PALISADE CAPITAL

Our Market View in Summary — October 2025

Similar to last month, we continue to see an overwhelming amount of "bubble" commentary in the financial press. We want to focus on fundamentals over headlines and eliminate the risk of emotion driving decision-making. Near-term drawdowns are always possible and routine as the market ebbs and flows, but that's not a "bubble". Under the surface of the market indices, we are seeing rotation between different sectors and themes, which is healthy. In the last few months there have been periods when small cap stocks have worked, or gold stocks have worked or certain commodity stocks have worked, at the same time as many of the stocks associated with AI continue to perform well and are the source of most of the commentary around potential bubbles. Central banks in Canada and the US are lowering interest rates, which historically has been a positive tailwind for stocks. The economic data, while weak in pockets like housing or transportation, continues to show meaningful growth, especially in the US, with current Q3 2025 GDP growth expected to be 4%. That is a healthy growth rate, which will continue to support the stock market. On top of that, certain sentiment data continues to look very fearful or skeptical, which also helps the market to "climb the wall of worry."

Key Highlights:

- Valuation in context: Elevated forward P/E's look less demanding when set against record-level profit margins and improved returns on equity and invested capital
- Poor consumer sentiment vs actual spending: Consumer confidence measures remain near all-time lows while retail sales growth sits near the top of the post-pandemic range. Consumers are saying one thing while doing another
- Ongoing rotation: Beneath stable index levels, factor and sector leadership has been fluid (e.g. intermittent strength in small caps and gold equities), creating dispersion and entry points

Near-Term Outlook:

- Macro base case constructive into 2026: Probability of a full bear market appears low absent a material exogenous shock. The US economy is quite strong
- Policy backdrop: The Bank of Canada and the US Federal Reserve are lowering interest rates, historically a supportive environment for risk assets
- New US Federal Reserve Chairman in the spring: Likely wants lower interest rates than the current environment. Provides additional stimulus
- Continued rotation: With rates moving lower we expect capital to rotate towards interest sensitive stocks at some point in the near future

We aim to separate signal from narrative. This is not a replay of 2000 - corporate scale, competitive positioning, and margin profiles are stronger which helps to justify some valuation metrics. Stocks aren't cheap, but they also aren't as expensive as they are made out to be in certain financial media stories. There are various macro factors at play that should continue to support the stock market and interest rate policy may become increasingly stimulative when we get a new US Federal Reserve governor of President Trump's choosing. As we enter a seasonally strong time of year for the stock market, we expect that the convergence of the above factors should keep any potential pullbacks brief and lower the risk of a more serious bear market.

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October 2025

Fellow Palisade Investors and Friends,

Please find attached our October 2025 Monthly Update, which includes the Fund Fact Sheets for the Palisade Funds and a performance table for the various Palisade Wealth Management model portfolios. **This month's client conference call is scheduled for Tuesday, November 18th 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 Horizon Fund pay irregular annual distributions for years in which taxable net income is positive.

MARKET COMMENTARY

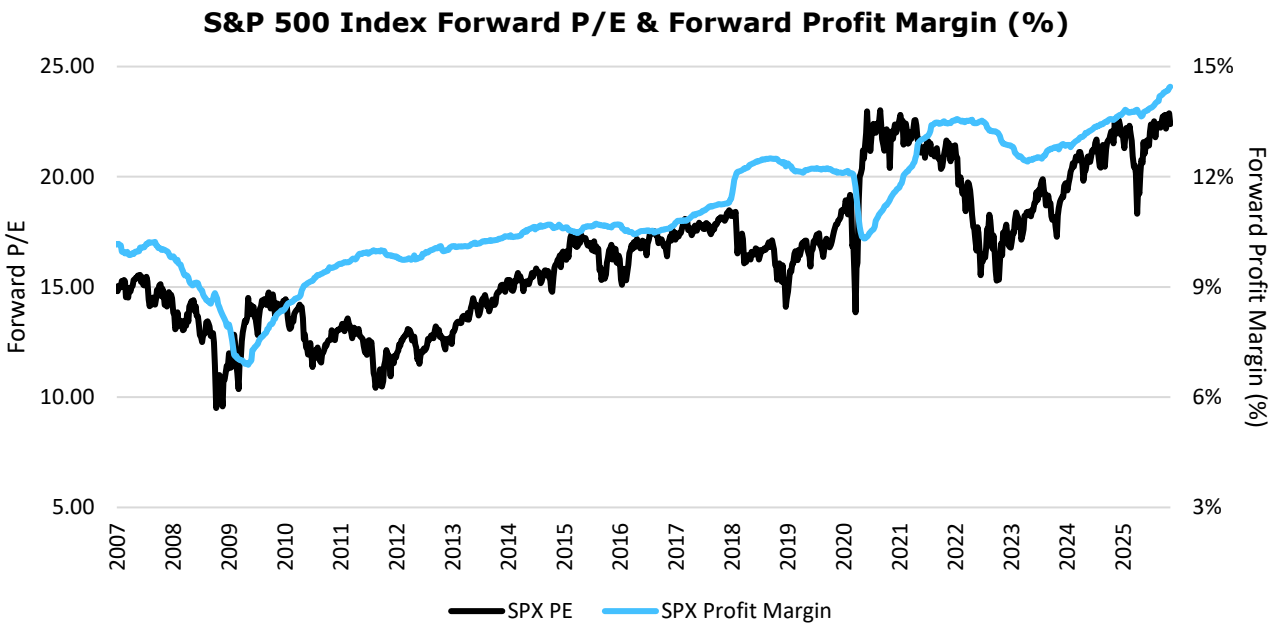
Our commentary this month will continue the discussion we started last month around the overwhelming amount of commentary we see in the financial media about a potential bubble that is emerging in stocks. We really try to use our monthly commentaries to cut though the predominant narrative that we see in the financial media, particularly if we think the commentary drives an emotional response or if we just flat out think that it's wrong. If this is the first you've heard of the potential stock market bubble narrative, congratulations! That means you're properly ignoring the headlines intended to drive up emotions, increase engagement on social media posts and improve the fortunes of the media/social media business model while adding no real value to your own financial well-being.

As always, we preface our comments by saying that we could see a market pullback at any point. In fact we've seen a few fairly poor days as we are writing this commentary, but we think that pullback would be a normal course correction that you typically see once or twice a year. We think the chances of a full bear market pullback, or worse, are very low as we end 2025 and move into 2026.

One point you always hear when the prospect of a "bubble" is discussed is valuation. There are charts out there that show valuations at levels equal to or greater than the tech bubble in the year 2000. What is never considered in those charts is how business conditions and the quality of companies has changed over time. A 20x price/earnings (P/E) multiple in 1999 is not equal to a 20x P/E multiple in 2025. In 2025, the companies that make up the largest components of the relevant indices are much larger, have stronger competitive positions, are less cyclical, and, crucially, are more profitable than in decades gone by. When we say more profitable, we don't mean the absolute dollar amount of profits that they are making, which would almost be a given with the passage of time and the growth of the broad economy. What we mean is that the profit margins (i.e. the amount of profit generated per dollar of revenue earned) have consistently grown over time and are currently at new records.

In part, this is due to productivity improvements, the use of technology and less capital-intensive business models, which allow for more recurring revenues and more profits earned for each dollar of sales that the company can generate. That higher level of profitability is worth something in valuation. It makes return metrics like return on equity and return on invested capital higher, which makes ownership in the company more lucrative. That is worth a higher valuation. The chart below shows the forward P/E of the S&P 500 index overlaid with the profit margins of those companies. Profit margins (blue line) are at an all-time high and will likely continue to go higher based on efficiencies generated by artificial intelligence (AI). Valuation is also high on a generic basis, but relative to those profit margins the market is not as expensive as it looks on the surface. There's also a consideration for the fact that most of the largest components of the index are also the most expensive, so when

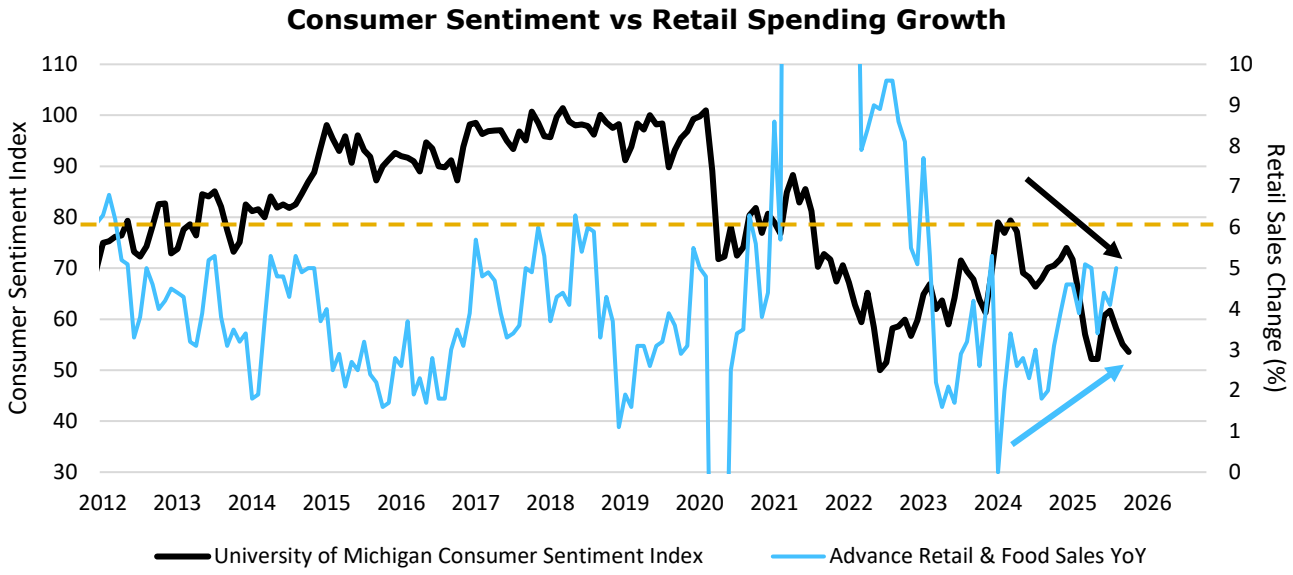
you move outside of the AI adjacent names there is value in other sectors, especially where you see higher profit margins.



Source: Bloomberg

Another key point to keep in mind when discussing headlines, emotions and decision making is that we are in a world now where people's opinions are more separate from their actions than they have ever been. People think "it's terrible out there", the economy is on the precipice, their most hated politicians are about to ruin everything for their children and grandchildren…but then they'll go out for a fancy meal or book a vacation without a second thought. Immediate gratification and political antagonism have created a situation where some financial decisions are viewed as "good for me, but not for thee", whereas in the past if a person believed the outlook was getting worse, they might make more conservative financial decisions in their lives.

The chart below shows the University of Michigan Consumer Sentiment Index (black line) overlaid with the year-over-year growth of retail sales (blue line). The current sentiment index is basically at all-time lows and has been going down in recent years. At the same time, retail sales growth is near the high end of the non-COVID range going back twelve years! There are lots of factors at play here that are beyond the scope of this update (e.g. wealth effects, K-shaped economic recovery) but suffice it to say that people may say out loud that the outlook is terrible, but it's not stopping them from increasing their spending and assisting in the profit growth of the US retail industrial complex. Clearly, this can drive more negative headlines as people look for affirming data points to the way they feel, but distracts them from what is actually happening in the economy.



Source: Bloomberg

At some point we'll see a bear market, but we don't see it happening on the near-term horizon. While there are pockets of weakness, the broad economic data continues to look constructive, especially in the US. There are other big macro factors that need to be considered as well - mostly the fact that both the Bank of Canada and the US Federal Reserve are lowering interest rates, which historically has been a bullish tailwind for stocks. It's also important to note that under the surface of the broad market indices, there is a significant amount of rotation that is happening. Small caps have had some time in the sun recently, gold stocks have worked well, etc. As the market moves forward, we should continue to see rotation under the surface between different factors and sectors that can keep the overall indices trending higher, even if other sectors under the surface are trading down. In our view, we're still in a market with tailwinds from important macro factors and economic data that will continue to support stock prices and money rotating into different sectors as the economy continues to develop.

PALISADE MODEL PORTFOLIOS UPDATE

The Palisade model portfolios are constructed largely with third party funds from a collection of managers with long-term track records and attractive risk return profiles. An important point to emphasize is that the allocations of our model portfolios include a large number of investments that are not tied to the daily performance of the stock market, which should generally see the model portfolios exhibit much less volatility month-to-month, and most importantly, much less downside through challenging stock market periods. Over the last few months, we have seen returns across various strategies moderate. Real estate, risk arbitrage, private equity and others are seeing returns in 2025 below their historical averages. While our investment portfolios are still quality in nature, we are making some changes to our models to bring in new funds whose strategies have produced a higher return profile in recent years. Overall, the model portfolio returns continue to be attractive from a risk/reward perspective, but we are looking at new managers in the long/short strategy, business loans and private equity secondaries as a way to enhance returns with lower volatility than the stock market.

PALISADE FUND COMMENTARY

The **Palisade Select Fund** ("PSF") was up 2.4% in October. The S&P/TSX Capped Energy Index ("Energy Index") was down 0.2% and the WilderHill Clean Energy Index ("ECO") was up 16.1% for the month.

We are happy with the relative outperformance of the PSF this month versus the Energy Index. Last month we mentioned that we had raised a little cash for a short-term defensive trade, just given that the oil and gas stocks had continued to move higher in the face of weaker commodity prices. In the last week we have redeployed that cash into a combination of natural gas-oriented producers and a starter position in the iShares Global Clean Energy ETF (ICLN) as a toe back into the water of green energy companies.

Earlier in the year, we had overweighted natural gas companies, then trimmed some of the gains in natural gas stocks a few months ago, rotated that to oil weighted companies and then trimmed some gains in those oil weighted companies last month, and finally have rotated back into natural gas-oriented stocks in the last week. We still maintain many oil-oriented positions, and have focused that exposure in high quality companies like Canadian Natural Resources and companies focused in the Clearwater oil play like Spur Petroleum, Tamarack Valley and Headwater Exploration. In natural gas, we bought more Peyto, NuVista, Advantage and ARC Resources.

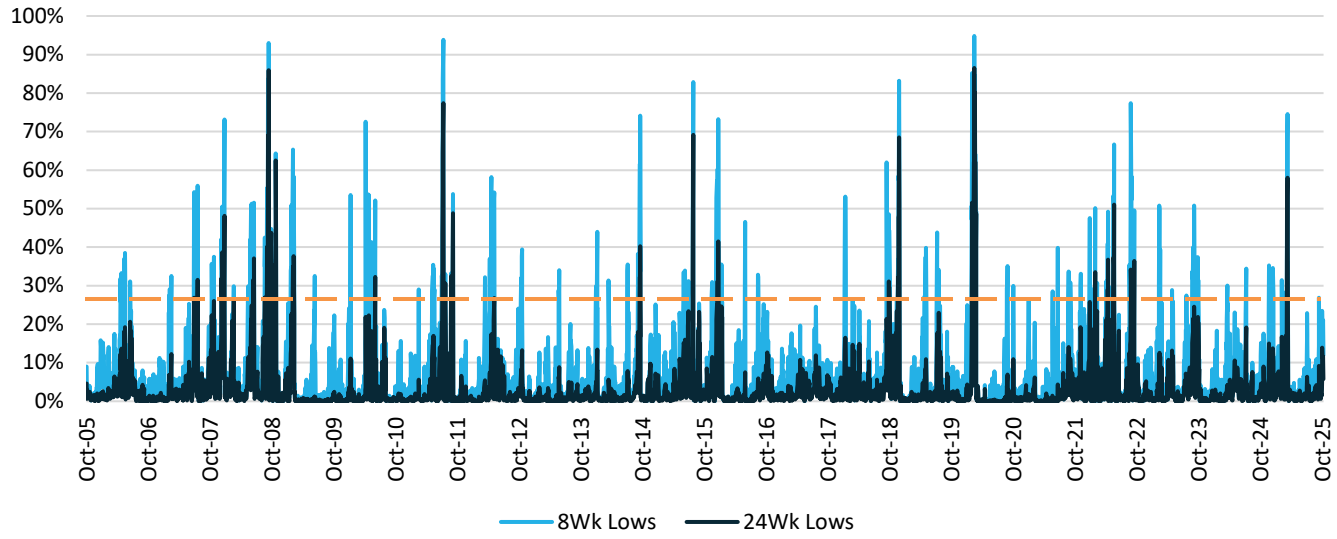
Oil and gas stocks continue to trade reasonably well despite oil trading around US$60 per barrel WTI, but with some improved support from natural gas prices which are up over 60% from August lows and positive seasonality ahead of us as we head into the winter heating season.

The **Palisade Horizon Fund** ("PHF") was up 0.9% in October. We are generally happy with the performance for the month. Returns continue to be driven by AI narratives, based off of new infrastructure deals and compute build out commitments, with winners clustering in small segments of broader indices. While we are not in the business of chasing AI hype, we have been trying to maintain some level of exposure to the growth potential associated with its buildout, with names like Shopify and Celestica being large contributors to the fund throughout the month. We have remained hesitant to adding back exposure in the data providers segment of our screen outputs, which has largely been a good call as those companies have traded flat to down since Trump's announcement of wanting to impose semi-annual reporting for US-traded firms.

While we are generally happy with the month's returns, we have been slightly frustrated with the lack of breadth in the market, which has dragged on the performance of the quality-oriented portion of our portfolio – with names like Stantec and Dollarama being largely rangebound over the past few months. To highlight this point, the chart below shows the percentage of the S&P 500 index that is at 8 and 24-week lows, which very rarely has times when the percentage of lows is increasing rapidly, while the index itself makes new highs. October was one of those months, with the S&P 500 Total Return Index hitting new all-time highs in returning 2.3%, while at the same time having over a quarter of the index hitting 8-week lows.

Overall, we remain confident in the composition of the portfolio and its tilt towards quality-oriented names, and we believe that a rotation to the broader market is inevitable in the medium term, as AI efficiency gains become more widespread throughout the economy.

S&P 500: Percent of Index at 8 and 24-Week Lows



Source: Bloomberg

The **Palisade Vantage Fund** ("PVF") was down 1.0% in October. For the month, the S&P/TSX Canadian Dividend Aristocrats Total Return Index ("Aristocrats Index") was down 0.6%, while the S&P/TSX Composite Total Return Index ("TSX Composite") was up 1.0%.

Interest sensitive stocks have been a little all over the place in the last few months. Big picture, with central banks lowering interest rates, we think there should be meaningful tailwinds for interest sensitive stocks in the coming months. Notwithstanding, in the last few months we've seen out of favor and low quality stocks outperform and other interest sensitive names trade sideways while there has been more interest in anything associated with AI and certain commodities (gold in particular), and a return to money flowing into a narrow group of large cap stocks.

In PVF we have seen some ongoing gains from Chartwell Retirement Residences, Royal Bank and Power Corp, which has been our best performing position in 2025. We have owned these stocks for multiple years. A name that has been an underperformer for us over the last few months is Telus Corp, which at current prices has a dividend yield of almost 8% and legitimate fundamental value, which we think should drive an imminent stock price recovery. Pricing in the cellphone market has stabilized and the company has entered a period of lower capital spending, which should drive an improvement in free cash flow. As we see the ongoing sector/factor rotation that we mentioned above, we think that capital will rotate into names like Telus when growth stocks get expensive, gold takes a breather, or other factors come to the forefront.

Given the ongoing market uncertainty, we would encourage you to reach out at any time if you have questions about the markets or your investments with us.

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.