Quarterly Market Commentary

March 2025

As we wrap up the first quarter of 2025, both Canadian and global markets have continued to demonstrate resilience in the face of persistent uncertainty — from shifting economic data to rising geopolitical tensions and political noise. While headlines have been anything but quiet, the underlying fundamentals continue to guide long-term investors.

In Canada, the TSX posted modest gains during the quarter, supported by continued strength in financials, energy, and industrials. Investor sentiment has remained relatively stable, but attention is beginning to shift toward the upcoming federal election. While fiscal management and tax policy will remain key issues, a growing focuedis is emerging around international relations — particularly Canada's ability to navigate a more unpredictable and politically charged U.S. environment. With President Trump dominating media coverage and floating increasingly extreme proposals — including making Canada the 51st state — Canadians and Canadian businesses are watching closely. Markets tend to separate political theatre from real policy risks, but the overall geopolitical tone has added a layer of uncertainty that investors are monitoring.

In the U.S., equity markets have struggled to find direction in early 2025 and are modestly negative year to date. That said, strong corporate earnings, steady consumer demand, and resilient labor markets have continued to provide support beneath the surface. However, the political backdrop remains noisy. President Trump's influence continues to shape headlines — not only with renewed tariff threats and trade-war rhetoric, but also with increasingly outlandish proposals such as purchasing Greenland (again), annexing Canada, or even suggesting U.S. control over the Gaza Strip. While markets may not react directly to these headline-grabbing ideas, they contribute to a broader sense of uncertainty and can influence investor sentiment, trade expectations, and foreign policy outlooks. Investors are increasingly filtering out the noise and focusing on real economic data, but the elevated political temperature remains a risk factor to watch.

Globally, market reactions have been mixed but measured. Many countries are carefully balancing their diplomatic tone while taking steps to protect their own economic interests. Central banks remain squarely focused on inflation — which, while showing signs of easing in some regions, still requires a delicate policy response. The consensus view remains that monetary policy will stay restrictive in the near term, but with greater attention now on financial stability and economic momentum.

We were active in the first quarter, strategically adding new positions and trimming some of our existing holdings. We added three new names to the platform: Arc Resources Ltd., Headwater Exploration, and Mullen Group Ltd. At the same time, we trimmed down Apple at $235.80 per share due to strong performance, trimmed up Restaurant Brands International at $89.40 per share, Rogers at $38.39 per share, and Cogeco Inc. at $60.91 per share.

We were also pleased to see several of our holdings announce dividend increases, a strong indicator of a company's financial health and confidence in future earnings. Dividend hikes reward shareholders, attract long-term investors, and can drive higher share prices over time. For many investors, dividend growth is a sign of a stable, well-managed business built for the long haul.

Here are some key dividend increases across our holdings:

- **Arc Resources:** Increased dividend by 11.8%
- **Brookfield Renewable:** Increased dividend by 8.1%
- **Headwater Exploration:** Increased dividend by 10.0%
- **Home Depot:** Increased dividend by 2.2%
- **Maple Leaf Foods:** Increased dividend by 9.1%
- **Open Text:** Increased dividend by 2.6%
- **Restaurant Brands International:** Increased dividend by 6.3%
- **Rogers Communications:** Increased dividend by 2.2%
- **TD Bank:** Increased dividend by 2.9%

The following provides you with updated commentary on some of our current holdings.

Apple

We maintain a positive outlook on Apple due to its strong position in several long-term investable themes. Services has a projected 8% revenue compound annual growth rate (CAGR) through FY23-25E, with a gross margin of over 70%. The active installed base for iPhones is over 1.4 billion, with an average age of 6-7 years, which suggests consistent replacement demand. Additionally, successful content offerings in video, gaming, news, and fitness could accelerate growth in Services. We also expect Apple to return approximately 100% of its fiscal cash flow to shareholders as part of its goal to reach net cash neutrality. With growing recurring revenue from its services and digital offerings, Apple remains a key holding in our portfolio.

Arc Resources Ltd.

Arc Resources is a prominent dividend-paying oil and gas producer, with significant exposure to natural gas. The company operates primarily in northeastern British Columbia and Alberta. Arc has North American scale, producing approximately 390,000 barrels of oil equivalent per day and is the largest condensate producer in Canada. With a strong fiscal cash flow growth outlook for 2025 and a solid dividend increase of 11.8%, we remain bullish on Arc's prospects, especially as it continues to supply various Liquid Natural Gas projects.

Bank of Montreal (BMO)

BMO's performance has been strong, beating estimates due to robust trading revenue and lower Provision for Credit Losses (PCLs). Its exposure to capital markets, strong U.S. presence, and strong capital levels supporting share buybacks have contributed to strong stock performance. BMO is well-positioned in the current market environment with improving credit outlooks, significant U.S. exposure amidst tariff concerns, and strong capital levels, which continue to support its dividend and growth.

Brookfield Renewable Partners L.P.

Brookfield Renewable's fourth-quarter results met expectations, with a Funds From Operation (FFO) increase and a 5% distribution hike. The company stands out due to its scale, diverse growth opportunities, and ability to act on large, complex transactions. Brookfield Renewable benefits from its strong operational expertise, robust funding platform, and exposure to corporate Power Purchase Agreements (PPAs) for clean energy. We believe its valuation premium will continue to expand, supported by its ability to self-fund growth and capitalize on clean power trends.

Canadian Tire Corporation, Ltd.

In February, Canadian Tire announced the sale of its Helly Hansen business to Kontoor Brands for $1.276 billion, well above its original acquisition price of $1.035 billion in 2018. The proceeds will be used to reduce debt, repurchase shares, and fund growth initiatives in Canadian retail. We view this strategic move as a positive step for Canadian Tire, positioning it for long-term growth despite macroeconomic uncertainty. While challenges remain in the Canadian consumer space, the company's strong balance sheet and focus on domestic growth provide downside protection while offering upside potential.

Cogeco Inc.

We believe Cogeco Inc. remains undervalued compared to its cable counterpart, Cogeco Cable. Negative sentiment around U.S. broadband trends and the potential cost of a wireless network build in Canada has led to a depressed valuation. However, we see upside potential as these challenges are priced into the stock. We believe that any change in the ownership structure of Cogeco could serve as a catalyst for both Cogeco Inc. and Cogeco Cable shares to rise from their current levels.

Definity Financial Corp.

Definity's protection ends November 23rd. We believe Definity management would sooner grow through acquisitions. Intact Financial is the logical bidder, and the company may be comfortable making a bid without the blessing of the Definity's board.

Clarica was acquired by SunLife, 10 months after protection expired. Canada Life's resistance to being acquired stretched out to 20 months. We believe Definity is more like Canada Life than Clarica, but that may not matter if a suitor is comfortable making a hostile bid. Manulife did so for Canada Life, but a hostile bid is the exception. We believe investors are pricing in a takeout.

First Capital REIT

First Capital continues to show operational strength, with near-peak occupancy rates and an improving outlook for market rents. Despite the broader uncertainty, we see significant upside potential for First Capital, which focuses on necessity-based retail tenants. The company's focus on dispositions and a solid tenant base provides stability, and we expect further upside as it continues to reduce leverage and enhance FFO/unit growth.

Headwater Exploration

Headwater is dividend-paying intermediate Canadian exploration and producer focused on the Clearwater heavy oil play in Marten Hills, Alberta. The company also owns a natural gas processing plant in the McCulley Field, New Brunswick.

The Clearwater formation is one of the most economic plays in Canada, and Headwater is among the few “pure play” companies that has exposure to it. With a large land base, Headwater is working through a meaningful development/waterflood/exploration program, anticipating many years of growth. With Q4, the company highlighted record production, one of the best reserve reports from a profitability standpoint and encouraging results at Marten Hills West and Nipisi. 2025 looks promising while supported by a strong balance sheet (no debt) and a dividend raise of 10% since we initially invested.

Home Depot

Home Depot remains a best-in-class home improvement retailer, benefiting from strong investments in its Pro segment, stores, supply chain, and technology. While the broader macroeconomic environment poses challenges, Home Depot’s strong position in the Pro market and its large backlogs offer a cushion against any potential downturns. We are constructive on Home Depot’s ability to drive long-term EBIT margin expansion.

Maple Leaf Foods Inc.

Upside to earnings is significant following scale investments in plant automation, but consumer weakness and soft Japan markets have prevented much of this from showing up in results. There have been improvements and EBITDA margin hit a record high in fourth quarter 2024. We see reasons to believe that remaining headwinds will diminish gradually, resulting in much higher earnings, significant fiscal cash flow generation and balance-sheet deleveraging. Although we believe investors will allocate a low multiple (4-5x) to the more volatile hog production and slaughtering business once it is spun out, we would expect a much more reasonable valuation (9-10x and possible higher long term) to be awarded to the remaining protein-focused consumer packaged goods business, particularly once the company reaches its margin targets and displays greater consistency in results.

Microsoft

In early March, TD hosted virtual investor meetings with Director of Investor Relations Danielle Criste. The company highlighted how its data centre buildout strategy has not meaningfully changed but it’s going through a different phase. Microsoft sees robust demand for Azure AI and is working to strike a better balance across AI and non-AI workloads. Microsoft remains optimistic on Copilot demand and is building new adoption/monetization paths.

Mullen Group Ltd.

Mullen Group provides trucking and logistics services, and we see significant value in the company, especially given its historical low valuation. The stock has underperformed its peers, but we believe Mullen is well-managed, with a strong dividend and solid capital allocation. We expect the stock to outperform if the broader sector experiences a pullback.

Open Text Corp.

Second quarter results were decent, with in line revenue across all segments and a margin beat. The company continued its capital return program through $68 million of dividends and $66 million of share repurchases. Management is expected to continue to repurchase shares.

We believe the potential for an improved macro environment could result in multiple expansion, given Open Text currently trades well below peers and its historical average.

Restaurant Brands International

We think there is significant room for Restaurant Brands to grow its brands globally. To spur international growth, the company is working with master franchisees to set up development rights and create joint ventures. Restaurant Brands International is joining forces with its best operators in its most profitable North American markets, with the goal of improving customer satisfaction and raising earnings. In China, the company owns Popeye's China and is in a joint venture with Tim Horton's China. Further out, we believe that the company can meet its target of 40,000 restaurants.

Rogers Communications Inc.

It is unclear whether the $7 billion infrastructure funding will occur, but with delays in that process and the recent raise of ~C$4 billion in hybrid debt securities, we removed the expensive infrastructure funding from our model. We hope for a partial sale of sports team equity in 2025, but enough balance sheet flexibility exists if that process is delayed until after the payment of $4.7 billion to BCE for MLSE.

We continue to believe that management will be able to deliver on its strategy to improve leverage in 2025 estimate. Our forecast also assumes $500M in non-core asset sales. Our sense it too much bad news is currently priced into the stock and the valuation discount for RCI.B versus BCE/Telus should narrow.

Veren Energy & Whitecap Resources Inc.

The companies have jointly announced that they will combine in a strategic combination, yielding a combined $15 billion (enterprise value) entity featuring 370,000 barrels of oil equivalent per day of projection and roughly 2.3 billion barrels of oil equivalent of reserves. The transaction validates our choice to have invested in both of them and this merger will boost critical mass and consolidate similar asset bases (which should drive considerable synergies). Under the agreement, Veren shareholders will receive 1.05 shares of Whitecap for each Veren share held. A shareholder vote will occur on May 6th.

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