AGILITH CAPITAL INC.

North American Diversified Fund

Quarterly Newsletter

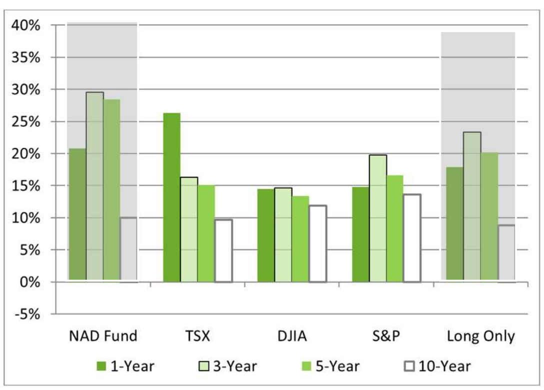
July 2025

"Inflation is as violent as a mugger, as frightening as an armed robber and as deadly as a hit man." — Ronald Reagan

Market Recap

North American markets rebounded in the second quarter as the draconian tariffs announced by the US at the end of March were generally walked back and delayed. During the quarter, the DJIA and S&P500 rose by 5.2% and 10.9%, respectively, while the TSX was up by 10.1%. Agilith Funds had a strong quarter with the NAV of the Agilith NAD Fund up by 21.9% during the quarter and the Agilith Long Only Fund up by 17.5% (Figure 1).

Figure 1: Agilith Performance (06/30/2025)



Economic Backdrop

Economic growth remained surprisingly resilient, although the strain from continued policy uncertainty was evident in survey data such as consumer and business sentiment. That said, the uncertainty did not translate into hard data as labour markets in the US continued to exhibit solid metrics. Although the exorbitant tariffs that were initially threatened were not implemented (with the exception of a brief window of more than 100% tariffs on Chinese goods), the uncertainty over ultimate policy guidelines was significant. Moreover, global economies were left to contemplate what it meant to strike a deal with a country that does not abide by deals that it has agreed to in the past. Nevertheless, we have seen the UK, Japan and the EU all strike similar trade arrangements with the US, accepting tariffs of 10-15% on most goods entering American soil. Canada has not yet announced a deal with the US, although we suspect an announcement of some sort (a deal or a delay) over the coming days. While near term resolution of trade relations with most of the US's major trading partners adds stability to the global outlook, we suspect that America's trade partners remain highly incented to divert their goods, tariff free, to other trading partners and expand trade relations with countries outside of the United States.

We believe the impact of the new tariffs in the US will be generally split in the short term, with some absorbed into lower exporter margins and some passed on to customers. Longer term, we expect that the full impact of the tariffs will be passed on. In cases where there is an American made alternative, there may be some product switching that occurs. Even for American made goods, rising input costs will increase prices for US producers (and ultimately consumers) and make US products less competitive on an international scale. Regardless, the marginal impact will be inflationary as well as dampening domestic growth.

Trump remains frustrated by the continued refusal of the Federal Reserve to reduce rates and the threat of firing the Fed Chair, Jerome Powell, overhangs Central Bank policy decisions. We suspect that the ultimate strategy is not to forcibly remove Powell, but rather to create the opportunity to use interest rate policy errors as a reason for any economic weakness. Given the strength of the labour market and the elevated inflation measures, we believe any reduction in short term rates would not only be an error but have the opposite impact on long term rates that the Trump administration is looking for. Specifically, an accommodative monetary policy at a time when economic metrics are reasonably strong and fiscal stimulus is in force would cause the market to price in higher future inflation and drive long-term rates higher. For a country that is looking to re-finance over $7 trillion in long term debt, this could prove to be a disaster. Trump's continued pressure on Powell is, in fact, a continual reminder that the President has no respect for bond market and that his path to debt reduction is inflating the country's way out of a leverage crisis.

President Trump's Big Beautiful Bill, which passed both houses in the quarter is stimulatory in the short term as tax breaks and spending come before spending cuts. This leaves little prospect for deficit reduction for the foreseeable future even after accounting for tariff income, and points to continuing increases to already very high levels of debt. Shorter term we think the purpose of the bill is to stoke the economy going into midterm elections although over the longer term, it will create economic drag. We believe the longer-term implication is likely played out in persistently higher inflation, slower real economic growth and further USD weakness.

The prospects for Canada are ironically the opposite of that of the US. Shorter term, growth appears challenged but longer term we see significant opportunity. While 95% of Canadian exports are USMCA compliant and remain exempt from tariffs, steel and aluminum tariffs are weighing on these industries and those that they supply. That said, we are seeing increased international trade opportunities. Already, we have seen a tick up in exports to the US and energy exports to China are near a high with the the Trans Mountain pipeline now in operation. The opportunity for reduced interprovincial trade barriers and stronger trade relationships outside of the US remain significant opportunities for Canadian GDP growth. This diversification of trade will ultimately make Canada much less co-related with the US, potentially challenging the adage, "when the US sneezes, Canada catches the flu".

Market Outlook

As is so often the case, the market rally that began in Q2/25 has been in the face of significant geopolitical and economic uncertainty. It is worth noting that the bulk of the uncertainty has been generated by a torrent of chaotic and conflicting policies that have been articulated but not implemented by the US administration. The market has correctly discerned that these are negotiating tactics rather than policy positions and as a result, has started to price more certainty into the outlook. The resolution of trade deals has given the market some confidence to generally drift higher in the early stages of the third quarter. Ultimately, we believe the market is looking past the chaos of 2025 and towards 2026 earnings as the guide for price levels.

While the market strength has puzzled many observers, we also note that in inflationary times, equities are consistently the highest performing asset class as they represent the ultimate hedge to higher prices. As we have stated before, we believe cyclicals in particular have the best fundamental outlook with their exposure to a growing revenue stream, a high fixed cost base and reasonable valuations.

Portfolio Positioning

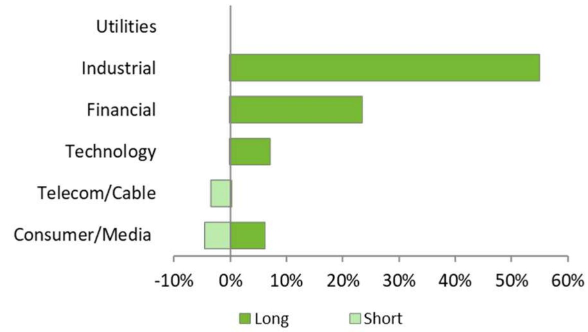
The strong performance of the Funds during the second quarter was due to solid price gains across a broad base of names; however, excellent returns from AGF, Atkins Realis, Finning, Magellan and Canaccord stood out as the strongest contributors to our funds' strong gains. Our top performing names can be generally characterized as trading at attractive multiples with re-accelerating earnings growth. On a more general basis, the portfolios benefited from their exposure to cyclical companies (including financials) that perform well in an inflationary environment.

There were a number of changes to the portfolio in the quarter as we further reduced our short portfolio and trimmed positions that had appreciated significantly and had grown into a solid overweight in the funds. Positions such as AGF, Finning and Magellan had all experienced strong share price performance, so their positions were taken down closer to the average exposure. We also closed out our short position in BCE following the significant cut to the quarterly dividend. Although the business continues to carry an unsustainable level of debt, we believed the lower price more reasonably represented the inherent risks in the business model.

We note that these actions had the impact of crystallizing some significant gains that had accrued in the portfolio. Investors who hold units outside of registered vehicles, particularly in the North American Diversified Fund, should be aware for tax planning purposes that as at the end of June, crystallized gains represented approximately 10% of the portfolio value.

Looking forward, we expect to continue to make small adjustments to the portfolio as we add to laggards and trim leaders.

Figure 2: Agilith NAD Fund Portfolio Positioning (06/30/2025)



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