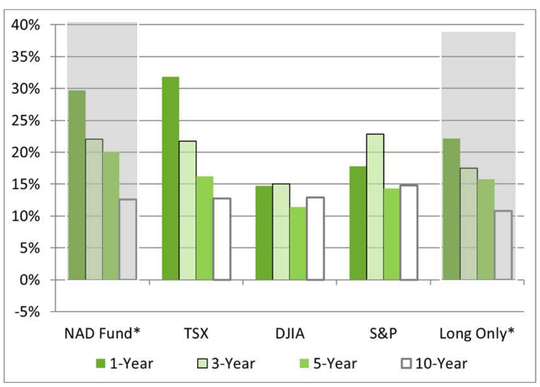
January 2026

"The stock market is a device for transferring money from the impatient to the patient." — Warren Buffett

Market Recap

North American markets continued to rise in the fourth quarter of 2025, finishing off a strong year. During the quarter the DJIA and S&P500 rose by 4.1% and 2.7%, respectively. Driven by exceptional strength in the gold sector, the TSX outperformed rising by 6.3% in the quarter. The NAV of the Agilith North American Diversified Fund rose by 9.7%, while the Agilith Long Only Fund rose by 7.1% (Figure 1).

Figure 1: Agilith Performance (12/31/2025)



Economic Backdrop

Economic growth has remained relatively tepid but resilient in most developed economies, despite the headwinds of trade uncertainty. Within Canada, labour markets have chugged along, while inflation remains contained. That said, trade continues to grab the headlines, whether it's the threat of new tariffs or the prospect of entering USMCA discussions with an unpredictable US administration. Meanwhile, Canadian government efforts remain focused on forging new trade relations and funding essential infrastructure projects. A drop in immigration numbers has put pressure on natural economic growth; however, we expect that going forward, this source of pressure will be gradually relieved.

Within the US, labour markets have softened slightly, but remain in healthy territory, while inflation concerns have been sidelined for now. We note that the dizzying pace of the US news cycle, while highly chaotic, largely points towards greater inflationary pressures and an exodus of foreign capital from the United States. At least one European pension manager (out of Denmark) has announced that they will no longer hold US Treasuries and there is the potential that more will follow. We have seen the US dollar stage a significant retreat recently as it's status as the safe-haven currency is increasingly questioned.

Meanwhile the Supreme Court decision on the tariffs that were invoked under the International Emergency Economic Powers Act (IEEPA) is still outstanding. The expectation that these tariffs will be ruled invalid will introduce some chaos into the markets as the funds collected will have to be returned to the party that paid them (although to the extent that higher prices were passed on to the consumer, the ultimate payer will not get compensated). Although the administration has indicated that they have other means to impose tariffs, we believe these will be much narrower in scope, especially as the US heads into midterm elections.

Outside of North America, we have seen European economic data point towards a stabilization of growth, led by an expanding service sector and generally contained level of inflation. An historic trade agreement forged with India marks an era of global diversification away from a reliance on the United States.

China’s economy has also exhibited some level of stability with growth in exports and advanced manufacturing helping to offset ongoing challenges in consumer spending and real estate, which continues to be a destabilizing force to China’s banking sector. Emerging markets stand to benefit from a weakening of the US dollar.

Market Outlook

Markets are starting to experience a sustained change in leadership. Small cap indices, like the Russel 2000 are outperforming broader US indices. Since the market's April 2025 bottom, the Russell 2000 has gained 51% while the S&P 500 has added about 38%. We have also seen the commodity heavy TSX outperform most of the U.S. indices, helped by the surge in gold prices. In 2025, the TSX had its strongest annual gain in over 15 years, rising over 32.7% compared to the S&P 500's gain of roughly 16.4%. This recent surge has been attributed to strong performance in Canadian financials, energy, and a significant rally in gold and other materials. Specifically, the gold subindex rose a stunning 132%.

The solid performance of North American markets in general has prompted questions and concerns about the sustainability of market valuations. We continue to believe that the bifurcation of market multiples creates opportunities both on the long and short side of the portfolio. The recent outperformance of small capitalization companies and the Canadian index, in particular, combined with the weak US currency are all trend reversals that have been waiting in the wings for years and will likely take years to unwind. These are the natural performers in an inflationary environment.

We expect that the US administration will likely maintain easy fiscal policy leading into midterm elections, while the potential for further tariff implementation could also drive prices higher. Within Canada, significant infrastructure projects will likely promote slightly elevated inflation, while we expect the Bank of Canada to hold steady on rates for the time being. That said, we expect a strong Canadian dollar (supported by solid commodity markets) will moderate a more general reflationary trend.

We believe Artificial Intelligence will have a profound impact on company business models. Simply put, we believe this will impact investments in three ways. Firstly, the capital spending required to develop AI has taken business models from a massive cash flow surplus (like Meta and Microsoft) to net spending positions. This massive spending initiative creates an inflationary force. Secondly, there are many companies, (like Enerflex and Atkins Realis in the Agilith portfolios), that are poised to benefit from the increased energy demands that AI will impose. Finally, we expect that business models that attracted premium valuations because of high margin recurring revenue streams (such as Thomson Corporation and Constellation Software) will face potentially existential threats (or at least subdued growth) because of the opportunity that AI affords to users of software to internally develop products and systems to meet their unique needs.

Portfolio Positioning

The outperformance of the Agilith Funds relative to North American indices was supported by strong share gains within our energy service investments, Enerflex Limited and Precision Drilling. Other sources of strength came from asset managers, AGF and IGM, as well as from Evertz Technologies, a key supplier to the broadcasting industry (that rewarded shareholders with earnings growth and a special one time 8% dividend in the quarter). Within the short book, Constellation Software and Thomson Reuters were solid contributors to the NAD Fund’s performance, as both experienced multiple contraction that we believe is associated with the threat that artificial intelligence has on their business models.

The fourth quarter of 2025 was reasonably active in terms of portfolio repositioning. Within the Agilith North American Diversified Fund, we increased our short exposure to the technology sector, especially within software.

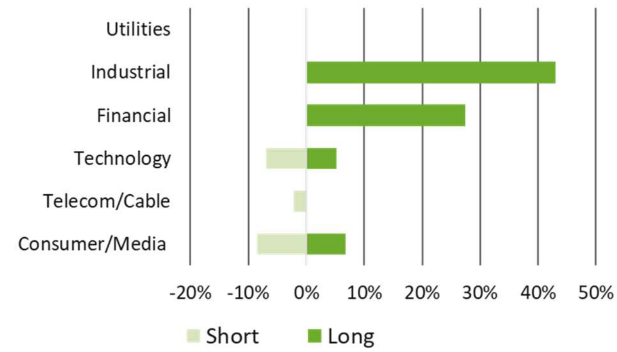
We also increased our short position on Cineplex. Ongoing box office underperformance was not reflected in consensus estimates and in our view Cineplex's excessive debt makes it particularly vulnerable to negative estimate revisions.

We also have a short position in each of the largest Canadian grocers. In our view, a strong Canadian dollar combined with global inflation puts these businesses in a difficult spot as it makes it challenging for them to pass on price increases to consumers. These companies are also currently enjoying premium price multiples on earnings, that we think is likely to contract in the current environment.

Within the long book, the biggest change to the portfolios of both funds was an increase in our exposure to Transcontinental Inc. The company has decided to sell its packaging business and plans to dividend a good part of the proceeds ($20/share) to shareholders once the transaction closes. We believe the remaining business is worth roughly double what the current share price implies.

We have maintained overweight exposure to many of the smaller capitalization (sub $2 billion) companies with strong balance sheets and an asset based that will leverage increased earnings growth in an inflationary environment. We have continued to focus solely on Canadian listed companies as we see more attractive valuations and believe they will benefit from increased global trade.

Figure 2: Agilith NAD Fund Portfolio Positioning (12/31/2025)



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