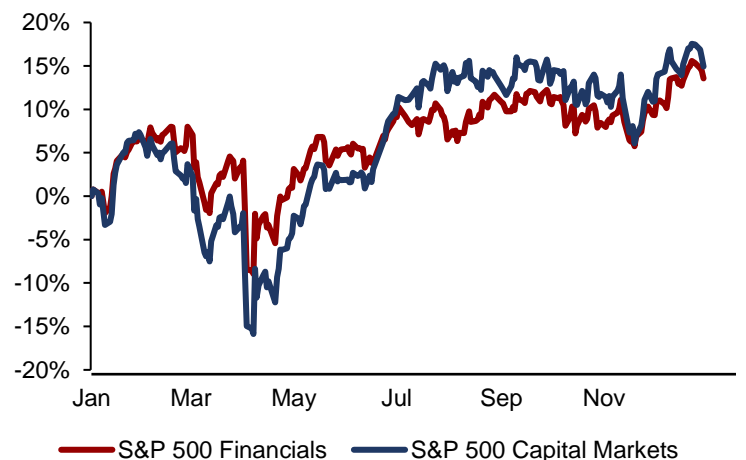
Stronger than expected trading and capital-markets revenues in 2025 helped sustain earnings through a period of muted loan growth and elevated provisions. More broadly, expectations of improved economic visibility and reduced tail risks, rather than an acceleration in growth, have been key drivers of the premium to historical forward P/B.

Subsector Performance – Capital Markets

The Capital Markets subsector outperformed the broader Financials sector, posting a 15% gain over the year, led by Investment Banking, which delivered a strong 39% return (see Figure #5), while Financial Exchanges & Data and Asset Management posted more modest returns of 6% and 3%, respectively.

Early in the year, elevated policy uncertainty triggered a broad risk-off rotation that disproportionately impacted capital markets-oriented businesses, reflecting their reliance on transaction timing and capital formation. This drove short-term underperformance versus parts of the broader financial sector with more stable earnings profiles, but also highlighted the cyclical optionality embedded in capital markets franchises, as activity was deferred rather than structurally impaired.

Figure #4: S&P 500 Financials vs Capital Markets Index, 2025, Normalized



FINANCIALS

2025 Sector and Subsectors Review

Subsector Performance – Capital Markets (Cont’d)

By late spring and through the summer, earnings resilience became more evident. Trading revenues proved durable in a volatile macro environment, underscoring the counter-cyclical characteristics of market-making and derivatives businesses during periods of heightened uncertainty. While completed deal volumes remained uneven, improving pipeline stability suggested that client engagement was recovering beneath the surface, laying the groundwork for a gradual normalization in activity.

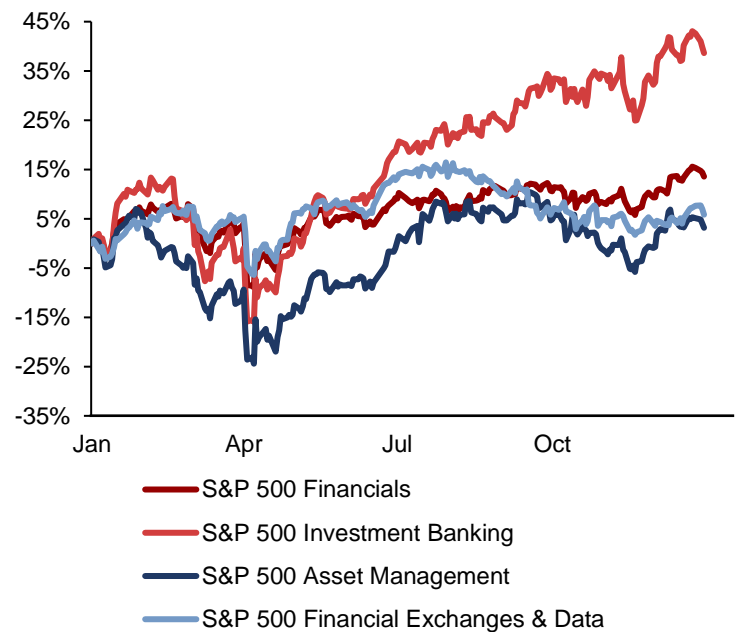
Into the second half of the year, improving visibility on financing conditions and valuation inputs catalyzed a shift in investor positioning.

As confidence in the forward earnings outlook for advisory and underwriting businesses improved, capital markets equities experienced a valuation re-rating, reflecting both stronger earnings expectations and a growing investor preference for scalable, fee-driven business models with embedded operating leverage. Share repurchase activity further reinforced this re-rating by enhancing per-share earnings growth and signaling management confidence in balance sheet strength and capital generation.

At the sub-sector level, 2025 performance was driven primarily by investment banking–exposed businesses, reflecting their higher sensitivity to changes in macro sentiment and financing visibility. Periods of elevated policy uncertainty, including tariff-related announcements around “Liberation Day,” weighed on advisory and underwriting activity as corporates and sponsors delayed financing and M&A decisions.

By contrast, financial exchanges & data benefited from heightened volatility through increased trading volumes and market data usage, while asset management performance was more mixed, reflecting the offsetting effects of market-driven fee growth, flow dynamics, and continued fee compression across product categories. As policy clarity and market confidence improved into the second half of the year, investment banking activity recovered, driving the sub-sector’s relative outperformance into year-end.

Figure 5: S&P 500 Financials vs Capital Markets Index Components, 2025, Normalized



Subsector Performance – Insurance

The Insurance subsector underperformed the broader Financials sector in 2025, although operating conditions across the industry remained broadly constructive for much of the year. Property & Casualty insurers benefited from the earnings impact of prior rate increases and corrective underwriting actions, which supported a meaningful recovery in profitability. In the first half of 2025, the U.S. P&C industry recorded a

Source: Bloomberg L.P.

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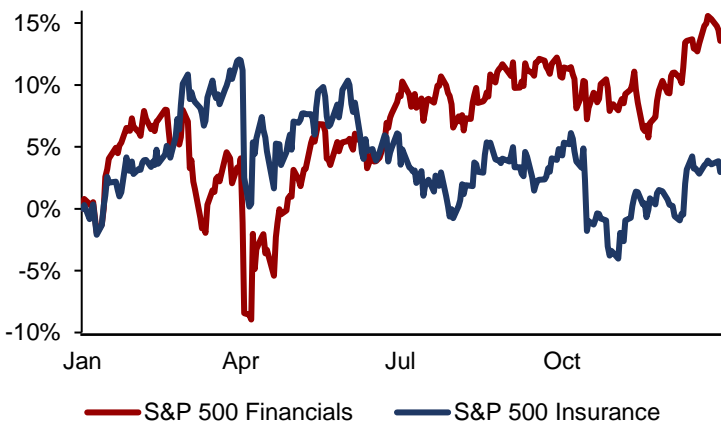
2025 Sector and Subsectors Review

Subsector Performance – Insurance (Cont'd)

\$13.7 billion underwriting gain, its strongest mid-year result since 2007, while the combined ratio improved to 96.4% from the prior-year period. Another major factor behind the subsector’s performance was the increasingly uneven pricing backdrop across insurance lines. While underwriting fundamentals remained favorable in many areas, pricing conditions became less uniformly supportive as competition increased in preferred property risks and reinsurance conditions eased. At the same time, casualty lines continued to face pressure from elevated claims severity and adverse litigation trends, limiting the breadth of earnings momentum across the group.

These pressures became more visible toward the end of the year as investors grew more cautious on the sustainability of peak underwriting margins. Global insured natural-catastrophe losses reached approximately \$108 billion in 2025, including significant losses from the Los Angeles wildfires, reinforcing concerns around earnings normalization. As a result, despite solid fundamentals across parts of the insurance market, the Insurance subsector finished the year behind the broader Financials benchmark.

Figure #6: S&P 500 Financials vs Insurance Index Components, 2025, Normalized

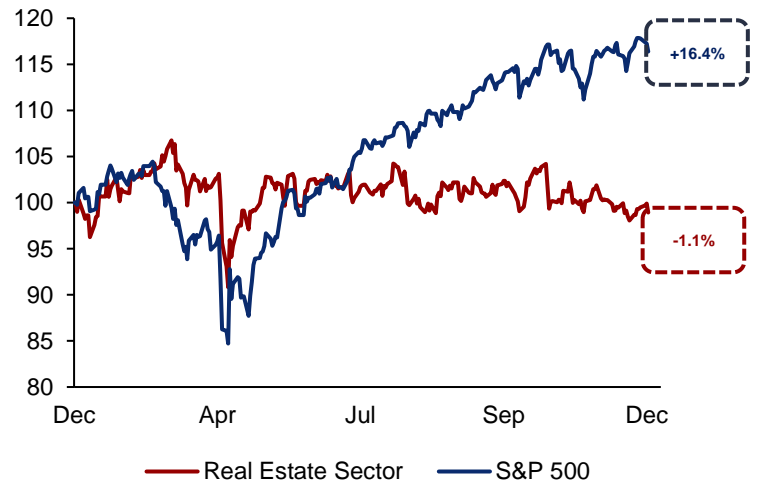


Source: Bloomberg L.P.

Subsector Performance – Real Estate

The Real Estate sector modestly underperformed in 2025, declining 1.1% compared with a 16.4% gain in the broader market. Early in the year, macro volatility and tariff-related concerns supported a temporary rotation into defensive, stable cash-flow sectors, including real estate. However, this relative strength faded as persistent inflation and elevated long-term interest rates pressured valuation multiples across the sector.

Figure #7: S&P 500 Financials vs Real Estate Index Components, 2025, Normalized



High financing costs remained the dominant headwind throughout the year. Given the sector’s structural leverage and reliance on external capital, sustained high rates compressed margins and limited external growth. While occupancy levels generally remained stable, same-store net operating income growth slowed in several property types, and segments such as office and self-storage experienced weaker rent and occupancy trends.

Industrial-focused REITs demonstrated relative operational resilience. Nexus advanced its portfolio

FINANCIALS

2025 Sector and Subsectors Review

Subsector Performance – Real Estate (Cont'd)

portfolio repositioning toward industrial assets, concentrating recurring income in a structurally stronger segment supported by solid leasing activity and disciplined development execution. In contrast, data center REITs weighed on performance. Equinix reduced its AFFO growth outlook and increased capital expenditures to expand capacity, which tempered near-term earnings growth and contributed to investor caution. Currency headwinds further amplified negative returns in Canadian-dollar terms.

Looking ahead, tenant demand and constrained supply continue to underpin sector fundamentals; however, valuation expansion and acquisition activity remain closely tied to the trajectory of interest rates and capital availability.

Source: Bloomberg L.P.

FINANCIALS

2026 Sector Outlook

Opportunities

For US Banks rates remain the key swing factor. Fed cuts could compress NIMs, partly offset by loan growth, especially in credit cards and NDFI lending, areas where risk appetite and underwriting capacity favor large banks given their diversified revenue mix and stronger earnings buffers. Credit fundamentals appear stable, and we expect delinquencies and reserve levels to remain manageable.

The story is different for Canadian Banks. We expect loan growth to remain subdued with earnings increasingly driven by capital-markets, wealth momentum, cost discipline, and the trajectory of credit provisions, which may remain elevated and potentially peak in 2026. With much of the improving-visibility narrative already priced in, upside appears more execution and stock-selection driven.

The capital markets subsector is poised for selective growth in 2026, driven by distinct dynamics across its three core segments.

Investment Banking: With M&A activity showing signs of acceleration, the “M&A dam” may finally break, potentially lifting fee generation and driving a market re-rating for advisory and underwriting businesses. Traditional fee pressure persists, and elevated valuations relative to historical averages suggest caution in positioning, but pockets of opportunity remain for banks able to capture complex transactions.

Financial Exchanges & Data: We expect continued heightened market volatility in 2026, particularly around upcoming events such as the US midterm elections, which is likely to increase trading activity and demand for timely information. Recurring revenue from market data, analytics, and trading platforms continues to

strengthen earnings stability. The growing demand for high-quality data, accelerated by AI and advanced analytics, is expected to bolster recurring revenue, while the emergence of real-money prediction markets through partnerships with regulated exchanges (e.g., Kalshi, Polymarket, FanDuel) could unlock new trading volumes and revenue streams, providing an innovative source of growth for the subsector.

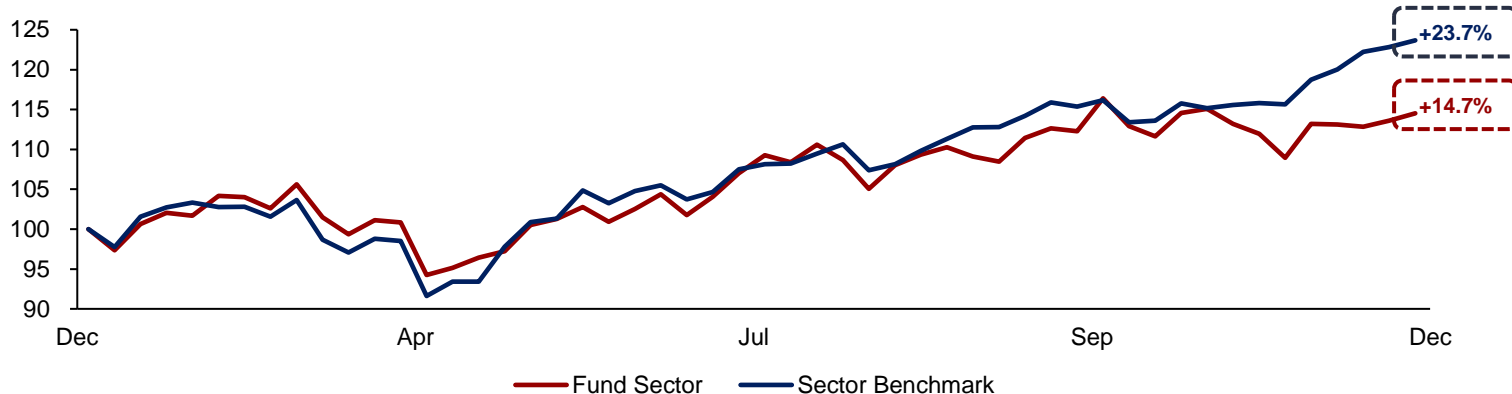
Asset Management: Traditional asset managers continue to face fee compression, particularly in passive and low-margin strategies. Conversely, private equity and alternative asset managers may benefit from loosening bottlenecks, deploying dry powder accumulated in prior years, and generating significant fee upside, supporting overall subsector performance.

2026 Insurance likely shifts into a post-peak normalization phase: pricing tailwinds fade, loss trends stay volatile, and returns become more stock-selection driven.

ALPHA SQUARED PERFORMANCE

2025 Sector Performance and Holdings Highlight

2025 Fund Return



The sector sleeve returned 14.7% versus 23.7% for the benchmark. The fund outperformed the S&P 500 Financials Index but lagged the S&P/TSX Financials Index, which gained 35.3% in 2025, driven by the strong performance and heavy index weight.

Robinhood and Fiserv were the largest contributors and are some of the best and worst performers in the fund. Both are discussed in detail in the Alpha Squared section and summarized here.

Foreign exchange also detracted from performance due to the high exposure to U.S. stocks amid USD weakening relative to our benchmark currency in CAD.

Robinhood (NASDAQ:HOOD):

Robinhood achieved explosive growth through crypto trading surges and its S&P 500 inclusion. This record year was driven by rapid ecosystem expansion, including the acquisition of Bitstamp and the launch of prediction markets, securing a diversified financial position. We sold the position as our theses realized.

Fiserv (NASDAQ:FISV):

Clover segment slowdown and declining volumes caused a significant Q3 earnings miss. Poor strategic execution and failed initiatives ultimately forced a 60% cut to future growth guidance.

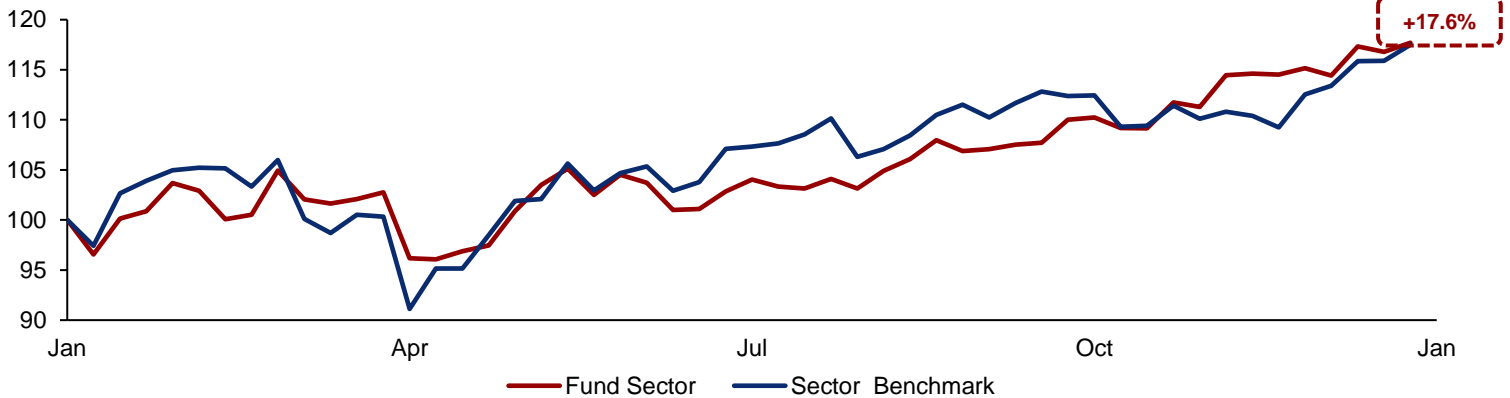
Company	2025 Total Return (Local)	2025 Return Contribution	Sold in 2025
Robinhood Markets	203.5%	8.91%	December
TMX Group	19.8%	3.42%	No
BMO Equal Weight Banks	43.4%	3.01%	December
Bank of America	25.0%	2.77%	No
American Express	26.0%	2.41%	No
Intact Financial	11.2%	1.66%	No
Royal Bank of Canada	39.6%	1.09%	August
JP Morgan	37.3%	-0.05%	No
MSCI	-3.2%	-0.63%	No
Marsh & McLennan	-11.3%	-0.81%	No
USD/CAD	N/A	-2.26%	N/A
Fiserv	-67.3%	-4.85%	December

Source: Bloomberg L.P.

SRI PERFORMANCE

2025 Sector Performance and Holdings Highlight

2025 Fund Return



The sector sleeve returned 17.6% in 2025, which is the same as the fund’s benchmark. Given that the SRI’s benchmark is 80% S&P500 Ex Fossil Energy and 20% S&PTSX Ex Fossil Energy, the benchmark was less affected by the outstanding performance of Canadian financials relatively to the Alpha Squared Fund.

CBOE was the largest driver of performance for the fund in 2025. Also, we held Royal Bank of Canada until August and then rotated into the BMO Equal Weight Bank ETF, both of them combining to 5.05% of performance contribution for Canadian banks in the fund. JP Morgan was technically our worst performer but was only held for the last week of 2025.

As with Alpha Squared, foreign exchange also detracted from performance due to the high exposure to U.S. stocks amid USD weakening relative to our benchmark currency in CAD.

CBOE (BATS:CBOE):

CBOE experienced a record breaking trading volume fueled by market turmoil that drove trading in 2025. Options revenue was up 34% in FQ4, and continued adoption of ODTE strategies that drove CBOE’s main segment. The data providing segment Data Vantage also saw 9% growth in 2025, which improves recurring revenue for the exchange.

CBOE also introduced new products like a Magnificent 10 index (Mag 7, Palantir, Broadcom, and AMD), 24x5 hour trading in US equities, and continuous Crypto futures.

JP Morgan (NYSE:JPM):

We purchased JPM in late December at USD \$323 for 319 shares. We held the stock for 3 days in 2025. A full overview of the pitch for JPM will follow this section.

Company	2025 Total Return (Local)	2025 Return Contribution	Sold in 2025
CBOE Global Markets	29.9%	6.26%	No
Chubb	14.5%	4.06%	No
American Express	26.0%	3.86%	No
BMO Equal Weight Banks	43.4%	3.72%	December
Mastercard	9.0%	1.88%	No
Royal Bank of Canada	39.6%	1.33%	August
JP Morgan	37.3%	-0.38%	No
USD/CAD	N/A	-4.43%	N/A

Source: Bloomberg L.P.

JP MORGAN CHASE & Co (NYSE:JPM)

Bank



J.P.Morgan

Company Overview

- **JPMorgan Chase & Co.** is one of the world's largest financial services firms, with roots dating back to 1799.
- It's best known as a leading U.S. bank spanning consumer banking (deposits, mortgages, credit cards) and corporate & investment banking (M&A advisory, underwriting, trading). It also provides asset & wealth management and major payments/treasury services for businesses and institutions.
- It competes with banks like Bank of America, Citigroup, Wells Fargo, and investment banks like Goldman Sachs and Morgan Stanley.

Investment Theses

1. The market continues to undervalue the structural ROE expansion embedded in JPM's technology investments:

- Larger nominal investments in technology and AI will extend JPM's competitive lead, decrease their efficiency ratios and gain more of the market share

2. The change in the calculation of enhanced supplementary leverage ratio:

- Change in eSLR Requirement will offset the Basel Endgame CET1 hit, leading to an increase of 1.43% in ROE by the end of 2026

Catalysts & Risks

Catalysts:

AI productivity gains

- A breakthrough in JPM's AI use and subsequent gains in productivity is the last piece to the puzzle of total dominance of banking for JPM

Regulatory climate

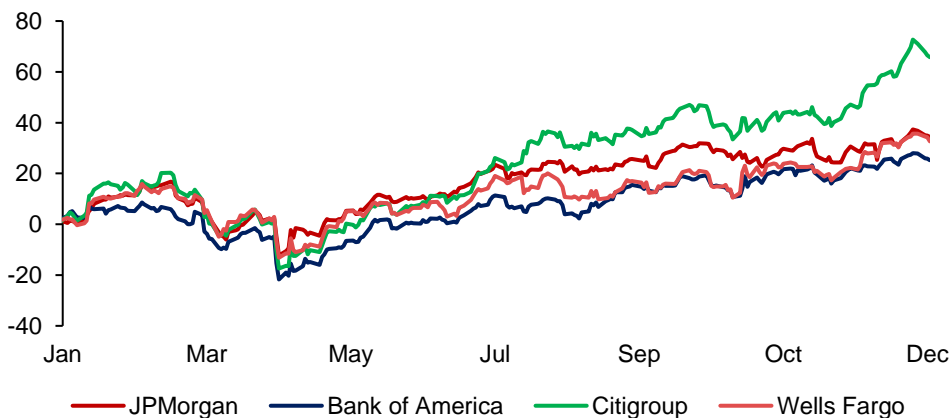
- A continued deregulatory climate and OCC ruling on eSLR are the catalysts for our regulatory advantage thesis.

Risks:

Leadership Risk

- Leadership risk stems from Jamie Dimon's potential near-term succession, but it's mitigated by a deep internal bench and a likely phased transition (Dimon to Chair) supported by retention incentives.

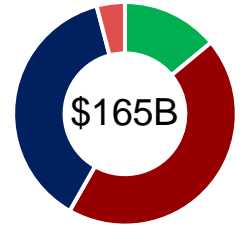
1 Year Stock Performance



Sources: Bloomberg L.P., Company Filings, Desautels Capital Management

Revenue Breakdown

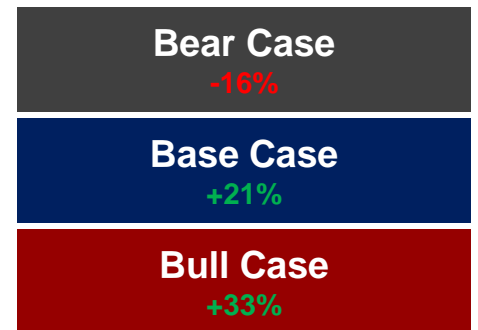
- Wealth Management
- Commercial & Investment Bank
- Consumer Bank
- Corporate Segment



Financial Ratios

Metrics	JPM	Average Peers
P/BV	2.43x	1.59x
ROE	17.1%	11.6%
Eff. Ratio	51.6%	62.3%

Valuation Summary



Position Summary

Rating	Buy
Price Target	\$362
Acquisition Price	\$323
Acquisition Date	Dec 22, 2025
Shares SRI – A ²	319 (SRI) 250 (A ²)

Healthcare

2025 REVIEW & 2026 OUTLOOK

Yamila Bawa
Analyst



Alessandra Rbeiz
Analyst



Eric Tran
Analyst



Kexin Yang
Analyst



Samuel Hazan-Mea
Analyst



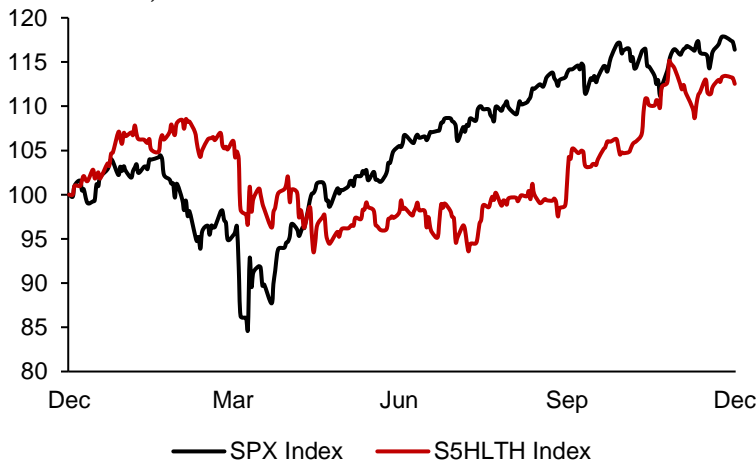
HEALTHCARE

2025 Review

Sector Valuation and Performance

In 2025, the healthcare sector delivered a total return of 12%, compared with 16% for the S&P 500, shaped by defensive positioning and evolving policy dynamics. The sector outperformed early in the year as investors rotated toward earnings visibility amid rising macro uncertainty. In March, large-cap pharmaceuticals and obesity drug leaders drove relative gains. Performance weakened in April and May following Liberation Day volatility and renewed attention on the “Most Favored Nation” drug pricing proposal. Although not implemented, the proposal increased uncertainty around U.S. pharmaceutical revenues and led to valuation compression across the sector. Healthcare underperformed in May despite stable demand fundamentals. The recovery was gradual, with the sector requiring nearly six months to return to February levels as capital favored higher-beta sectors. Sentiment improved in the second half of the year as policy uncertainty eased. Negotiated pricing agreements, most notably Pfizer’s deal with the U.S. administration, reduced the likelihood of broad and forced price controls. This shift toward targeted and predictable reform helped relieve valuation pressure and allowed healthcare to close part of the performance gap.

Figure 1: S&P500 & Healthcare Index Performance, Normalized, 2025



Source: Bloomberg L.P.

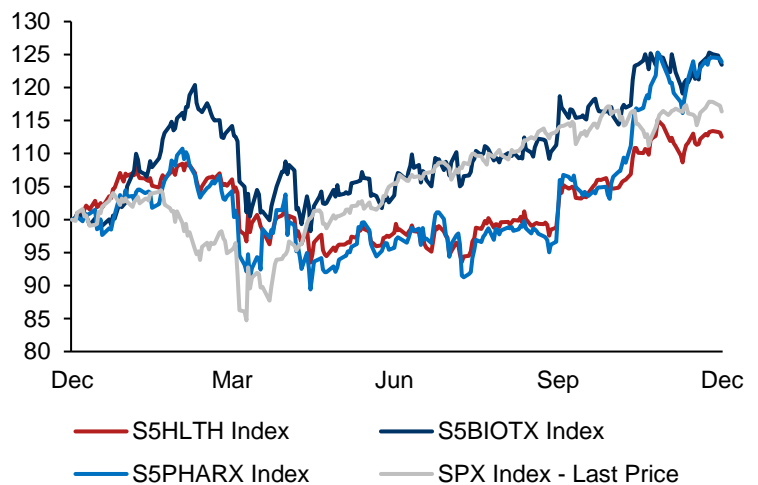
Subsectors Performance: Pharma & Biotech

In 2025, pharmaceuticals and biotechnology led performance within the healthcare sector, outperforming the broader equity market despite intermittent volatility. The pharmaceutical subsector displayed its defensive profile, supported by earnings visibility and steady mid-year gains. GLP-1 therapies remained an important contributor to growth, though performance was underpinned by diversified revenue streams.

For Biotechnology, strong innovation momentum drove early-year gains, followed by weakness in the spring during risk-off periods. Sentiment improved in the second half as renewed merger and acquisition activity underscored the strategic value of high-quality pipelines, contributing to a strong year-end recovery.

Looking ahead to 2026, we expect increased M&A activity in biotechnology as larger firms seek to replenish pipelines, alongside a pickup in IPO activity supported by improving market conditions. These trends position both subsectors to remain key contributors to healthcare sector performance.

Figure 2: Healthcare Subsectors Performance, Normalized, 2025



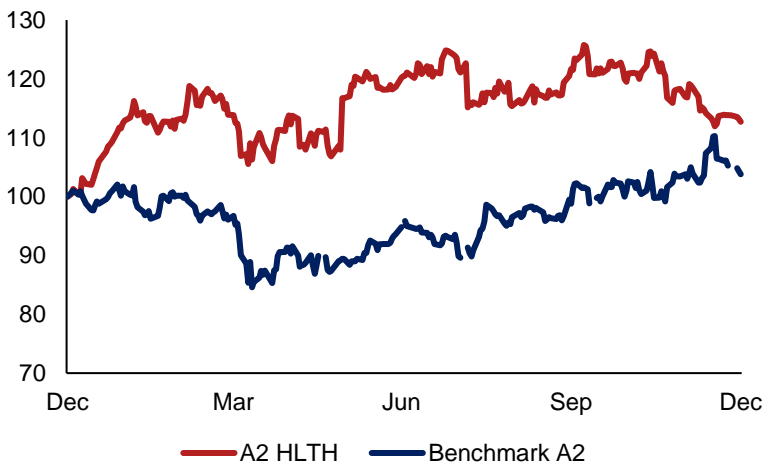
HEALTHCARE

2025 Sector Overview

A2 Sector Performance

The A2 fund’s Healthcare sector outperformed its benchmark in 2025, driven by strong stock selection and effective exposure to sector leaders. Performance was front-loaded, with significant gains in January and February driven by Vertex and Medtronic. Vertex appreciated approximately 20% following FDA approval of JOURNAVX on January 30, 2025, validating its growth strategy toward acute and chronic pain. Medtronic gained roughly 14%, supported by raised guidance, visibility from the J.P. Morgan Healthcare Conference and CE Mark approval in neuroscience, which will allow them to sell their products in European countries. These early gains established a performance cushion for the year. In December, the fund experienced isolated weakness from individual holdings. Veeva declined approximately 8% due to cooling growth expectations and slower monetization of AI initiatives. Medtronic declined about 7% following a strong November rally, reflecting a technical correction rather than a deterioration in fundamentals. Despite these late-year headwinds, the fund maintained outperformance versus its benchmark. The chart highlights the importance of catalyst-driven stock selection and disciplined exposure to high-quality healthcare leaders, which will drive the tone for 2026.

Figure 3: A2 Healthcare Performance, Normalized, 2025

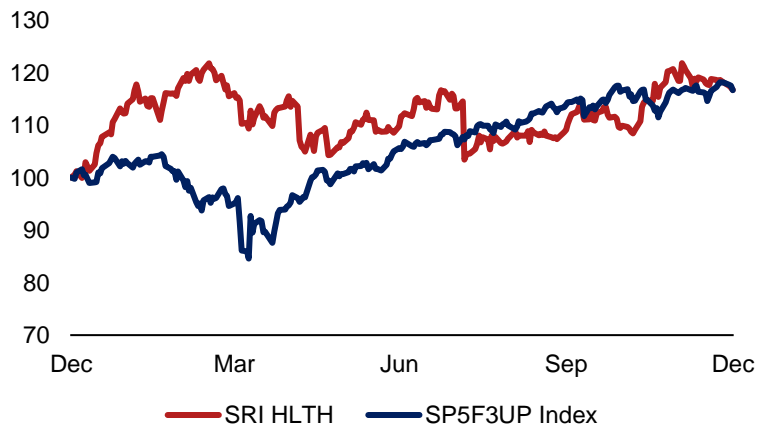


SRI Sector Performance

The SRI fund’s Healthcare sector outperformed its benchmark during the first half of 2025, before converging toward index-level performance later in the year. Early gains were driven by strong contributions from Vertex and Medtronic, which benefited from regulatory approvals and improved earnings visibility. In May 2025, the defensive nature of healthcare helped shield fund performance during Liberation Day volatility, though Vertex experienced pressure following a disappointing Q1 earnings release. In August 2025, Vertex declined sharply after its VX-993 pain candidate failed to meet Phase 2 endpoints, creating a temporary drag on performance. During Q4, healthcare returns were largely driven by Medtronic’s November rally, followed by a partial correction in Vertex in December. As a result, relative performance narrowed by year-end.

In December, we also initiated a position in Regeneron Pharmaceuticals, which we view as a high-quality addition to the portfolio. The investment enhances the fund’s exposure to biotechnology while providing access to a robust and diversified pipeline supported by strong internal research capabilities and a proven track record of innovation.

Figure 4: SRI Healthcare 2025 Performance, Normalized, 2025



Source: Bloomberg L.P.

HEALTHCARE

2026 Sector Outlook

Pharmaceuticals

For the pharmaceuticals subsector in 2026, we identify three key drivers shaping performance. First, drug pricing policy clarity. Medicare price negotiation will shift from uncertainty to a quantifiable earnings impact. With direct cuts largely reflected in valuations, improved visibility should reduce overhangs. Companies with diversified portfolios and strong contracting capabilities are better positioned to manage PBM-related pricing pressure. Second, the patent cliff and LOE cycle. The 2026–2028 loss-of-exclusivity wave will intensify scrutiny on revenue durability. Biosimilar uptake in select biologics may exceed expectations, increasing differentiation and favoring assets with stronger clinical profiles and lifecycle management. Third, regulatory and R&D execution. Stricter FDA standards may extend timelines and reinforce scale advantages for large-cap pharma, sustaining the role of business development and M&A.

Overall, the outlook is modestly constructive. Defensive characteristics remain, but returns are likely driven by pricing resilience and pipeline execution rather than multiple expansion. A market-weight stance is therefore warranted, with returns driven primarily by stock selection.

Biotechnology

For biotechnology in 2026, three key factors are likely to drive performance. First, the funding environment. Biotech remains structurally dependent on equity financing. Despite expectations of rate cuts, capital selectivity remains elevated, with funding concentrated in late-stage, de-risked programs,

increasing dispersion.

Second, late-stage clinical inflection. A dense slate of pivotal readouts across oncology, rare disease, and immunology creates asymmetric upside where differentiated assets exceed conservative expectations.

Third, platform validation. Follow-on readouts will test whether platforms demonstrate repeatable biology beyond single-asset success, with valuation support favoring consistent multi-asset execution.

Overall, the 2026 biotech outlook is cautious but opportunity-rich. Returns are expected to be highly stock-specific and driven by capital access and clinical execution. Positioning should remain selective rather than broadly overweight.

Healthcare Sector

The Healthcare sector is trading at a relative discount to the benchmark, with the current P/E spread (-6.73) below its historical average (-5.37). Importantly, this valuation discount reflects elevated policy and execution uncertainty rather than any deterioration in long-term demand fundamentals. Secular demand remains supportive; however, the market is assigning a higher risk premium given ongoing pricing, regulatory, and execution-related concerns. Forward P/E expectations over the next two years imply limited scope for multiple expansion, with potential for modest contraction should earnings growth accelerate or valuations normalize.

Within the sector, earnings visibility and capital efficiency are expected to remain the dominant

Sources: Bloomberg L.P., J.P. Morgan, Morgan Stanley, Goldman Sachs

HEALTHCARE

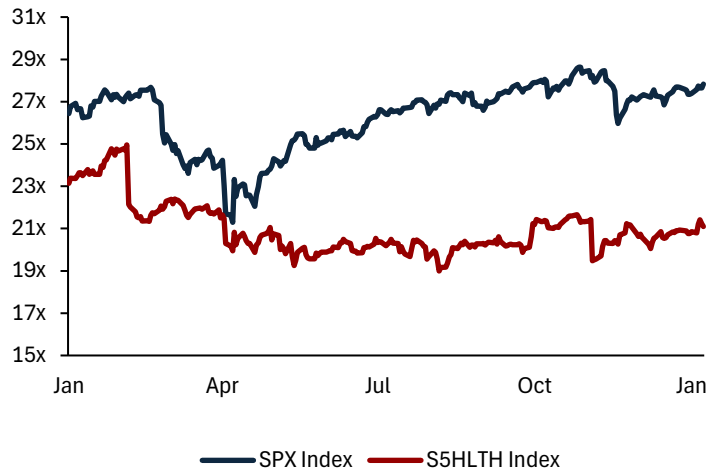
2026 Sector Outlook

performance drivers. Capital allocation is therefore likely to favor cash-generative, predictable businesses over higher-risk, event-driven names. Investors are also expected to place greater emphasis on the repeatability and durability of revenue and margin delivery, rather than thematic exposure alone.

From a strategic perspective, M&A activity remains supportive but is best viewed as a source of downside protection at current valuation levels, rather than a catalyst for a broad sector-wide re-rating. Deal activity is likely to remain selective and valuation-disciplined, reinforcing dispersion rather than lifting sector multiples.

Overall, Healthcare’s discounted valuation relative to the benchmark helps anchor downside risk. Our outlook for 2026 is valuation-supported and selectively constructive, with upside likely to be gradual and contingent on improved execution visibility and greater policy clarity. From a positioning standpoint, this supports a market-weight allocation to Healthcare, with alpha generation driven primarily by subsector and stock selection rather than broad sector beta.

Figure 4: S&P500 and Healthcare Sector P/E Ratio, 2025



Sources: Bloomberg L.P., J.P. Morgan, Morgan Stanley, Goldman Sachs

REGENERON (NYSE: REGN)

Biotechnology Company



Company Overview

Regeneron Pharmaceuticals, founded in 1988, and is widely recognized as the 4th largest biotech company in the US. Regeneron focuses on discovering, developing, and commercializing innovative medicines, particularly in areas such as immunology, oncology, ophthalmology, cardiovascular disease, and rare genetic disorders. The company is known for its strong proprietary technologies which accelerate drug discovery and development.

Investment Theses

1. Analysts Mispricing of Itepekimab Pipeline

Following the Itepekimab Phase III results, we believe the market is betting against Itepekimab, leaving a large IL-33-driven COPD opportunity completely unmodeled. The analysts' reaction overlooks a key insight: Clinical data support efficacy in former smokers, indicating a targeting, not efficacy issue.

2. Synergies between Libtayo and CD3 Byspecifics

We believe the market underestimates the synergy potential of Libtayo across Regeneron's immunotherapy platform. Both being already FDA approved drugs, we could see an accelerated FDA approval process to use both drug in order to target a wide variety of cancers such as solid tumors and hematologic cancers.

Catalysts & Risks

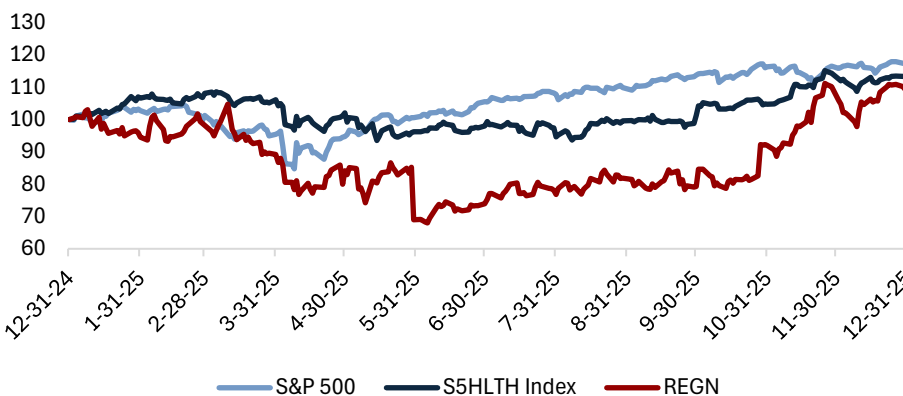
▪ Catalysts

A deep, genetics-validated pipeline, powered by large-scale human genetic data, supports higher clinical success rates, sustained innovation, and long-term value creation across immunology, oncology, and respiratory disease franchises.

▪ Risks

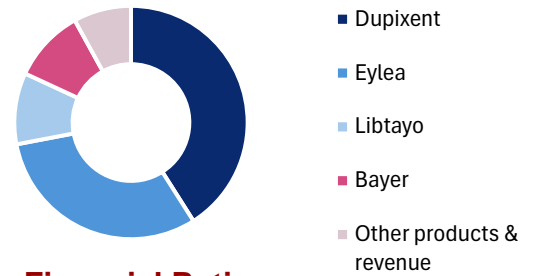
Policy risks include U.S. drug-pricing reforms, Medicare negotiation under the Inflation Reduction Act, reimbursement pressure on biologics, and evolving regulatory frameworks that could constrain pricing, access, or commercialization timelines.

1 Year Stock Performance



Sources: Bloomberg L.P., Regeneron Company Filings

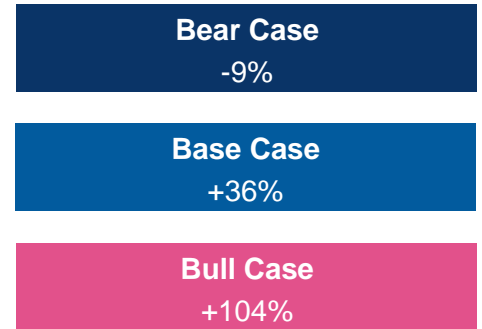
Revenue Breakdown



Financial Ratios

Metrics (LTM)	REGN	Comps
EV/EBITDA	11.7x	12.5x
P/E	20.2x	23.8x
EPS	\$41.5	\$21.8
EV/Sales	5.2x	5.3x
EBIT Margin	32.3%	22.5%

Valuation Summary



Position Summary

Rating	Buy
Price Target	\$1007
Acquisition Price	\$780.50
Acquisition Date	Dec 29, 2025
Shares	133 (SRI)
SRI – A ²	100 (A ²)
Portfolio Weight	3.1% (SRI)
SRI – A ²	3.1% (A ²)

Industrials

2025 REVIEW & 2026 OUTLOOK

Thomas Besse
Analyst



Noah-Lou Casey
Analyst



Xavier Fu
Analyst



Kush Patel
Analyst



Nikolaus Zuffer
Analyst



INDUSTRIALS

2025 Review

Sector Valuation and Performance

The Industrials sector delivered strong absolute returns in 2025, with the S&P Industrials Index advancing 24.9% year-to-date. However, performance within the sector was highly concentrated. Leadership was largely driven by aerospace and defense companies, supported by expanding order backlogs, rising global defense spending, and investor preference for businesses with long-term earnings visibility. DCM maintained limited exposure to this segment, which created a structural headwind relative to the benchmark as defense-related names accounted for a significant portion of the sector's gains.

Within the portfolio, performance dispersion reflected cyclical and cost-related pressures rather than fundamental deterioration. Deere (+21.1%) delivered solid performance but operated within a moderating agricultural equipment cycle as farmer spending normalized following several strong years. Delta (+9.3%) benefited from continued recovery in travel demand, though margin expansion was constrained by fuel and labor costs. ATS (+2.6%) faced earnings variability tied to project timing within its automation backlog, which weighed on near-term sentiment. Grainger (-1.3%), while fundamentally stable and highly cash generative, lagged in a market environment that favored higher-growth and defense-linked industrial leaders.

Macro factors also contributed to relative underperformance during the year. Movements in foreign exchange and deposit rates acted as a drag on several holdings, particularly companies with global revenue exposure or capital-intensive operating models. These dynamics weighed most notably on names such as ATS, Roper Technologies, and

Grainger, while companies with stronger demand momentum, such as Delta and Deere, provided partial offsets.

Importantly, the portfolio's Industrials allocation remains intentionally focused on core pillars of the real economy rather than the defense-driven segment that dominated index performance. Holdings such as ATS (factory automation and reshoring), Deere (global food production and infrastructure capex), Delta (essential mobility and travel), Grainger (maintenance and industrial supply), and Republic Services (waste collection and recycling) represent businesses tied to long-term economic activity and infrastructure needs.

Overall, the relative performance differential was primarily driven by sector composition and macro factors rather than company-specific execution issues. While 2025 sector returns were concentrated in aerospace and defense, our approach continues to prioritize businesses with durable competitive positions, strong free cash flow generation, and exposure to essential economic activity. Over time, we believe these characteristics provide a more resilient foundation for long-term capital compounding.

Sources: Bloomberg L.P., ISM Research, S&P Global, US Federal Reserve, Fidelity Research

INDUSTRIALS

2026 Outlook

Transportation

Transportation enters 2026 navigating a complex transition from a prolonged freight recession toward early-stage rebalancing. While structural shifts in e-commerce and supply chain re-routing provide pockets of opportunity, the broader industry remains tethered to a sluggish industrial recovery and the severe sourcing paralysis triggered by ongoing trade policy whiplash.

Ground Freight and Trucking (Underweight)

Ground freight demand remains suppressed as the market digests the 2025 frontloading surge. While capacity is finally contracting driven by accelerated carrier exits, the supply-demand gap has not yet closed enough to restore broad pricing power. Volumes are lagging behind a fragile industrial production index and a stalled housing market. The recent volatility in trade policy has frozen many long-term shipper commitments, leading to a structural shift as fleets rebalance toward denser domestic east-west corridors to insulate against border friction. Traditional carriers are caught between high operating costs and a soft rate environment. Until the industrial economy re-accelerates and the tariff landscape settles, traditional asset-heavy trucking remains an uninspiring risk-reward proposition.

Air Freight (Market Weight)

Air freight enters 2026 transitioning from a period of robust, disruption-driven growth into a more balanced and potentially oversupplied environment. While it remains a critical release valve for global supply chains, the catalysts that drove outsized returns in 2025 are fading. The supply-demand dynamic is shifting; demand is forecast to grow modestly, but global capacity is expanding at a faster clip due to the

aggressive restoration of international passenger belly-hold space and new freighter deliveries. This imbalance is signaling a shift in pricing power back toward shippers. Additionally, the structural cross-border e-commerce boom is facing imminent friction with the EU implementing fixed customs duties on low-value parcels starting in July 2026. Yields remain historically elevated, but with shippers increasingly reverting to short-term spot contracts, the sector lacks a definitive near-term catalyst for multiple expansion. We view air freight as a stable hold, but no longer a structural overweight.

Logistics and AI Adoption (Market Weight)

Asset-light logistics companies are leveraging artificial intelligence to achieve meaningful productivity gains in an environment of muted domestic demand. By automating pricing, booking, and execution workflows, tech-forward forwarders are realizing cost advantages that enable margin defense. More importantly, in a market defined by rapid tariff changes and supply chain re-routing, these AI-driven platforms offer shippers the vital agility needed to instantly quote and pivot trade lanes. Larger, well-capitalized forwarders can absorb these technology investment costs, driving sector consolidation around tech-enabled leaders. However, the market has largely recognized this transition, and the AI premium is now heavily priced into current valuations. The thesis that AI decouples profitability from volume growth is sound, but no longer a contrarian view. With anticipated margin expansion largely reflected in current trading multiples, these stocks offer stability rather than outsized near-term upside. We recommend holding them at market weight.

INDUSTRIALS

2026 Outlook

Key Risks

The primary risk to the transportation sector in 2026 is sourcing paralysis driven by executive trade policy volatility. In late February 2026, the Supreme Court struck down the administration's sweeping emergency tariffs under IEEPA, temporarily erasing the 2025 tariff framework. In an immediate pivot, the administration invoked Section 122 of the 1974 Trade Act to levy a temporary 15% flat global tariff. This whiplash makes supply chain planning nearly impossible for importers. Shippers will likely delay major inventory restocks and stick to short-term spot shipping until the dust settles. A prolonged period of tariff unpredictability could severely compress transportation volumes in the first half of the year. Additionally, a sharper-than-expected economic slowdown would materially weaken freight demand across all modes, exacerbating overcapacity and margin compression.

Capital Goods

Capital goods are positioned to remain a key driver of industrial growth in 2026, supported by sustained infrastructure investment, accelerating data center expansion and resilient defense spending. Structural capital expenditure programs tied to electrification, grid modernization and digital infrastructure should underpin order backlogs and earnings visibility.

Aerospace and Defense (Overweight)

Aerospace and Defense was the clear leader in 2025, rebounding strongly after the March sell-off and driving Capital Goods to outperform broader industrials. Performance accelerated from mid-year as defense-exposed names gained momentum.

With US military spending elevated and demand

supported by ongoing geopolitical tensions, earnings visibility remains strong. Although the sector trades at a premium (on a forward PE basis), with EV/EBITDA roughly 4.27x above its one-year average, we maintain an overweight given durable structural demand and sustained defense tailwinds.

Visibility/Risk: U.S. defense contractors currently report combined backlogs of approximately \$1.2 trillion, with many programs extending several years, providing strong revenue visibility through the cycle.

Machinery (Overweight)

Machinery rebounded strongly in 2025 following the March growth-driven sell-off and participated in the broader second-half recovery, supported by improving industrial activity and infrastructure spending.

Heading into 2026, demand is underpinned by reshoring, automation, electrification and grid investment, as well as ongoing data center-related capex. The sector trades at a premium, with a current spread of approximately 1.80x above its one-year average, which we view as justified by strengthening order books and improved earnings visibility. We therefore recommend an overweight position.

Visibility/Risk: That said, demand remains uneven across end markets, with general industrial exposure more sensitive to the pace of manufacturing activity and interest rate conditions.

Construction and Engineering (Overweight)

Construction and Engineering participated in the 2025 recovery, rebounding after the March sell-off and benefiting from resilient infrastructure backlogs and sustained public spending momentum. Performance

INDUSTRIALS

2026 Outlook

strengthened in the second half as visibility on large-scale projects improved and funding pipelines remained intact.

Heading into 2026, the outlook is supported by continued infrastructure investment, grid modernization and data center-related buildouts. Public-private partnerships and government-funded programs provide multi-year revenue visibility and support margin stability. The sector currently trades at a premium, with a valuation spread of approximately 1.37x above its historical average. We view this premium as justified by strong project pipelines and durable infrastructure demand, and therefore maintain an overweight recommendation.

Visibility/Risk: Improved contract pricing and a higher share of cost-plus and long-duration projects are supporting margin stability despite elevated labor and material costs.

Investment View

Capital Goods enters 2026 with a constructive but increasingly bifurcated outlook. High-visibility segments such as aerospace and defense and data center-related infrastructure continue to benefit from strong funding and elevated order books, with historic U.S. A&D backlogs.

While broader industrial demand remains uneven, the strength of these structural growth areas supports sector earnings visibility and justifies current valuation premiums, underpinning our overweight stance across the subsectors.

Business Services

The Commercial and Professional Services (C&P)

sector experienced significant volatility throughout 2025, culminating in a structural selloff and marked underperformance relative to the broader Industrials sector in the second half of the year. The year began with a strong start, as falling interest rates stimulated hiring and benefited HR services, alongside a healthy backlog in broader business services. Mid-year tariff uncertainty briefly drove a defensive stock rally, benefiting waste management. However, as macroeconomic uncertainties cleared, defensive stocks were rotated out, compounded by a sluggish payroll outlook.

Entering late 2025 and early 2026, market sentiment shifted dramatically with the emergence of the "SaaSocalypse" theme. Heightened fears surrounding AI disruption began to pressure industrial software and staffing models. Notably, this structural selloff was driven entirely by shifting market expectations rather than fundamental deterioration, as EPS growth remained strong despite the drop in valuation. The sector's forward P/E spread relative to Industrials collapsed from a historical 10-year average of 5.3x to just 0.7x. Consequently, C&P Services valuations aligned with broader Industrials for the first time since the 2020 COVID selloff, closing the year at 24.5x, returning closely to its historical 10-year average of 24.3x.

The strong underperformance in the second half of 2025 offers attractive valuation entry points for FY2026. However, sector performance will be heavily bifurcated into two primary categories: physical waste

INDUSTRIALS

2026 Outlook

management and software-related services.

Waste services represent a major portion of the C&P sector, and we recommend an overweight positioning. As a core anchor, these players offer a highly resilient, "win-win" profile. The segment is positioned to capture upside potential from increased economic growth and renewed volumes, while simultaneously providing crucial downside protection should macroeconomic uncertainty return. We remain overweight this segment, as its defensive characteristics counterbalance broader sector volatility.

Software-related and business services face significant uncertainty as the late-2025 "SaaSocalypse" selloff bleeds into early 2026. However, this multiple compression has created potentially attractive entry valuations depending on specific thematic stories within the sub-sectors. We recommend a neutral overall weighting for the software-related category, as performance will be dictated by divergent trends in staffing and specialized data providers.

Staffing Services (Underweight)

Within the broader services umbrella, staffing faces a difficult landscape. The segment will battle cyclical challenges from weaker jobs data, albeit showing some improvements in early 2026. Furthermore, severe secular headwinds from increased AI adoption and heightened competition threaten traditional service models. We recommend underweighting this segment, as structural challenges warrant heightened caution.

Credit Bureaus (Overweight)

We recommend an overweight position following recent valuation pullbacks. Growth is supported by strong

tailwinds from a gradual recovery in mortgage applications as interest rates drop, alongside a projected 11-13% CAGR in fraud detection spending through 2028. While these drivers are offset by impending FHFA regulatory changes and broader market uncertainty, we believe AI-related fears are overplayed given the segment's highly entrenched market positioning and proprietary data moats.

Information Technology

Kamil Benchekroun

Analyst



Zhihua Huang

Analyst



Prad Lucas

Analyst



INFORMATION TECHNOLOGY

2025 Review

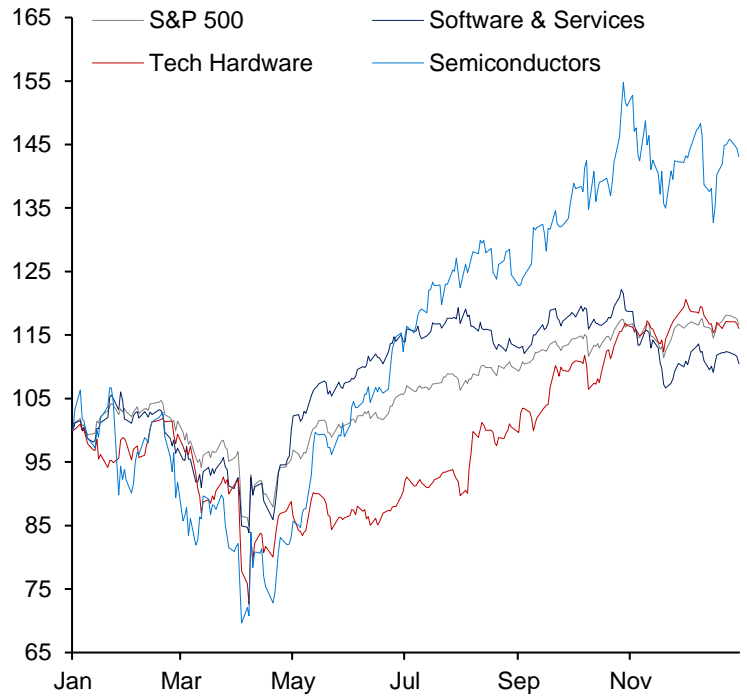
Sector Performance

The Information Technology sector remained one of the strongest areas of the equity market in 2025, building on the leadership established in 2024. Performance was driven primarily by continued AI-related capital spending, semiconductor demand, and expanding data-center investment, while software and IT services lagged. As investors increasingly favored businesses with direct exposure to AI compute, memory, storage, and networking demand, semiconductor stocks materially outperformed both the broader Information Technology sector and the S&P 500.

This divergence was evident across subsectors. Semiconductors led the sector, supported by improving demand visibility and evidence that AI infrastructure spending was translating into earnings. Hardware also delivered solid gains, while software and IT services posted more muted performance amid cautious enterprise spending, elongated sales cycles, and slower near-term AI monetization. As a result, technology returns in 2025 were increasingly determined by subsector allocation and stock selection rather than broad sector exposure alone.

From a valuation perspective, the sector continued to trade at a premium to the broader market, but that premium remained supported by stronger earnings growth and superior cash flow generation. Importantly, market leadership narrowed over the course of the year toward companies able to demonstrate near-term revenue conversion from AI-related investment. Consequently, investors rewarded infrastructure beneficiaries while remaining more selective toward enterprise services and software names.

Figure 1: IT Sector Performance by Subsector, 2025, Normalized



2025 DCM Sector Performance

DCM’s Information Technology holdings produced sharply different outcomes across the Alpha Squared and SRI Funds, reflecting the divergence between software and IT services and AI infrastructure beneficiaries. In the Alpha Squared Fund, we held EPAM Systems, CGI, and the iShares U.S. Technology ETF for most of the year. Although the sector benchmark advanced 24.04%, Alpha Squared’s IT exposure lagged as both active holdings underperformed. EPAM declined 10.60% in 2025, while CGI fell 19.54%, with EPAM outperforming CGI due to stronger alignment with AI-native engineering and generative AI implementation. CGI remained more exposed to public sector and legacy outsourcing markets, where AI revenue conversion was slower. In December, we initiated Microsoft, and at the beginning of 2026 we exited EPAM.

Source: Bloomberg L.P.

INFORMATION TECHNOLOGY

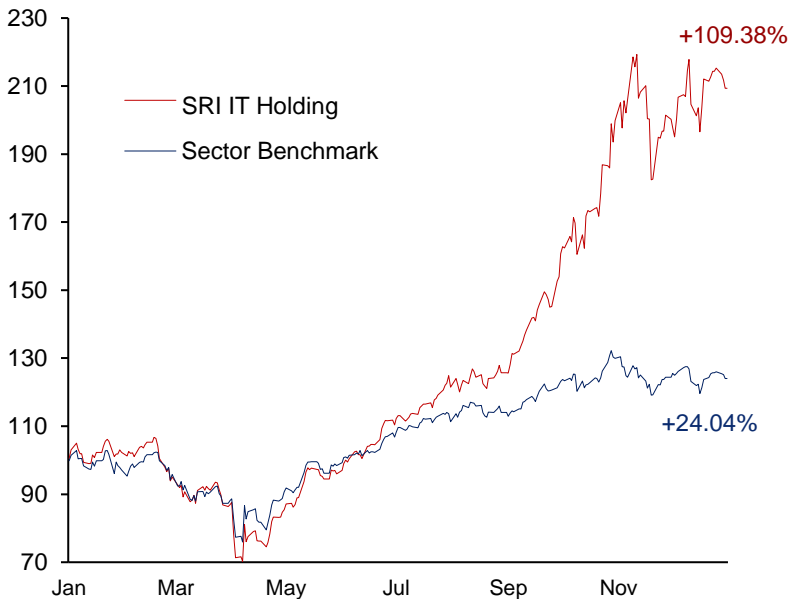
2025 Review

2025 DCM Sector Performance (Cont)

The SRI Fund benefited from materially different positioning. Its Information Technology holdings returned 109.38% in 2025, substantially outperforming the 24.04% sector benchmark. This was driven by exposure to AMD, Western Digital, and Sandisk, which benefited from accelerating AI-related demand for compute, memory, and storage. Sandisk was the strongest contributor, gaining 559.39%, while Western Digital rose 268.49% and AMD advanced 77.53%. EPAM, down 10.60%, was the only notable detractor. Microsoft was also added during the year, while EPAM was sold at the beginning of 2026. After strong appreciation pushed Sandisk and Western Digital above our 10% internal threshold, both positions were trimmed at year-end as part of disciplined rebalancing and portfolio risk management.

Overall, 2025 reinforced that within Information Technology, subsector exposure mattered more than broad sector participation.

Figure 2: SRI Fund IT Performance vs. Sector Benchmark, 2025, Normalized



Source: Bloomberg L.P.

SPECIAL TOPIC: AI IN 2025

Better Fundamentals, Higher Expectations

Better Earnings Support than 2000

Our assessment at DCM is that the AI cycle rhymes with 1999 in capital intensity and market concentration, but not in valuation or funding quality. At year-end, the S&P 500 traded at 22.4x forward earnings, while Microsoft traded near 23.7x forward, far below the dot-com 2000 peak, the Nasdaq traded at a triple-digit trailing P/E, Microsoft briefly traded above 70x earnings, and the S&P 500 Technology sector approached roughly 48x forward earnings. Today's leadership also carries much stronger earnings support. Information Technology and Communication Services represented **44.9% of S&P 500 market capitalization in late 2025 and 37.4% of forward earnings, versus 40.7% and 23.8% at the tech bubble peak.** The Magnificent 7 still accounted for roughly 36% of index value and about half of 2025 earnings growth, but this cycle is being financed by highly profitable incumbents such as Microsoft, Amazon, Alphabet, Meta, and NVIDIA rather than speculative startups. Importantly, part of the speculative excess sits outside public markets in private model developers such as OpenAI and Anthropic, which makes a classic public market unwind less likely until that layer is listed or repriced.

2025 Review: CapEx Stepped Up, Demand Followed

What 2025 clarified is that AI is now a circular capital cycle linking chips, cloud, models, and software. NVIDIA remained the first derivative of demand, but the more durable signal was hyperscaler follow-through. Amazon, Microsoft, Alphabet, and Meta spent more than \$416 billion on capex in 2025, up 66% from 2024, while global cloud infrastructure revenue reached \$119 billion in Q4, up 30% year over year. Monetization,

however, still lags deployment. Andreessen Horowitz estimates revenue per employee at top-decile AI and software companies rose about 75% in 2025, yet U.S. Census data still showed only 17% to 19% of businesses using AI. Within our portfolio, value moved downstream during the year. The cycle began with NVIDIA dominating the compute layer, but AMD, SanDisk, and Western Digital, all DCM holdings, were major winners as spending broadened into CPUs, memory, and storage, supported by AI server demand, tighter NAND conditions, and rising enterprise storage needs.

2026 Outlook: Where AI Value May Move Next

Over time, we expect the model layer to become cheaper and more commoditized, much as internet infrastructure did after Microsoft bundled Internet Explorer into Windows and destroyed Netscape's economics. The Cisco analogy is also relevant: critical infrastructure can be indispensable without capturing the largest downstream profit pool. That is why we initiated Microsoft at the end of 2025, when the shares had de-rated to a discount versus their own recent historical forward P/E range. The position complements our Google holding in Communications and improves platform balance across the portfolio. We expect volatility as custom silicon lowers compute costs and as agentic AI pressures portions of legacy software, but our focus remains unchanged: follow where the value chain is moving next. In our view, the strongest long-term economics are likely to accrue to the platforms that control distribution, workflows, enterprise data, and customer relationships.

Sources: Bloomberg L.P., Company Filings

SPECIAL TOPIC: AI IN 2025

Better Fundamentals, Higher Expectations

Figure 3: Microsoft Stands Alone in Covering Capex with Internal Cash Flow

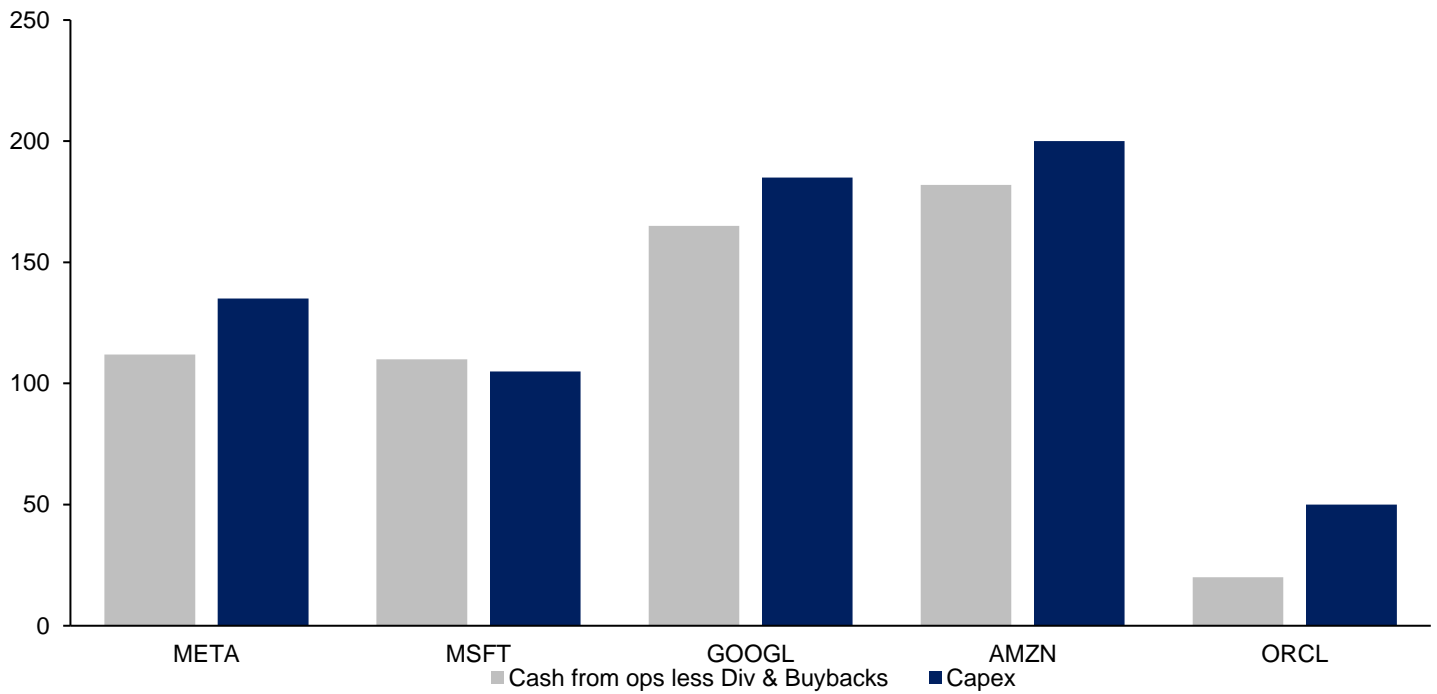
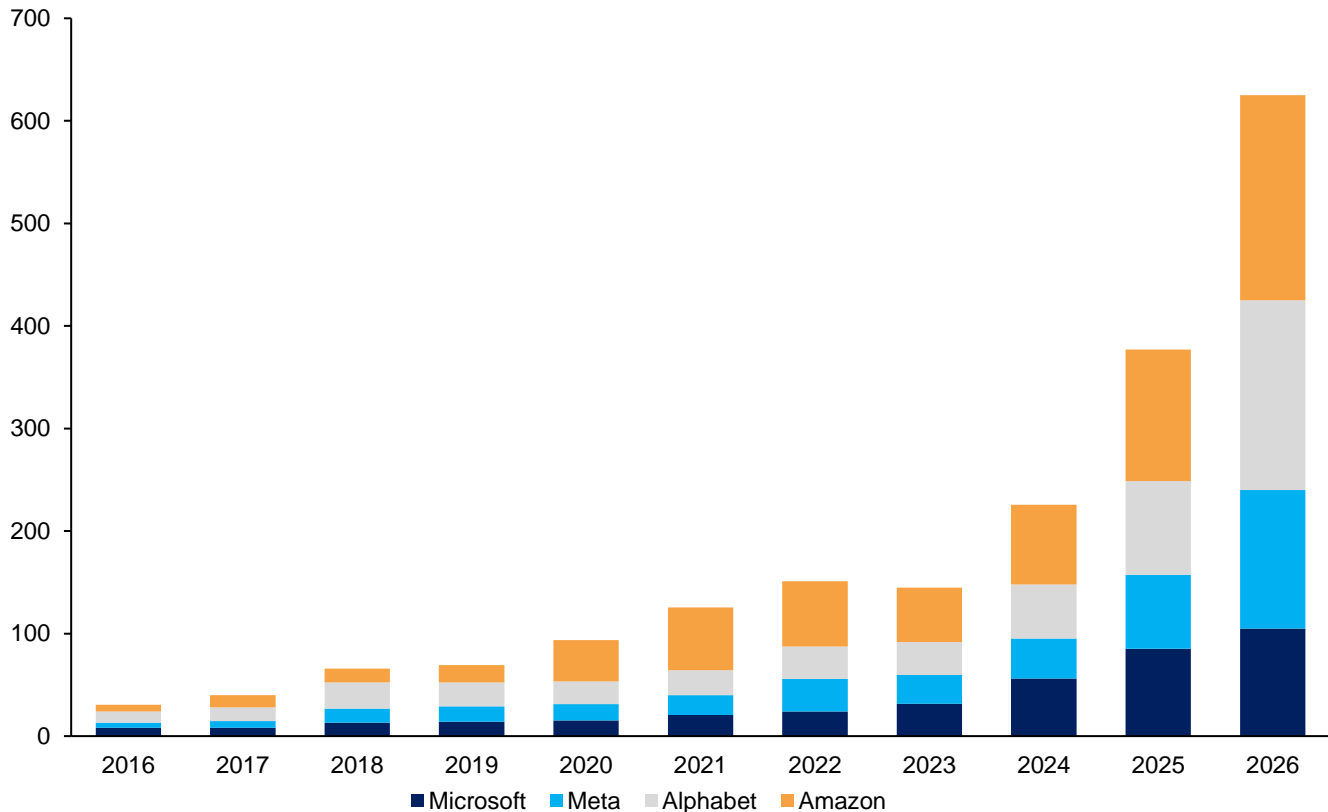


Figure 4: Hyperscaler Capex Accelerated into 2026



Sources: Bloomberg L.P., Company Filings

INFORMATION TECHNOLOGY

2025 Review

Software Outlook: AI Disruption vs Valuation Compression

Software stocks have faced significant pressure as investors reassess the sector’s outlook in light of rapid advances in artificial intelligence. New AI tools capable of generating code and building applications automatically have raised concerns that traditional software products could face slower demand growth or reduced pricing power. As a result, investors have broadly reduced exposure to the sector, with the iShares Expanded Tech-Software ETF experiencing one of its steepest declines since the financial crisis and several major software names posting sharp drawdowns.

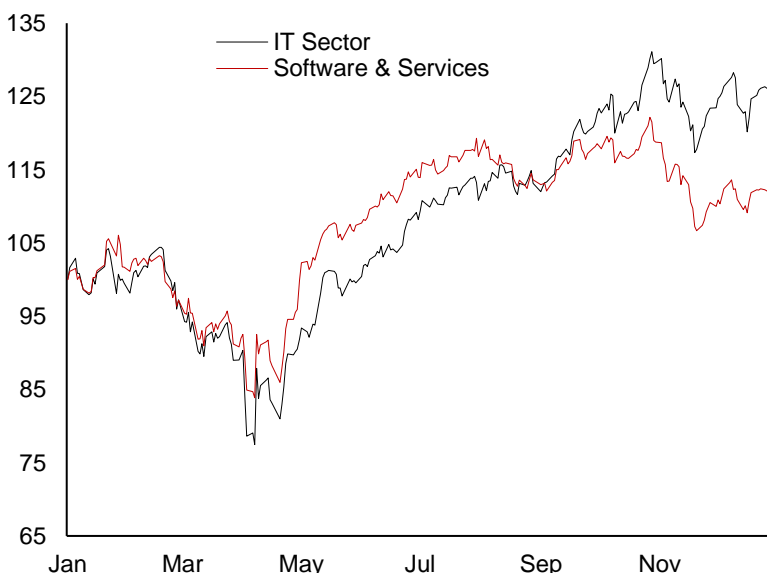
The possibility that AI-native tools could bypass traditional software workflows has therefore become a central concern for investors. Recent earnings results have not yet fully reflected the degree of disruption implied by market pricing. According to Bloomberg data, 87% of software companies reporting earnings this season beat profit expectations and 67% exceeded revenue forecasts. This has created a notable discrepancy between operational results and stock market performance.

The compression in valuations has therefore been significant. The S&P 500 Software & Services sector now trades at roughly 21× forward earnings, its lowest level in more than three years and well below its five-year average of approximately 29×. In this sense, the sector has moved from being one of the most expensive segments of the market to trading at a relative discount compared with its own history.

However, this valuation compression largely reflects the high level of uncertainty surrounding the long-term impact of AI on software business models. While current earnings remain relatively stable, investors are increasingly focused on the risk that AI tools could reshape how software is created, distributed, and monetized. As a result, forecasting the long-term growth trajectory of many software companies has become more difficult, particularly beyond the next one to two years.

Looking ahead, the sector is likely to remain highly sensitive to developments in artificial intelligence. The key question for investors is not whether AI will affect software, but rather how much of the industry’s value will ultimately be captured by existing software providers versus new AI-native platforms. Until that becomes clearer, software valuations are likely to reflect a balance between current earnings strength and uncertainty around the industry’s long-term structure.

Figure 5: Software & Services and the IT Sector



Source: Bloomberg L.P.

TECHNOLOGY HARDWARE, STORAGE & PERIPHERALS

2025 Review: Segment Performance and Key Holding (SNDK)



DCM Segment Overview

Under our DCM mandate, we overweighted **Technology Hardware, Storage & Peripherals** at the outset of 2025, anticipating that tightening RAM and NAND supply would enhance pricing power, margins, and cash flow visibility across the memory complex. Industry supply discipline entering the year, combined with AI-driven datacenter demand, supported a clear earnings inflection and operating leverage recovery. Within our IT holdings, **SanDisk and Western Digital were the best performers in 2025**, directly benefiting from NAND price normalization and improved mix toward enterprise storage. Their outperformance was driven by margin expansion and stronger earnings revisions, confirming our initial thesis rather than reflecting speculative multiple expansion. In our view, the sector’s relative strength and the leadership of these positions validated our strategic allocation decision at the beginning of the DCM cycle.

Key Holding Review: SanDisk (SNDK)

Overview: SanDisk became an independent, publicly traded flash-memory company following its separation from Western Digital in February 2025. It is now a pure-play on NAND and enterprise SSD demand, with results reflecting a sharp cyclical recovery in pricing and utilization.

Investment Thesis: Our thesis centers on structurally tighter NAND supply meeting accelerating AI-driven storage demand, translating into stronger pricing power and operating leverage. The inflection has been visible in reported financial momentum, with fiscal Q4 2025 revenue of \$1.90B and gross margin of 26.2%, followed by a step-up in fiscal Q2 2026 revenue to \$3.03B and gross margin to 50.9%, consistent with a tightening market and mix improvement.

Catalysts and Risks: Catalysts include sustained hyperscaler capex, enterprise SSD mix gains, and continued NAND contract price strength. Key risks are memory-cycle reversals, aggressive supply responses, and customer concentration.

Figure 6: Tech Hardware vs S&P 500, 2025, Normalized

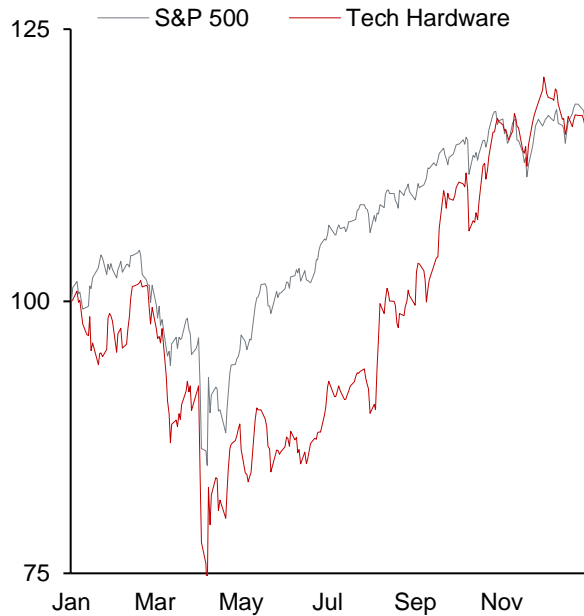
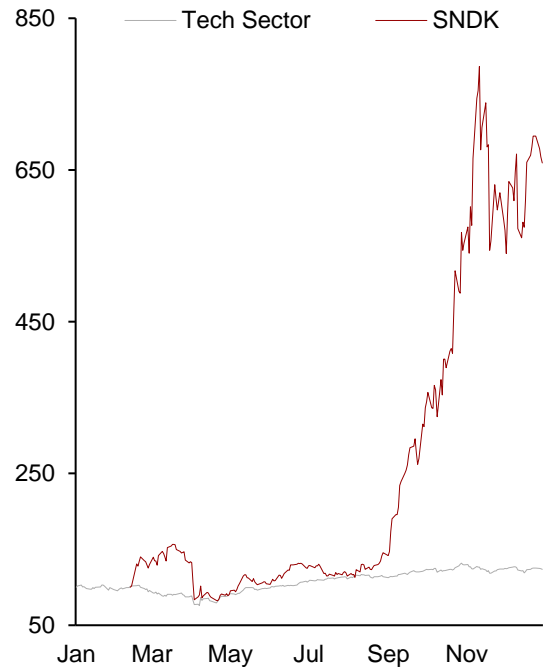


Figure 7: SNDK vs IT Sector, 2025, Normalized



FY 2025 Metrics (LTM)	WDC	SNDK	Comps
EV/EBITDA	12.4x	18.7x	12.5x
P/E	14.2x	N/M	15.7x
EPS	\$ 7.10	N/M	\$ 6.66
EV/SALES	3.10x	3.8x	3.7x
Gross Margin	38.8%	30.1%	36.6%

Sources: Bloomberg L.P., Company Filings

SEMICONDUCTORS & AI COMPUTE

2025 Review: Segment Performance and Key Holdings (AMD)



DCM Segment Overview

The semiconductor industry has entered a period of structural growth driven by increasing demand for high-performance computing, cloud infrastructure, and artificial intelligence workloads. As data generation and compute intensity continue to rise, advanced processors and accelerators have become critical infrastructure for hyperscalers, enterprise computing, and emerging AI applications. These trends are supported by long-term growth in data center investment and the increasing importance of specialized chips for training and inference workloads.

Within this environment, companies with competitive processor architectures, exposure to hyperscaler demand, and strong execution in product development are well positioned to capture share in the rapidly expanding compute market. Continued innovation in CPU and GPU performance, combined with advancements in semiconductor manufacturing, has created opportunities for firms able to deliver superior performance and efficiency relative to incumbents.

Against this backdrop, we initiated a position in Advanced Micro Devices in 2020 as the company gained traction in data-center CPUs and strengthened its positioning in high-performance computing and AI accelerators. Continued execution on its product roadmap and growing adoption by major cloud providers supported our view that it was well positioned to benefit from expanding compute demand.

Review of Advanced Micro Devices (AMD)

Advanced Micro Devices is a fabless semiconductor company focused on high-performance computing solutions including data-center CPUs (EPYC), GPUs (Instinct), and AI accelerators. The company has gained significant share in the server CPU market and is expanding its presence in AI accelerators with the MI300 platform.

Our thesis was that Advanced Micro Devices was structurally positioned to benefit from the rapid expansion of AI infrastructure spending. Key drivers included continued EPYC market share gains versus legacy x86 competitors, growing demand for MI300 accelerators in AI training clusters, and increasing adoption among hyperscalers. We also expected operating leverage from higher-margin data-center products to support margin expansion over time.

In 2025, several developments reinforced the positioning of Advanced Micro Devices in the AI infrastructure market. Most notably, the company announced a major partnership with OpenAI to supply Instinct GPUs for large-scale AI data center deployments, highlighting growing demand for alternative AI accelerators. AMD also strengthened its product roadmap through the unveiling of its next-generation MI400 platform and continued expansion of hyperscaler partnerships. Supported by these developments, AMD's stock delivered strong performance in FY2025, rising roughly 77% during the year, significantly outperforming the broader market as investor confidence in its AI compute strategy increased.

SEMICONDUCTORS & AI COMPUTE

2025 Review: Segment Performance and Key Holdings (AMD)



Figure 8: Semiconductors Subsector Performance, 2025, Normalized

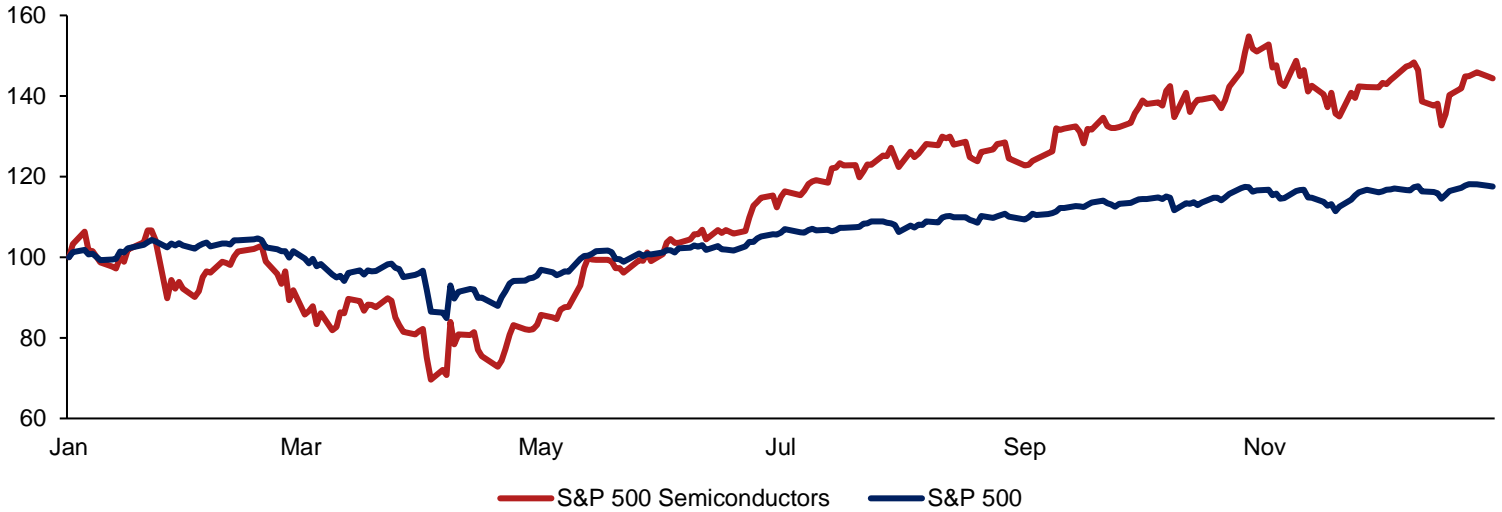


Figure 9: AMD Stock Performance (FY25)

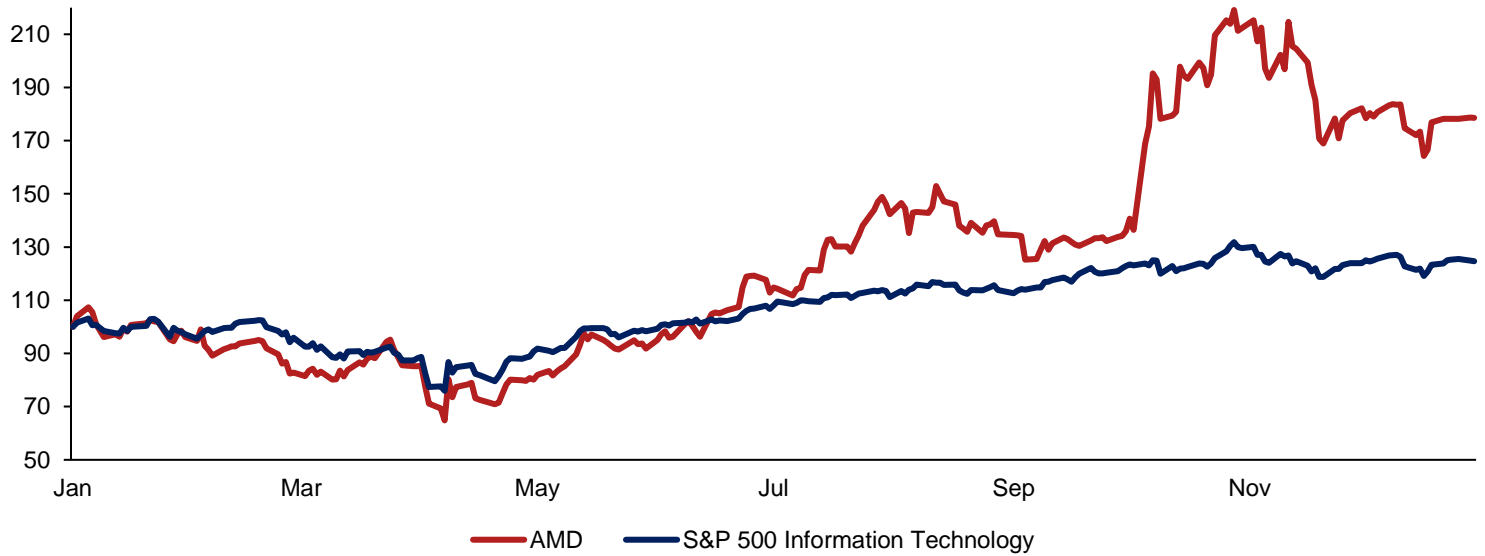


Figure 10: AMD vs Peers Financial Ratios

FY 2025 Metrics (LTM)	AMD	Peers
EV/EBITDA	41.9x	30.2x
P/E	78.1x	39.8x
EPS	\$ 2.7	-
EV/SALES	8.8x	7.5x
Gross Margin	50.3%	55.1%

Sources: Bloomberg L.P., Company Filings

Materials

2025 REVIEW & 2026 OUTLOOK

Jayden Huang
Analyst



Cezar Musharrafiyyah
Analyst



Silas Needler
Analyst



Sebastian Stanculescu
Analyst



MATERIALS

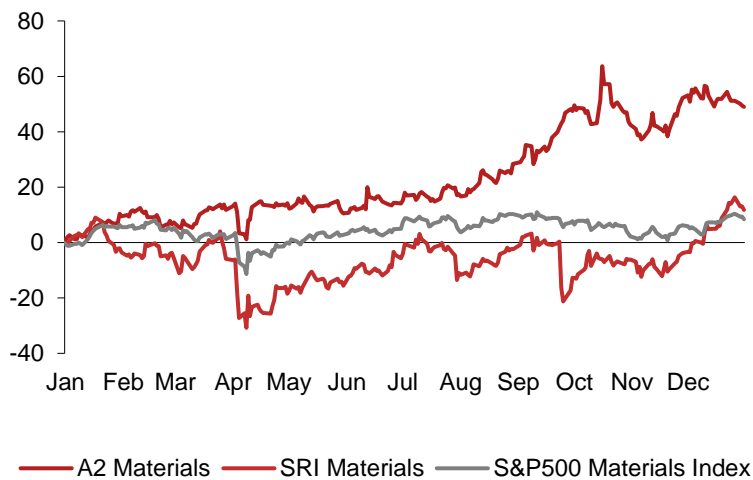
2025 SECTOR REVIEW

OVERVIEW

The Alpha Squared fund's materials sector returned +49.0% in 2025 with the SRI fund's materials sector returning +11.8%, both overperforming the sector benchmark which returned +8.4%. The overall materials sector faced strong headwinds from tariffs which disrupted supply chains and dragged down demand across several subsectors. Sector performance was upheld by safe-haven demand for precious metals, and A.I. and associated infrastructure demand for copper and construction materials.

The combined fund overperformance was driven by a strong metals and mining subsector performance, with key investments in Franco-Nevada Corp, Major Drilling Group, and Freeport-McMoRan. Returns were mildly dragged by Eagle Materials in the Alpha Squared fund and significantly impacted in the SRI fund by Albemarle Corporation, which was sold at a loss on May 21. December 22 marked the addition of CF Industries Holdings to the Alpha Squared fund, purchased at \$79.14 per share, adding agricultural chemical exposure to a heavily metals and mining weighted portfolio.

Figure 1: DCM Performance (%), 2025



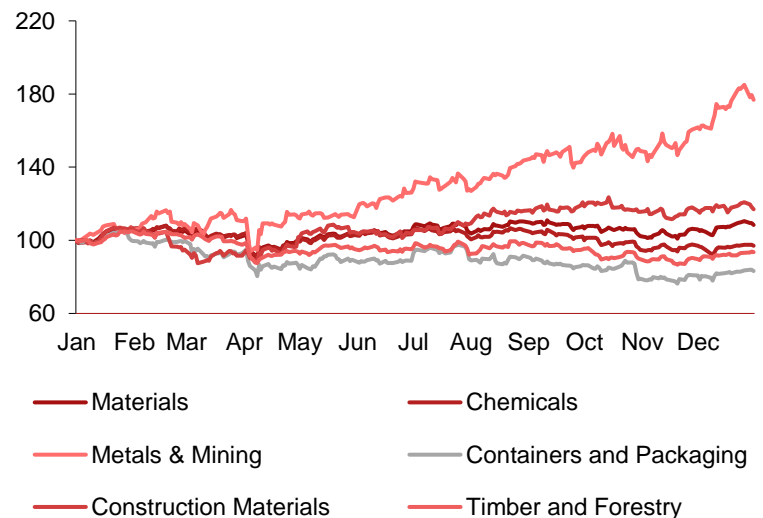
Source: Bloomberg L.P.

SUBSECTOR REVIEW

Metals & Mining

The Metals & Mining subsector includes companies operating across precious, base, and diversified metals. The subsector significantly outperformed the broader sector, returning +77% in 2025 versus an +8.4% upside for Materials. This outperformance was largely driven by the broader metals rally, supported by hedging efforts and strong industrial demand for select metals tied to AI infrastructure, power grid expansion and global supply squeezes. Gold and silver equities experienced explosive price action, rising 65% and 148%, respectively, amid geopolitical tensions, persistent Fed rate cuts that increased the appeal of non-yielding assets, and strong central bank gold purchases driven by reserve diversification. Silver, often referred to as “the poor man’s gold,” provides exposure to the same macro drivers with the added benefit of greater industrial applications, while exhibiting higher volatility due to its limited supply as a byproduct metal. Early 2025 saw a widening front month–3-month copper spread as traders front-loaded purchases ahead of tariff concerns. Backwardation cooled following late-summer tariff revisions, though prices remained supported by EV, AI, and grid infrastructure demand.

Figure 2: Subsector Performance, Normalized, 2025



MATERIALS

2025 SECTOR REVIEW

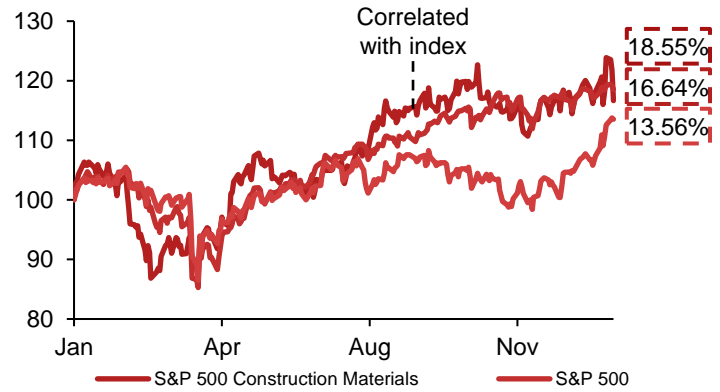
SUBSECTOR REVIEW (Cont'd)

By year-end 2025, copper equities returned 44%, supported by a tightening supply environment following disruptions like the Freeport-McMoRan's Grasberg mine mudslide incident. Aluminum, which we do not hold, exhibited similar supply-side pressures across industrial metals, partly attributable to China's production capacity caps amid improving PMI.

Construction Materials

The Construction Materials subsector includes producers of cement, aggregates, asphalt, insulation, and other building products tied to residential, non-residential, and infrastructure activity. The subsector outperformed the Materials sector in 2025 but was in-line with the broader index, returning approximately +16.6% versus +18.6 for the S&P 500. Performance tracked continued optimism around AI and hyperscale-related build-outs, especially in data centers and supporting energy infrastructure. Some cushion against margin pressures also came from stockpiling ahead of price swings, selective material substitution, and more outsourced engineering, procurement, and construction work. The backdrop was still difficult. Steel and aluminum tariffs, high borrowing costs, and labor shortages (due in part to younger workers showing less interest in trade) all continued to weigh on procurement and execution. Even so, the subsector stayed highly correlated with the broader index, reflecting its high cyclicality.

Figure 3: Subsector Performance, Normalized, 2025



Source: Bloomberg L.P.

MATERIALS

2025 SECTOR REVIEW

Chemicals

The Chemicals sector underperformed the broader Materials sector in 2025, reflecting a difficult operating environment marked by weak global manufacturing activity, persistent oversupply, and limited pricing power. While the S&P 500 Materials Index delivered positive returns, the Chemicals sector posted negative performance overall, -3.0%, with dispersion across subsectors driven by differences in end-market exposure and business models.

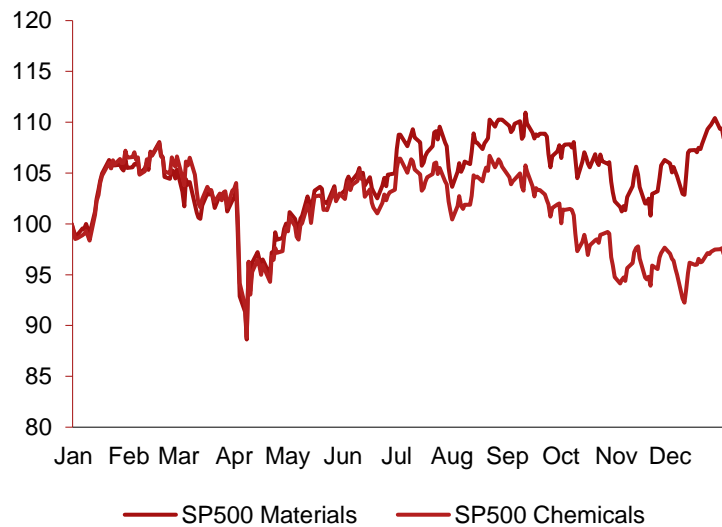
The weakest performance, -41.7%, came from Commodity Chemicals, which declined sharply during the year. This subsector was most exposed to cyclical industrial demand and suffered from persistent global overcapacity, particularly as China continued to expand capacity and push import substitution. Weak global PMI trends suppressed downstream demand in construction, consumer goods, and manufacturing, while oversupply kept utilization rates and prices under pressure. Given commodity chemicals' large weight within the sector, its severe underperformance dragged down overall chemicals returns.

In contrast, Fertilizers & Agricultural Chemicals was the clear outperformer. Strong crop prices and ongoing food

security concerns supported fertilizer and crop-protection demand despite softer broader industrial activity. Agricultural input demand proved more resilient than traditional chemical end markets, allowing this subsector to outperform meaningfully, returning +7.0%.

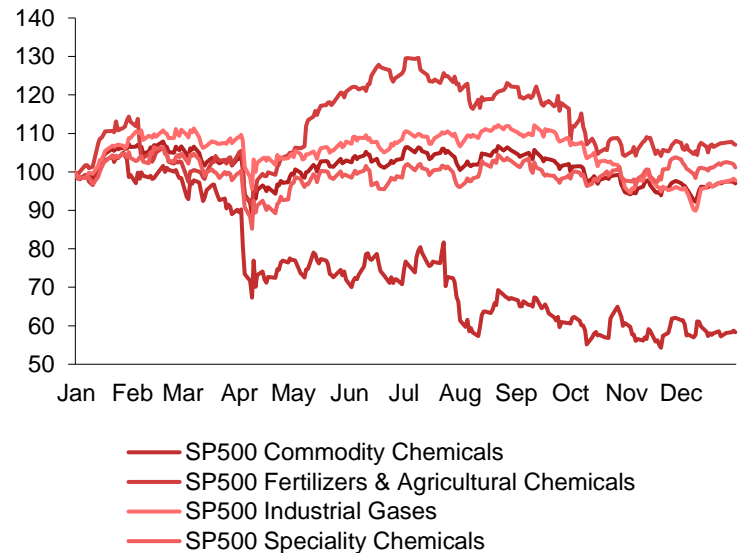
Industrial Gases delivered a relatively stable, but negative, performance at -2.2%. Long-term supply contracts, defensive revenue characteristics, and stable demand from healthcare and electronics cushioned the impact of the broader manufacturing slowdown. Meanwhile, Specialty Chemicals also remained comparatively resilient, returning +1.2%, supported by product differentiation and exposure to higher-value end markets. Although these businesses were not immune to weakness in construction and consumer manufacturing, more specialized product portfolios helped offset cyclical pressure.

Figure 3: Chemicals Subsector Performance, Normalized, 2025



Source: Bloomberg L.P.

Figure 4: Chemicals Industries Performance, Normalized, 2025



MATERIALS

2025 SECTOR REVIEW

Containers and Packaging

The Containers and Packaging subsector is comprised of two industries: 1. Metal, Glass and Plastic Containers (MGPC) and 2. Paper and Plastic Packaging Products and Materials. Key products in the former industry include food cans, beverage cans, and beverage bottles. Key products in the latter industry include corrugated boxes and sheets, folding cartons, plastic films and bags, and molded fibers. Subsector performance is highly affected by aluminum, steel, fiber, resin, and energy input costs, beverage and food consumption unit volumes and mix, export volumes, and regulations. The Containers and Packaging subsector delivered -16.8% returns in 2025, with paper and plastic having a much weaker year than MGPC, -18.6% compared to -3.9% returns. Initial tariffs following the Trump inauguration led to an initial drawdown in the sector, particularly over concerns regarding aluminum input costs, followed by a rebound from inventory front-loading. The sector then continued to decline from major U.S. container and packaging factory closures from compressing demand, continually rising input costs, and below expected consumer spending on goods and volume of goods purchased. MGPC saw a slight rebound in the tail-end of the year from elevated

aluminum tariff pass-through capability. A key trend that persisted throughout the year was e-commerce and shipping firms trimming their corrugated box and cardboard consumption, as reduced use of the “box-in-a-box” shipping method lowered secondary packaging requirements, reducing demand corrugated box and cardboard demand compounded by weaker volumes of exported goods.

Figure 5: Containers and Packaging Performance, Normalized, 2025

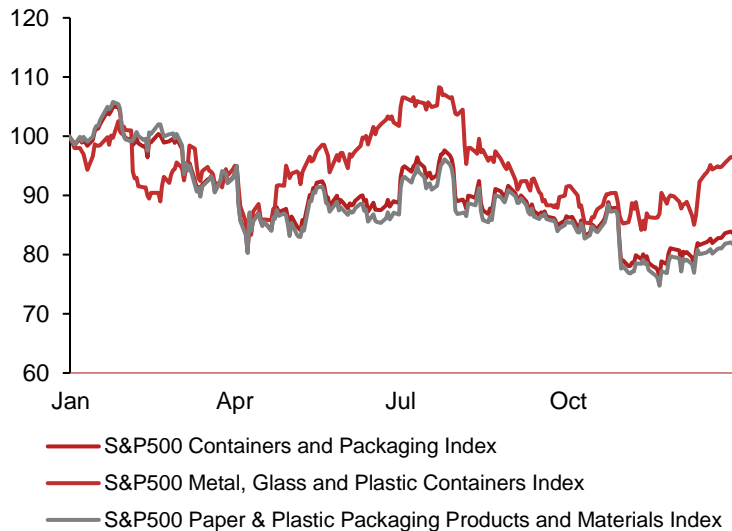
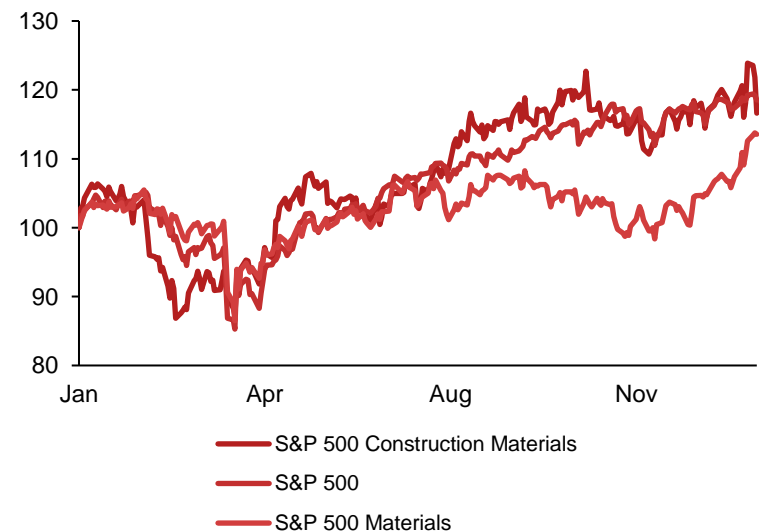


Figure 6: Construction Materials Performance, Normalized, 2025



Sources: Bloomberg, U.S. Bureau of Economic Analysis, U.S. Energy Information Administration

MATERIALS

2026 SECTOR OUTLOOK

Metals and Mining

Going into 2026, we expect metals and mining to continue its strong performance. Continued geopolitical instability is expected to maintain gold's strong performance as a safe-haven asset, with large central bank purchases further supporting growth. We expect silver to see similar growth from its position as a safe-haven asset, with the added benefit of industrial demand in electronics and photovoltaic cells, two industries we expect to have rising demand. We believe the continuing energy transition will lead to continued elevated demand for copper as a key input, further supported by growing AI infrastructure requirements. Steel is expected to see much slower growth, constrained by global overcapacity, with demand mostly supported by potentially easing monetary policy and infrastructure needs in emerging markets. An expected PMI contraction may harm aluminum, but a cap on China's output will still support the metal.

Chemicals

The outlook for chemicals in 2026 remains mixed, with the sector likely to stay in a trough-like environment overall, even as performance divergence across subsectors persists. The key variable will be whether lower interest rates and expansionary fiscal policy can generate a meaningful recovery in manufacturing demand across housing, autos, and capital goods. While infrastructure and industrial policy may provide some support to volumes, the lagged effect of monetary easing suggests that any recovery is likely to be gradual rather than sharp.

The main constraint remains overcapacity, especially in commodity chemicals, where global supply still exceeds demand. As a result, Commodity Chemicals are likely to continue facing weak utilization rates, subdued pricing, and depressed margins. By contrast, Fertilizers & Agricultural Chemicals should remain relatively supported by food security needs, crop economics, and geopolitical sensitivity in agricultural supply chains, allowing prices and earnings to stabilize. Industrial Gases are expected to maintain stable margins through contracted revenue models and continued demand from healthcare, energy-transition projects, semiconductor fabs, and data centers. Specialty Chemicals should also remain more resilient, as high-value end markets, product differentiation, and growing high-tech demand help offset broader cyclical weakness.

Sources: Bloomberg L.P.

MATERIALS

2026 SECTOR OUTLOOK

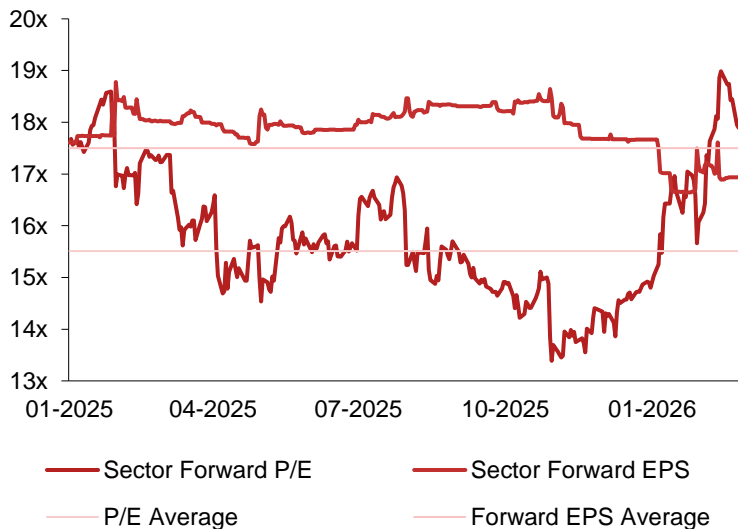
Containers and Packaging

Going into 2026, we expect e-commerce and delivery carrier companies to continue reducing “box-in-a-box” packaging, as fulfillment costs have been lowered with minimal impact on the customer experience. Combined with an anticipated continued decline in consumer goods exports, we believe that corrugated box and other paper packaging demand weakness will persist for the rest of the year.

On the Metal, Glass and Plastic Containers (MGPC) side, we note several trends. Alcoholic beverages and spirits, a key end market for the industry, has experienced a multi-year downwards sales volume trajectory due to shifting consumer trends. We expect this to continue in 2026, and do not view non-alcoholic beverages as a substitute, resulting in hits to demand. We further believe that metal and energy input costs will continue to rise, squeezing MGPC margins if pass-through is unable to keep up.

Sector forward P/E has recently surged far above the 10-year sector average as forward EPS has fallen below its 10-year average, with P/E growth rapidly outpacing the EPS decline. The implication is that the market expects an earnings rebound past the NTM EPS

Figure 9: Containers and Packaging Forward P/E and EPS, 1-Year



Sources: Bloomberg L.P.

window. While an earnings recovery is possible, we remain cautious due to the aforementioned headwinds, and view the sector as being overvalued. Our funds currently lack exposure to the Containers and Packaging subsector, and we believe this underexposure should be maintained going into 2026.

Construction Materials

Looking ahead, the outlook remains centered on AI data center and energy infrastructure demand, which should continue to disproportionately favor bulk materials. In the U.S., projected growth in data center power demand suggests a multi-year need for supporting grid, utility, and related construction activity, keeping underlying demand firm for construction materials tied to this build-out. At the same time, tariffs and price volatility are likely to keep construction project uncertainty elevated, particularly where E&Cs rely on front-loaded procurement of downstream inputs such as metals and other key materials. That dynamic could still support near-term demand for complementary aggregates as firms seek volume smoothing. Labor remains another constraint, with the projected worker shortfall continuing to weigh on execution, although autonomous machinery and robotics are beginning to move from pilot programs toward early deployment. Even if the direct impact of automation on construction materials is still less obvious, the broader demand backdrop remains favorable, and we remain confident in the upside as AI infrastructure demand continues to increase.

CF INDUSTRIES (NYSE: CF)

Ammonia Production Company



Company Overview

CF Industries Holdings is one of the largest manufacturers of nitrogen fertilizers and ammonia products in North America, primarily used in agriculture as well as energy, emissions abatement, and industrial applications.

Investment Theses

1. The market undervalues CF's first mover status in clean ammonia

Clean ammonia is emerging as a fuel for maritime shipping and a clean power source in East Asia. CF's investments position it to become the world's largest clean ammonia producer within three years, with volumes backed by offtake agreements.

2. CF's structural natural gas cost advantage will persist

CF's North American production benefits from structurally lower natural gas prices than Europe and Asia. The market believes the spread between N.A. and EU natural gas will tighten, while we believe that the spread will remain elevated.

3. CF's distribution network benefits from U.S. farmland migration

Farmland migration is increasing fertilizer demand in regions overlapping with CF's NuStar pipeline and production footprint, driven by expiring CRP contracts and structural eastward crop migration under RCP scenarios.

Catalysts & Risks

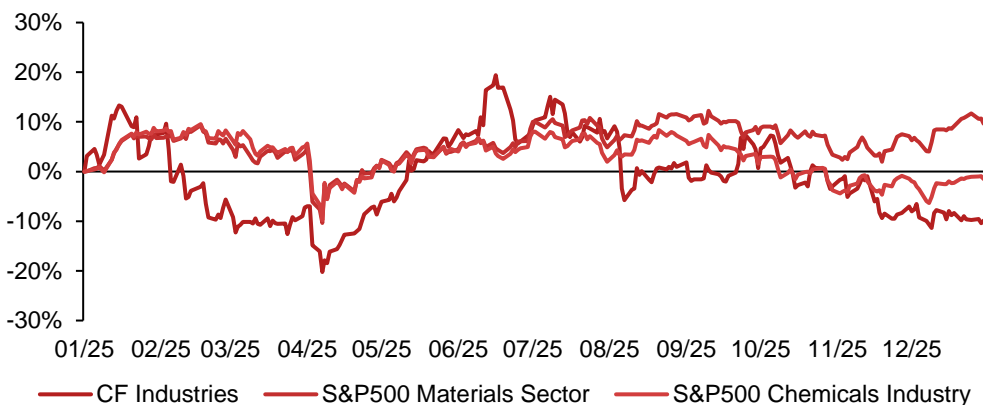
Catalysts

China's continued export restrictions tighten global nitrogen supply, supporting fertilizer pricing, while CF's proximity to key U.S. agricultural regions secures premium Corn Belt pricing

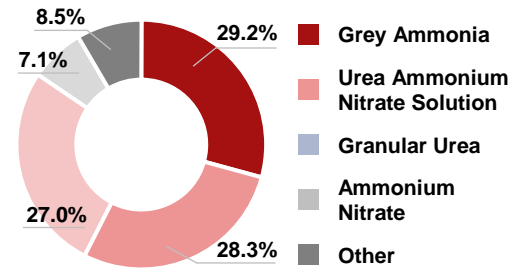
Risks

A narrowing of the spread between Henry Hub and Dutch TTF natural gas would raise CF's relative production costs and erode its structural cost advantage.

1-Year Stock Performance Prior to Purchase



Revenue Breakdown



Financial Ratios

Metrics	CF	Comps
EV/EBITDA	6.3x	5.8x
P/E	8.8x	8.6x
EBIT Margin	34.6%	12.4%

Valuation Summary

Bear Case	(20%)
Base Case	45%
Bull Case	73%

Position Summary

Rating	Buy
Price Target	\$113.00
Acquisition Price	\$79.14
Acquisition Date	Dec. 22, 2025
Shares	N/A (SRI)
SRI – A2	900 (A ²)
Portfolio Weight	N/A (SRI)
SRI – A ²	3.0% (A²)

Renewables & Utilities

2025 REVIEW & 2026 OUTLOOK

Yamila Bawa
Analyst



Samuel Hazan-Mea
Analyst



Alessandra Rbeiz
Analyst



Eric Tran
Analyst



Kexin Yang
Analyst



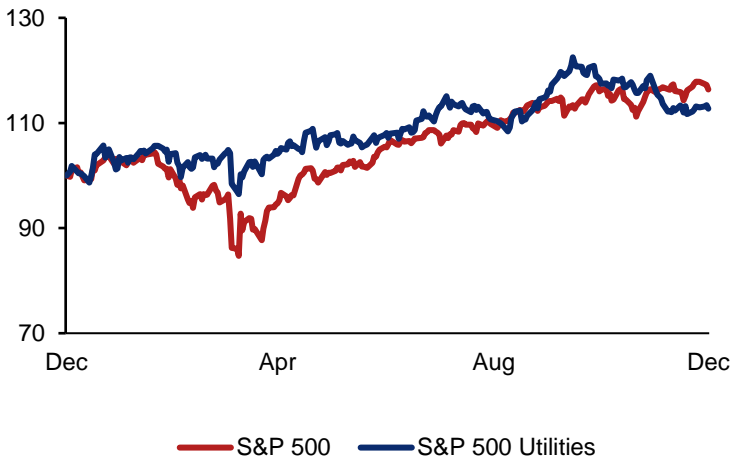
RENEWABLES & UTILITIES

2025 Review

Sector Performance

In 2025, the utilities sector delivered a solid performance, generating a total return of 13%, supported primarily by a continued shift in electricity demand after more than a decade of stagnation. U.S. power consumption was projected to reach roughly 4,201 billion kWh, up from 4,097 billion kWh in 2024, reinforcing the view that electrification, industrial reshoring, and digital infrastructure are structurally increasing load growth. This demand outlook was amplified by accelerating data center expansion, with estimates suggesting U.S. data center electricity usage could double or triple by 2028, translating AI-driven demand into tangible capital investment and rate-base growth opportunities for regulated utilities. The sector faced intermittent volatility due to its sensitivity to interest rates and macro policy, as tariff escalations early in the year heightened inflation and equipment-cost concerns, while subsequent trade pauses helped stabilize risk sentiment. Record capacity auction pricing signaled tightening supply-demand conditions, and supportive regulatory developments reduced certain long-tail risks. By year-end, monetary easing provided an additional tailwind through lower financing costs

Figure 1: S&P500 & Utilities Index, Normalized, 2025

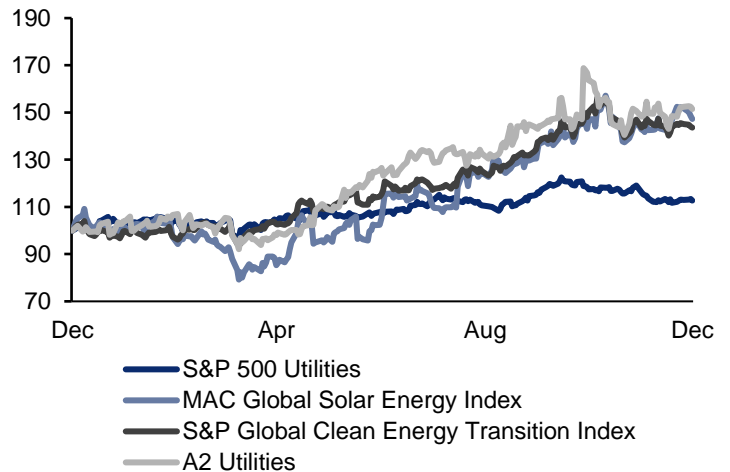


Source: Bloomberg L.P

A2 Renewables and Utilities Performance

In 2025, the A² Renewables & Utilities Fund, returned 51% and materially outperformed the S&P 500 Utilities benchmark (+12.69%), and major clean-energy comparators, including SUNIDX (+47.31%) and the S&P Global Clean Energy Transition Index (+43.63%). Performance was driven primarily by security selection rather than broad sector exposure, with gains concentrated in assets positioned to benefit from rising demand for reliable, dispatchable power and supportive regulatory developments. Cameco, initiated in May and exited in December, was the largest contributor as investor sentiment increasingly favored nuclear generation as a scalable source of continuous low-carbon electricity, reinforced by strategic partnerships tied to reactor deployment. Dominion Energy also added to returns, supported by improving demand visibility in Virginia and regulatory clarity around cost recovery for large-load customers, including data centers. Despite intermittent policy and interest-rate volatility during the year, the portfolio's combination of regulated utility exposure and select firm-power assets enabled it to capture structural upside while maintaining defensive characteristics.

Figure 2: A2 Utilities/Renewables Performance, Normalized 2025



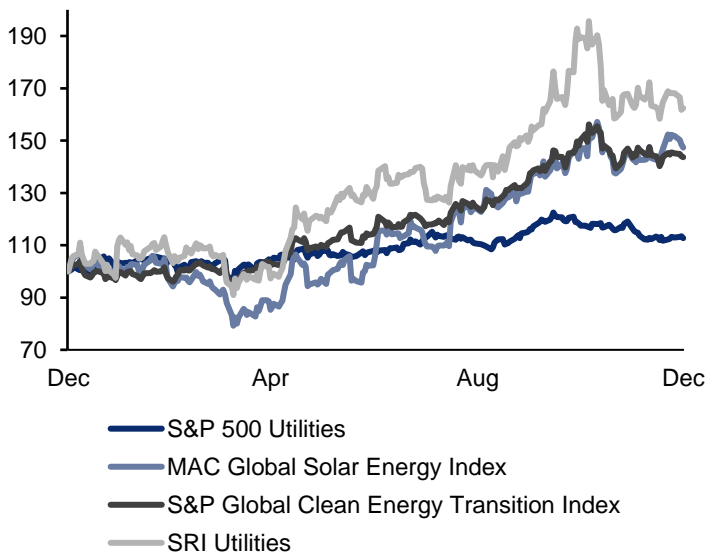
RENEWABLES & UTILITIES

2025 Sector Overview

SRI Renewables and Utilities Performance

The SRI Renewables & Utilities Fund delivered a strong outcome in 2025 versus broad equity, utilities, and clean-energy comparators. It returned +62.32%, materially outperforming the S&P 500 Utilities sector (+12.69%), and clean-energy benchmarks including SUNIDX (+47.31%) and the S&P Global Clean Energy Transition Index (+43.63%). At the holding level, Nextacker (still held) was a key contributor, supported by strong execution and record fiscal-year results tied to continued utility-scale solar buildout. Cameco (bought May, sold December) also added meaningfully as nuclear regained momentum around the “firm, 24/7 power” narrative, reinforced by the October Westinghouse partnership announcement. Offsetting these gains, Boralex (still held) detracted amid weaker wind conditions and lower realized pricing, while Enphase (sold August) weighed on performance as residential-solar equities repriced on U.S. policy uncertainty around clean-energy incentives. Late-year Federal Reserve rate cuts supported long-duration renewables and infrastructure valuations into year-end.

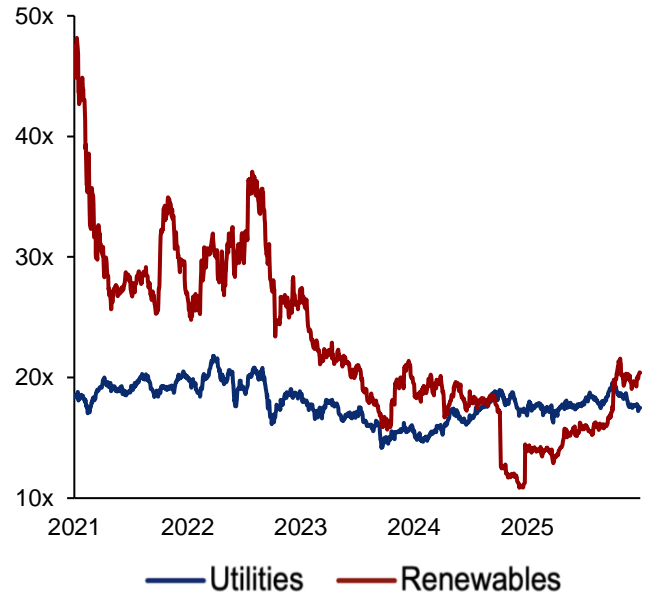
Figure 3: SRI Utilities/Renewables 2025 Performance



Source: Bloomberg L.P

Renewables and Utilities Historical Valuation

Figure 4: Forward P/E Ratio



Since the peak of the “green premium” in 2020–2021, valuations across renewable energy equities have declined materially while regulated utilities have shown greater stability. Renewable companies that once traded at elevated growth multiples experienced a sustained derating as higher interest rates, project delays, and rising capital costs reduced investor willingness to pay large premiums for long-duration growth. By contrast, regulated utilities saw only modest multiple compression and have remained closer to historical valuation ranges, supported by predictable earnings and regulated rate base growth. As a result, the valuation gap between renewables and utilities has narrowed significantly from its 2021 peak, reflecting a broader shift in investor focus from growth narratives toward balance sheet strength, cash flow visibility, and achievable returns.

RENEWABLES & UTILITIES

2026 Sector Key Drivers & Outlook

2026 Sector Key Drivers

The renewables energy sector in 2026 are being shaped by a combination of policy tightening, accelerating power demand, and more selective capital allocation. In the United States, Federal Energy Regulatory Commission (FERC) restrictions and revisions to Inflation Reduction Act (IRA) incentives are increasing compliance and supply-chain complexity. Developers are being pushed to reassess equipment sourcing and construction timing, with many prioritizing “safe-harbor” pathways that preserve tax credit eligibility for projects that begin construction by the end of 2025. However, switching away from incumbent suppliers can be costly and operationally disruptive, which may delay some deployments where the economics of supply-chain changes outweigh the value of tax credits.

Demand fundamentals are strengthening in parallel. AI-driven load growth, especially from hyperscalers and data centers, is emerging as a key catalyst for incremental solar and wind procurement. This is accelerating adoption of storage-led solutions where battery storage is increasingly viewed as the fastest and most cost-effective route to reliable, 24/7 clean power, supporting the growth of solar-plus-storage configurations and early pilots in long-duration technologies. On the capital side, elevated rates and policy uncertainty are raising the hurdle rate for development-stage projects, encouraging investors to concentrate on late-stage platforms, contract-backed cash flows, and assets with greater policy certainty and execution visibility.

2026 Sector Overview

The renewables energy sector in 2026 remains positioned for long-term expansion, but near-term deployment and transaction activity are increasingly shaped by risk management and project quality. Policy changes are contributing to a more uneven development landscape: capacity additions are expected to shift toward projects that are safe-harbored or otherwise insulated from incentive changes, while other projects face slower timelines due to sourcing constraints. However, the sector continues to hold a leading share of new power capacity additions, supported by decarbonization commitments and durable end-market demand.

Market activity is also evolving from volume-driven growth toward risk-adjusted deployment and investment. M&A is becoming more selective, with capital concentrating in established operating platforms, storage-enabled portfolios, and projects with long-term power purchase agreements (PPAs) that reduce revenue volatility. Early-stage development is comparatively riskier given higher financing costs, supply-chain uncertainty, and potential tax credit phase-downs, which is reinforcing a preference for de-risked assets and partnership structures. Overall, the sector is transitioning toward a model where scale, execution certainty, and dispatchable clean power capabilities increasingly drive competitiveness, valuations, and investment flows.

Source: Bloomberg L.P

RENEWABLES & UTILITIES

2026 Outlook

2026 Outlook

The 2026 outlook for renewable energy and utilities reflects a maturing sector transitioning from valuation-driven momentum to fundamentals-driven differentiation. The valuation spread between renewables and regulated utilities has narrowed materially and now sits below its historical average.

Fundamentally, electricity demand is accelerating at the fastest pace in over a decade, driven by AI-enabled data center expansion, electrification of transport and industry, and domestic manufacturing reshoring. However, the sector's bottleneck has shifted from demand to delivery. Interconnection queues, transmission constraints, permitting delays, and rising project complexity are extending development timelines and increasing capital intensity. Utility-scale solar growth is moderating year over year, and higher financing costs continue to pressure merchant-exposed and smaller developers.

As projects increasingly incorporate storage and hybrid configurations, execution capability and access to capital have become critical differentiators.

We expect consolidation to accelerate, with scaled, investment-grade platforms, such as Brookfield and NextEra, gaining share through acquisitions and project takeovers at more disciplined valuations.

Policy remains a central driver of competitive positioning. Ongoing reviews of Chinese polysilicon imports, potential tariff adjustments, and updated Foreign Entity of Concern rules are reshaping global solar supply chains and federal incentive eligibility.

While these measures may modestly increase near-term equipment costs, they strengthen the competitiveness of U.S.-aligned and vertically integrated manufacturers, such as NextPower and First Solar. Long-term power purchase agreements are increasingly specifying domestic content, improving earnings visibility for select manufacturers and reducing geopolitical supply risk. At the same time, higher barriers to compliance and capital requirements further favor established operators.

Looking to 2026, performance across renewables and regulated utilities will be driven by fundamentals rather than valuations. Renewable multiples have already compressed as higher financing costs, interconnection delays, and rising project complexity slow growth, leaving upside limited without stronger execution and returns. Regulated utilities benefit from predictable revenue growth, expanding rate bases, and accelerating electricity demand from data centers, electrification, and domestic manufacturing. Outperformance will favor companies with the scale, balance sheet strength, and operational capability to fund capital, secure long-term contracted returns, and turn rising demand into durable earnings.

NEXTPower INC. (NASDAQ: NXT)

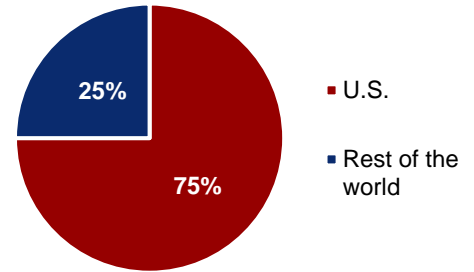
Renewable Energy Equipment



Company Overview

- Nextpower is a renewable-energy technology company headquartered in Fremont, California, focused on improving the efficiency and reliability of Utility-scale solar power plants
- Its core products include single-axis solar trackers, plant control software, and integrated infrastructure solutions used by utilities and large renewable developers
- Nextpower operates globally across major solar markets including North America, Europe, the Middle East

Revenue Breakdown



Investment Theses

- 1. Structure Growth in Utility-Scale Solar:** Global solar capacity is expanding rapidly, and solar tracking systems are becoming the standard for large-scale projects, positioning Nextpower to benefit from long-term renewable energy growth
- 2. Technology Leadership in Solar Tracking:** Proprietary row-to-row tracking technology improves energy output and plant efficiency, strengthening Nextpower’s competitive advantage with developers and utilities
- 3. Exposure to Domestic Solar Expansion:** Increasing focus on domestic clean-energy supply chains and infrastructure investment supports continued demand for Nextpower’s solar tracking systems

Financial Ratios

Metrics (LTM)	NXT	Comps
EV/EBITDA	18.15x	13.95x
P/E	25.59x	25.59x
EBITDA Margin	21.57%	21.57%
ROIC	31.69%	4.52%

Catalysts & Risks

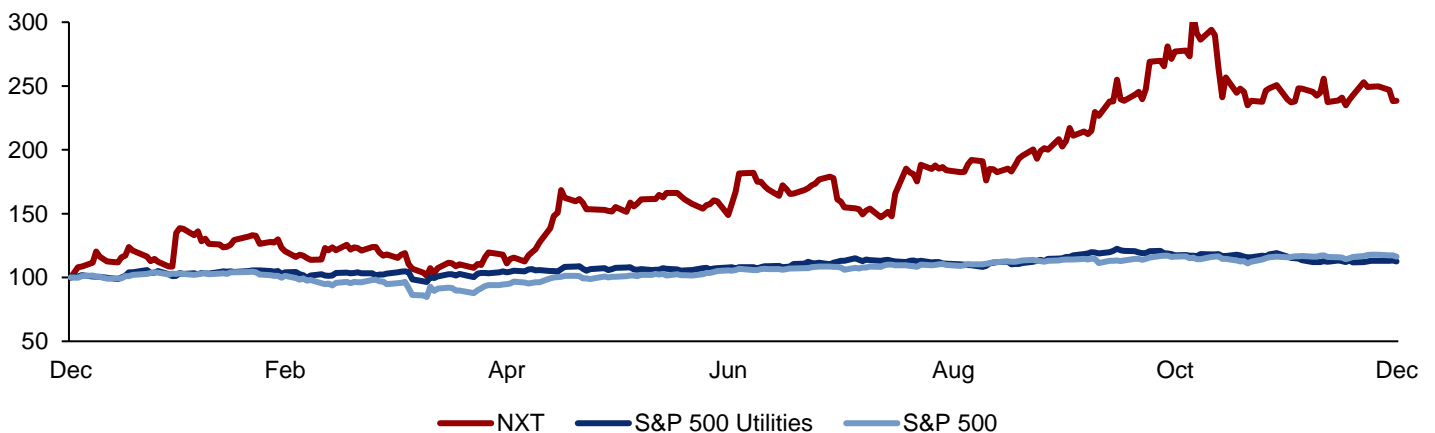
Catalysts

- Acceleration of U.S. utility-scale solar deployment, driven by growing electricity demand and renewable energy targets
- Expansion of domestic solar manufacturing and supply chains
- Technological innovation and product upgrades, improving tracker efficiency and strengthening market share

Risks

- Policy and regulatory risk, particularly potential changes to U.S. clean-energy incentives that support solar development
- Commodity and supply-chain volatility, especially steel prices and logistics costs that affect tracker manufacturing margins
- Slower renewable project development, caused by higher interest rates and/or tighter credit conditions, permitting delays, or grid interconnection bottlenecks

1Y Stock Performance



Source: Bloomberg L.P

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