PALISADE CAPITAL

Our Market View in Summary

January 2025

Despite fears regarding threatened tariffs being placed on Canadian goods by the new US administration, Canada's S&P/TSX Composite Index actually outperformed the S&P 500 Index in the US in the month of January. We think it's important to change one's point of view in respect to the economic and political strategy that is now coming out of the White House. It's clear that they plan to make fundamental changes to how global trade will be conducted, which could reverberate for decades to come. The Trump administration is going to attempt to bring back middle class jobs to the US by encouraging more bilateral trade agreements that would have tariffs placed on trading partners, largely to encourage more products being built in the US. This is a multi-step strategy that we discuss in more detail in our full commentary this month.

Key Highlights:

- **Market Reactions:** Volatility has increased due to uncertain trade policies, with investors struggling to find a consistent investment thesis, in our view because they are looking through the lens of past economic policies.
- **Tariff Announcements:** While we saw a relief rally after an announced 30-day delay to the start of tariffs on Mexico and Canada, this may just be part of the US' overall trade strategy rollout.
- **Political Influence:** A key to finding opportunity will be monitoring the policies and new ideas coming from Canadian and US politicians. If Canada adjusts quickly with true economic goals in mind, the investing opportunities will be plentiful.

Near-Term Outlook:

- **Prospective Portfolio Adjustments:** Increase US investments, eliminate any positions that are overly impacted by tariffs and consider raising cash for defensive positioning if necessary.
- **Economic Strategy Impact:** Anticipate lower government spending and deficits, possibly leading to improved economic efficiency. In our view, government spending is generally an inefficient way to grow the economy.
- **Trade Dynamics:** Prepare for a shift in how trade agreements are negotiated, with an increased focus on national benefits. Such agreements may be renegotiated at a much more regular interval going forward.
- **Opportunities for Canada:** We're already seeing Canadian politicians adjust to the new trade realities. Policy changes might spur economic growth if Canada adapts to the new trade landscape. Positive developments could include lower interprovincial trade barriers, the opening of protected industries, encouragement of entrepreneurship, lower taxes and most importantly, playing to Canada's economic strengths in resources.

While the immediate future might hold increased market volatility due to policy shifts, the long-term outlook could be positive if these changes lead to more efficient economic practices in both the US and Canada. The Trump administration's focus on reducing government waste, increasing middle-class jobs, and recalibrating international trade could catalyze significant economic improvements. Our investment strategy will continue to evolve, focusing on defensive positioning while exploring opportunities that align with this new economic reality.

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January 2025

Fellow Palisade Investors and Friends,

Please find attached our January 2025 Monthly Update, as well as the Fund Fact Sheets for the Palisade Funds. **This month's client conference call is scheduled for Thursday, February 13th at 11am MT.** The Teams Meeting details will be provided the morning of the call. In conjunction with this call, we will be emailing out a presentation that contains data and charts to further detail our thought process and outlook. We look forward to speaking with you then and answering any questions you may have. This call will include information on our investment funds, our broad market outlook, as well as an update on our wealth management model portfolios.

All Fund performance figures are shown net of fees and expenses and include changes in security values and distributions paid. Palisade Vantage Fund performance figures include the reinvestment of distributions. The Palisade Vantage Fund currently pays a regular quarterly distribution of $0.11 per unit, or $0.44 per unit per year. The Palisade Select Fund and Palisade Absolute Fund pay irregular annual distributions for years in which taxable net income is positive.

MARKET COMMENTARY

It's been frustrating in the last month trying to square what would seem to be logical economic decisions with seemingly contrarian strategic commentary from President Trump. For weeks we have seen analysts and strategists say things like "he won't introduce tariffs because it will cause inflation, which goes directly against his campaign promises" or "the stock market is President Trump's number one priority" or "all he cares about is business and tax cuts". And yet, he makes pronouncements and strategic decisions that are in direct opposition to those statements over and over again. The lack of clarity and confusing communications not only makes it difficult to write a monthly commentary to our investors (😉) but also makes it challenging to create a decision-making framework to help better position our Palisade Funds and Palisade Portfolios with a long-term investment horizon in mind.

However, in the last two weeks we have come across a small selection of news stories, podcasts and academic research papers that have helped to clarify what the economic goals of the new Trump administration might *actually* be focused on. If you'd like to do more reading on this subject, the starting place would be a Google search for the name Stephen Miran. This will likely bring up a few links to stories on various traditional media websites, but you may also find a 41-page paper written by Mr. Miran in his role as Senior Strategist for Hudson Bay Capital Management, a multi-strategy hedge fund based in Stamford, Connecticut. Mr. Miran is now the nominee for the role of Chair of the Council of Economic Advisors, which you can think of as the closest economic advisor to President Trump.

For the purposes of this monthly summary we will focus on the conclusions drawn in this paper and an interpretation of how we should look to implement this new potential economic reality into our Palisade Funds and Palisade Portfolios.

If the decision-making coming from the White House has been confusing for you, the same as it has been for us and many stock market pundits, it's because the President's team appears to be implementing a new economic framework, which will dramatically change how countries negotiate trade agreements, prioritize spending, make business decisions and structure political organizations. The new US administration seems bent on changing the international rules of engagement on business and trade that have been in place since the Bretton Woods Agreement in World War II. That may sound scary on the surface, but if you consider the following details, it actually becomes quite compelling and exciting on a medium and longer-term basis:

1) These changes are all about bringing middle class jobs back to America and eliminating waste and unnecessary expenditures that have no tangible economic return.

2) In order to bring these jobs back to the US without causing an inordinate amount of inflation and economic risk, the government needs lower spending, less deficits and a weaker US dollar.

3) To achieve those goals, the US is finished being the world's police force and taking on the extra costs of doing so. This aligns perfectly with the demands made of Canada to increase its military spending as a percentage of GDP up to 2%, as per our NATO commitments. These spending demands will also be expected of other western allies - or they risk the threatening stick of tariffs on their exports!

4) The US will leave or significantly reduce its involvement and funding for various Non-Governmental Organizations (NGOs) to lower spending, but also to eliminate corruption and the flow of dollars to people not aligned with the best interests of the US. This explains the US decision to leave the World Health Organization (WHO), which was announced on President Trump's first day in office. The US contributes approximately 18% of the WHO's operating budget. Watch for other similar announcements in the months to come.

5) Tariffs will be introduced to additional trading partners, which may roll out slowly to minimize the impact to American consumers and supply chains, but in the long-term it will generate increased revenues for the US treasury and be used as negotiating leverage to coordinate US dollar devaluation. On this front, it might make sense to not breathe too deep a sigh of relief on the recent announcement of a 30-day delay in tariff implementations against Canada and Mexico.

6) US dollar devaluation would be a medium-term goal that would be achieved in part by forcing (a.k.a. negotiating with threats of tariffs) global central banks to hold less US dollars in reserves, amongst other details. We haven't seen any evidence of this component of the strategy on display in the early days of the new administration, and if anything we have seen the opposite with President Trump threatening BRICS nations (Brazil, Russia, India, China, South Africa and others) as they consider creating a new currency, but we are still in the nascent stage of this plan, so there is still time. The US and various western allies agreed to the Plaza Accord in 1985 with a goal of lowering the value of the US dollar, so it has been done before. A lower US dollar would spur demand for US goods, increasing economic activity and creating more middle-class jobs.

7) Big picture, as it relates to Canada, what the US wants is less regulated and protected industries in Canada and for us to pull our weight from a defense and military perspective. Looking at this with a positive perspective, it may finally spur the Canadian government and the population at large to focus on growth, economic strength, entrepreneurship and individual freedom that hopefully results in greater prosperity for all Canadians.

So, how does Canada compete if the US is a more aggressive business partner than it has been for generations? In our view it means that we must follow suit – less wasteful government spending, a more attractive business environment, a willingness to lower barriers to efficient trade with less regulatory burdens and lower interprovincial trade restrictions, and maybe even opening up certain protected industries to foreign competition that likely results in Canadian companies being sold to larger American competitors. Are we as Canadians willing to make these changes? A new Conservative government might make it more likely, but it won't be an easy decision regardless. However, if we do make some of these changes, it would allow Canada to play to its economic strengths, lower government deficits, create better paying jobs and maybe, just maybe, lead to lower taxes. You might end up with a Verizon cellphone in your pocket, but you might also have more disposable income and better public infrastructure that improves your standard of living.

This monthly commentary is different than our usual discussion in that it focuses on politics, policy and what might happen, without having any precedent to look back upon. There is no guarantee that this is going to be the playbook going forward or that Canada will react in a way that provides economic benefit. At the very least, this nascent trade war between Canada and the US has shown that it is possible for politicians to focus on key issues and change priorities if the public demands it…and votes are at risk. For example, just this week, federal Transport Minister Anita Anand suggested that interprovincial trade barriers could be eliminated in a month as Ottawa continues to discuss the requirements with the various provinces. This has been an issue for decades and goes back to at least the early days of Preston Manning and the Reform Party, but it was never prioritized and has stood as a barrier to Canadian prosperity in the meantime. The US may be changing the trade and economic framework that the world has been operating under since World War II, so it may sound daunting, but big picture if it works, and Canada does its part, it may lead to *actual* "Sunny Ways" for Canadian citizens and investors.

CHANGES TO PORTFOLIO STRATEGY

Most importantly, if this policy strategy and road map are accurate, how should we respond in our Palisade Funds and Palisade Portfolios?

There are a few obvious changes that can be made, especially if we assume that the concept of tariffs may be coming back into play within the next month, and that volatility in financial markets might pick up as investors adjust to the new economic reality. First, one would want to eliminate any position that is overly reliant on trade with the US. We don't have many positions that are specifically impacted, but there are a handful of holdings across the Funds that we are looking at eliminating, such as TD Bank and Russel Metals. Other companies that have more exposure to US end markets may be appropriate short positions in the Palisade Absolute Fund to act as a defensive offset to the existing long positions.

Another change would be adding more US holdings across all three Funds and the Palisade Portfolios. We already have US exposure in all three Funds and the various model portfolios, but that could certainly be enhanced to get more exposure to companies that will benefit from the early changes to US trade policy. The Palisade Absolute Fund already has 33% of Fund assets invested in US securities due to the implementation of our growth screens last spring, but the Select Fund and Vantage Fund have less than 10% of fund assets in US holdings. It wouldn't be unreasonable to get those totals up to a level similar to the Absolute Fund in the coming weeks.

Quite simply, another simple change would be to raise a little cash in the Funds. While we aren't at that point yet, we could easily raise 10% to 15% cash in each Fund to position ourselves a little more defensively if the markets were to have trouble digesting the new economic strategy from the White House. So far, it looks like markets have been able to shrug off most of the early concerns around tariffs, but if that were to change in the coming months we won't hesitate to raise cash.

Speaking to the Select Fund specifically, we aren't as concerned about tariff or demand risk from the US as it relates to oil and gas. We've already seen certain concessions from President Trump in a lower 10% tariff for Canadian energy, and we wouldn't be surprised to see that reduced to 0% if the US actually starts rolling out tariffs on Canada in a staged manner. It's critical to understand that US refineries need Canadian heavy oil to run at optimal levels. There are no other alternatives, especially in the short-term and in the domestic US. We also have spare capacity on the TransMountain pipeline (for now) to Asian markets if we were to see lower demand from US buyers. If tariffs were to proceed on Canadian oil and gas, sentiment may be impacted, but business fundamentals shouldn't change too much, especially with the helpful buffer of a lower Canadian dollar.

We could implement similar changes to our model portfolios, mostly around adding more US funds to the requisite models, but we would also highlight that all the models have a healthy dose of exposure to alternative investments, which aren't as exposed to stock market or tariff risk. A fund focused on arbitrage opportunities, market neutral strategies, or very low risk lending should provide returns that are independent of the stock and bond markets, and contribute to an overall lower risk solution versus a traditional stock and bond portfolio.

Overall, we have a list of changes that can be made in the Funds and the model portfolios, which have started to some degree in the last two weeks, and we will become more aggressive if we were to see adverse impacts as the new White House trade framework becomes more apparent to the public at large. As mentioned above, we see this as a big picture positive, even if it were to lead to higher volatility in the short term, which isn't a guarantee. Lower government deficits, more efficient and targeted spending, less regulations, more focus on trade with real economic benefits, heightened need for entrepreneurialism and growth should all lead to better economic output in the long-term and may be the catalyst for much needed change in the Canadian political and regulatory environment, to the benefit of all Canadians.

PALISADE MODEL PORTFOLIOS UPDATE (Returns to Nov 30, 2024) Important Footnotes Below*

	1-Yr	3-Yr	5-Yr	Description
Growth+ Portfolio	20.8%	7.5%	12.8%	Long-Term Growth Focus
Inflation+ Portfolio	9.0%	8.5%	9.6%	Low Volatility Growth/Inflation Protection
Income+ Portfolio	11.4%	6.2%	7.5%	Income / Moderate Growth Focus
Preservation+ Portfolio	7.8%	3.5%	6.0%	Capital Preservation Focus
Alternative+ Portfolio	8.7%	6.4%	9.0%	Uncorrelated Growth/Capital Protection

*Returns for periods longer than one year are annualized.
Please see the Model Portfolios Hypothetical Performance Disclaimer below.

Palisade's model portfolios are largely made up of third-party investment funds to target an institutional quality investment solution that is customizable to a client's key goals. As of November 30th, the models have performed as expected during 2024. Our Growth+ Portfolio was up 20.8% over the past year in a positive stock market environment. Our Income+ Portfolio has had a strong year of outperformance relative to its historical average due to strong contribution from interest sensitive investments as central banks lowered overnight lending rates. The other three model portfolios (Inflation+, Preservation+ and Alternative+) have also performed well over the last year in pursuit of their mandates and largely provide much less volatile investment profiles relative to typical stock and bond portfolios. The past year has produced returns for all of our model portfolios that would be near the high-end of the range for a typical full investment cycle.

PALISADE FUND COMMENTARY

The **Palisade Select Fund** ("PSF") was down 2.0% in January. The S&P/TSX Capped Energy Index ("Energy Index") was up 0.3% and the WilderHill Clean Energy Index ("ECO") was down 2.7% for the month. As mentioned above, we are less concerned about tariff risk as it relates to Canadian oil and gas because "drill baby drill" depends on commodity prices that justify drilling more aggressively, and we aren't currently in that environment. In addition, American markets require Canadian crude and don't have easy replacement barrels at hand. The natural gas story continues to develop as discussed last month. Some cold weather in the US and Europe has brought storage into a more normalized range and the narrative around natural gas as a source fuel for increased electricity generation to meet the demands of artificial intelligence initiatives continues to build momentum.

We added to our position in Paramount Energy last month as we near the large special dividend payment, with the valuation of its remaining assets looking very cheap compared to peers. We also bought more Spur Resources in the private markets as the company continues to execute exceptionally well and looks to be one of the best oil and gas companies in the country. We believe that there is more upside to come from this stock in 2025.

The **Palisade Absolute Fund** ("PAF") was up 3.0% in January. The PAF had a good start to the year. We are seeing the names in both the US and Canadian growth screens act well and perform above broad market indices. The short screen has also produced some winning positions in Canada. We have lowered the fund's net exposure slightly to account for a little uncertainty around the tariff threats from the US, and we may look to cut net exposure further in the coming weeks. The PAF is diversified across a wide range of sectors and includes holdings such as Visa, Mastercard, Goldman Sachs and Netflix in the US. In Canada, some of the core holdings are Thomson Reuters, Descartes Systems Group, CP Rail, Equitable Group, TMX Group and Chartwell Retirement Residences, among others.

The **Palisade Vantage Fund** ("PVF") was up 0.7% in January. For the month, the S&P/TSX Canadian Dividend Aristocrats Total Return Index ("Aristocrats Index") was down 0.5% while the S&P/TSX Composite Total Return Index ("TSX Composite") was up 3.5%. In PVF, we've continued to transition from core interest sensitive stocks with big dividends, but lower growth, into companies that still have a decent sized dividend, but a business that is more sensitive to growth opportunities. We have also added a starter position in Gibson Energy and returned to a previous long-standing name that we had fully divested a few quarters ago in Canadian National Railway.

We hope your 2025 is off to a good start. Please reach out if you have any questions regarding the tariff outlook or any other concerning elements you see on the horizon.

THE PALISADE CAPITAL MANAGEMENT TEAM

Please note that it is the responsibility of each investor to inform Palisade Capital of any changes to the information provided to us on the most recently completed Know Your Client ("KYC") information form or subscription agreement. Please contact Marni Friesen at (403) 531-2673 or marni@palisade.ca to provide any such updates. If you no longer wish to receive the Monthly Update, please send an email to info@palisade.ca.

All Palisade Fund performance figures are shown net of fees and expenses and include changes in security values and distributions paid. Palisade Vantage Fund performance figures include the reinvestment of distributions. Income taxes would have reduced returns. The Funds are not guaranteed. Performance of the Funds will fluctuate and past performance may not be repeated. To establish relative performance yardsticks for the Palisade Funds, we provide comparative references to the S&P/TSX Composite Total Return Index ("TSXTR"), the S&P/TSX Capped Energy Index ("Energy Index") and the WilderHill Clean Energy Index ("ECO Index"). Those indices are relevant to our portfolio content however the TSXTR, Energy Index and ECO Index data is provided for general reference purposes and their content should not be construed as directly comparable to the content of the Palisade Funds.

Model Portfolios Hypothetical Performance Disclaimer:
The performance data presented for the Palisade Portfolios is hypothetical, is for illustrative purposes only, and does not constitute a live track record or any investor's actual experience. Its purpose is to demonstrate what the historical performance would have been for the Palisade Portfolios, effective the noted date, based on their constituent investment funds/strategies over time. The data is presented for a longer period of time than the Palisade Portfolios were actually available for investment. An investor's actual experience will vary due to, among other factors, investment timing, constituent security weightings, rebalancing frequency, the presence of securities beyond the Palisade Model Portfolios, and account fees and expenses.

The performance data is presented only for readers that have sophisticated investment knowledge sufficient to fully understand the risks and limitations of the hypothetical performance data. Readers with insufficient investment knowledge are strongly cautioned that they may not fully understand the risks and limitations of the hypothetical performance data and may reach unreliable conclusions in their review and interpretation of the data. The cautions, risks and limitations of hypothetical performance data outlined below may be insufficient to provide a reader with the understanding required to safely review and interpret the data in order to reach reliable conclusions relevant to their specific situation. Readers are strongly encouraged to discuss the hypothetical performance data with a Palisade Capital Advising Representative to ensure their understanding of the risks and limitations of such data.

Hypothetical performance results have many inherent limitations. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. No representation is being made that the Palisade Portfolios will achieve returns similar to those shown.

As the hypothetical performance data does not constitute a live track record, these returns may have under- or over-compensated for the impact, if any, of certain factors, such as lack of liquidity, taxes or the impact that material economic and market factors might have had on decision-making if investing real capital.

Performance does not include portfolio management fees, custodian fees or other related fees and expenses that an investor would have paid or actually paid, but is net of fees and expenses pertaining to the underlying investment fund holdings. Any mutual fund performance assumes the reinvestment of distributions while any exchange traded fund performance does not include transaction fees.

Performance integrates the earliest price date available for each holding and assumes monthly rebalancing. Some holdings may not have existed for the entire period shown. The holdings of the Palisade Portfolios are subject to change due to changes in Palisade Capital's views resulting from changing market and economic conditions or the performance of, or outlook for, the constituent holdings. The historical composition of the Palisade Portfolios may have differed from that currently presented.

Any information regarding past performance does not indicate or imply any guarantee of future performance. Further, investment results may vary substantially on a monthly, quarterly or annual basis. There can be no assurance that the Palisade Portfolios' investment objectives and net target returns will be achieved or that investors will receive a return on, or of, their capital. Actual results may differ. An investor may lose all of its investment in the Palisade Portfolios.

Hypothetical performance information shown in text, charts, tables and graphs is provided for informational and discussion purposes only and should not be considered investment advice or a recommendation to buy or sell any types of securities. An investor's actual portfolio must conform to their Investment Policy Statement established with their portfolio manager based on suitability determined through the portfolio manager's Know-Your-Client process.

The views expressed, including the descriptions and objectives of the Palisade Portfolios, are those of Palisade Capital Management Ltd. and are subject to change due to changing market and economic conditions and may not necessarily come to pass. There can be no assurance that the Palisade Portfolios will be able to achieve their objectives.