TELUS Health Investment Management

Market Review & Outlook

Quarterly Newsletter - December 31, 2024

General Market Commentary

- During the fourth quarter of 2024, most major central banks continued to reduce their policy rates, providing strong support to equity markets globally. The Bank of Canada (BoC) cut its key policy rate twice during the quarter in response to easing inflation and slower economic growth. Similarly, the U.S. Federal Reserve implemented two rate cuts over the same period. There was a noticeable shift in the focus of central banks from curtailing inflation to fostering economic growth, which bolstered investor confidence. For the fiscal year 2024, both equities and fixed income posted solid returns.

- Broadly, equity markets globally posted strong performance in Q4. The 'Magnificent 7' (Mag 7) performed exceptionally well in the last quarter of the year, rounding out an impressive 2024 performance. The Canadian equity market was particularly strong in Q4, led by the Financials sector, which was the largest contributor to the S&P/TSX Composite Index's performance. This sector benefited from a more favorable economic outlook, with the BoC easing financial conditions.

- In terms of performance at the sector level for global equities, the Consumer Discretionary and Communication Services sectors led in Q4, driven by strong returns on several of the Mag 7 stocks that are included in those sectors. On the downside, the Materials and Health Care sectors were the worst-performing sectors. The Materials sector lagged as a stronger U.S. dollar and higher long-term interest rates weighed on prices during the final three months of 2024. Meanwhile, the Health Care sector was impacted by weak earnings and uncertainty stemming from the future change in administration in the U.S.

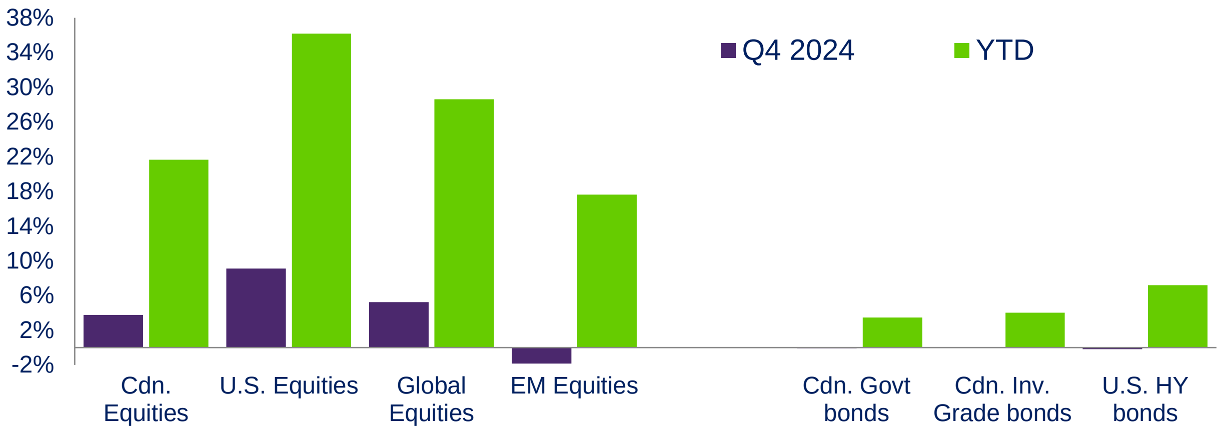
- During the fourth quarter, growth equity style outperformed value style. For Q4, the Russell 1000 Growth Index (CAD) posted a return of 14.0%, while the Russell 1000 Value Index (CAD) posted a return of 4.4%.

- Government bond yields declined in the short end of the curve but increased in the long end, resulting in a steepening of the yield curve. In Canada, short-term bonds delivered positive returns, while medium-term and long-term bonds posted negative returns.

- Credit spreads, i.e., the yield premium over risk-free yields, of both investment-grade and high-yield bonds narrowed. High-yield bonds were the top-performing segment within fixed income.

- The Canadian dollar depreciated significantly against the U.S. dollar but appreciated against other major currencies. As a result, Canadian investors with unhedged portfolios likely saw mixed returns from foreign equity markets when converted to Canadian dollars.

Market Performance



Source: AGF Investments., as of December 31, 2024. Cdn. Equities - S&P/TSX Composite Index; U.S. Equities – S&P 500 Index, Global Equities – MSCI All-Country World Index (ACWI); EM Equities - MSCI Emerging Markets Index; Cdn. Govt bonds - Bloomberg Canada Aggregate Government-Related Bond Index; Cdn. Inv. Grade bonds - Bloomberg Canadian Aggregate Bond Index; U.S. HY bonds - Bloomberg U.S. Corporate High-Yield Bond Index (Hgd to CAD). One cannot invest directly in an index. Past performance is not indicative of future results.

Canadian Markets

- The Canadian equity market outperformed the U.S. equity market in local currency terms but underperformed in CAD terms due to the depreciation of the Canadian dollar relative to the U.S. dollar, with the S&P/TSX Composite Index posting a return of 3.8% in Q4 2024. This capped off a strong year for Canadian markets, as the S&P/TSX Composite Index ended 2024 with an impressive 21.7% return.

- At the sector level, the Information Technology sector led the way in Q4, delivering an impressive return of 22.2%, driven by strong performance of its largest constituent, Shopify. The Energy and Financials sectors also posted solid gains, each returning 6.6% for the quarter. Financials were boosted by strong earnings reports, while the Energy sector benefited from a slight rise in oil prices.

- During the fourth quarter, the Bank of Canada (BoC) aggressively cut its policy rate by 50 basis points twice. These cuts brought the BoC policy rate down to 3.25%, reflecting the BoC's response to largely cooling inflation and weaker economic indicators in Canada. The BoC has implemented five rate cuts in total over the year, amounting to a cumulative reduction of 175 basis points.

- Canadian real GDP grew by 1.0% on an annualized basis during Q3 2024, a slowdown from the 2.2% growth reported in the previous quarter. Household and government spending helped drive GDP growth but was offset by slower inventory buildup, reduced business investments, and lower exports. Canada’s unemployment rate has been trending marginally higher, rising to 6.7% in December. Inflation eased to 1.9% year-over-year in November, trending up slightly from 1.6% at the end of Q3.

US Markets

- U.S. equities, as measured by the S&P 500 Index, posted a strong 9.1% (CAD) return in Q4, rounding out an exceptional year with a 36.2% (CAD) gain for 2024. However, in local currency (USD) terms, the Index was up only 2.4% for the quarter, with the stronger performance in CAD terms driven by the depreciation of the Canadian dollar relative to the U.S. dollar during this period.
- The Consumer Discretionary and Communication Services sectors, posting 21.8% and 16.0%, respectively, outperforming all others in Q4, with a few 'Magnificent 7' stocks driving their strong performance. The Materials and Health Care sectors were the worst-performing, returning -6.7% and -4.4%, respectively.
- The U.S. economy, as measured by real GDP, grew at an annualized rate of 3.1% in Q3 2024, slightly accelerating from 3.0% in the previous quarter. Growth was primarily driven by robust personal spending. The U.S. unemployment rate remained steady at 4.1% in December, unchanged from September, reflecting a slight upward trend throughout 2024. Inflation continued to climb gradually in recent months, reaching 2.7% year-over-year in November, up from 2.4% at the end of Q3, in line with market consensus.
- After the U.S. Federal Reserve (Fed) reduced its policy rate in September for the first time since March 2020, it implemented two additional 0.25% rate cuts in Q4 2024. These cuts totaled a 1.00% reduction for the year, bringing the federal funds target rate range from 5.25–5.50% to 4.25–4.50%. The U.S. dollar appreciated against major currencies, supported by strong economic data that dampened expectations for significant rate cuts in 2025.

International Markets

- The MSCI EAFE Index, which tracks the performance of developed countries outside of North America, returned -2.2% (CAD) during the quarter and concluded 2024 with a solid annual return of 13.2% (CAD).
- On the sector front, reflecting trends observed across most developed markets, the Materials and Health Care sectors were the largest detractors, with steep declines of -12.5% and -8.6%, respectively. The Real Estate sector also struggled, posting a decline of -9.9% due to the rebound in bond yields. In contrast, the Financials, Consumer Discretionary, and Communication Services sectors delivered positive returns, posting gains of 4.0%, 1.9%, and 1.4%, respectively.
- The MSCI Europe ex-UK Index posted a return of -4.8% (CAD) in Q4 2024. Eurozone economic growth remained modest but positive at 0.4% in Q3, up from 0.2% in the previous quarter. However, the Index faced downward pressure due to political instability in France and Germany, as well as heightened investor concerns about a potential trade war under the new U.S. administration. The European Central Bank cut its policy interest rate by 50 basis points during the quarter, even as inflation accelerated to 2.4% by December.

- The MSCI UK Index outperformed other European indices, though it still recorded a negative return of -0.8% (CAD). Economic growth remained flat in Q3 (0%), a decline from 0.4% in the previous quarter. Despite UK inflation climbing to 2.6% year-on-year in December, the Bank of England lowered its benchmark rate by 25 basis points in Q4 in response to sluggish demand and a weakening labor market.

- The MSCI Pacific Index, representing the Pacific region, outperformed Europe, delivering a positive return of 0.6% (CAD). Performance was largely driven by the Japanese stock market, which posted a return of 2.6% (CAD), supported by yen depreciation against most major currencies and a favorable outlook for exports. The Bank of Japan opted not to raise its policy rate further this quarter, citing moderate economic growth and uncertainty surrounding the trade policies of the new U.S. administration.

Emerging Markets

- Emerging Markets (EM), as represented by the MSCI Emerging Markets Index, posted a return of -1.8% (CAD) in Q4, underperforming the MSCI World Index. Despite a weaker Q4 performance, 2024 was positive overall, delivering a 17.6% return (CAD).

- The Information Technology sector led broad index returns, posting a 7.7% return for the quarter, driven by strong performance in AI and semiconductor stocks. The Materials sector was the worst performer, as a stronger U.S. dollar and higher long-term interest rates weighed on prices during the final three months of 2024.

- The weakest countries in the EM region were Brazil and South Korea. Brazilian equities, as measured by the MSCI Brazil Index, had the weakest performance with a return of -14.2% (CAD) due to concerns over fiscal issues. South Korea, as measured by the MSCI Korea Index, returned -14.0% (CAD) amid political instability. China, as measured by the MSCI China Index, declined by -1.7% (CAD) due to uncertainty surrounding policy stimulus and tariffs. In contrast, Taiwan, as represented by the MSCI Taiwan Index, posted a 10.0% (CAD) return, driven by strong performance from Taiwan Semiconductor Manufacturing Company, making it one of the top-performing countries in the EM Index.

Fixed Income

- The fourth quarter of 2024 was marked by continued rate reductions by major central banks. There was a noticeable shift in the focus of central banks from curtailing inflation to fostering economic growth. While fixed income delivered strong returns over the fiscal year 2024, performance was mixed this quarter.

- Canadian government bond yields declined in the short end of the curve but increased in the long end, resulting in a steepening of the yield curve. In Canada, short-term bonds delivered positive returns, while medium-term and long-term bonds posted negative returns. Credit spreads, i.e., the yield premium over risk-free yields, of both investment-grade and high-yield bonds narrowed. High-yield bonds were the top-performing segment within fixed income.

- The FTSE Canada Bond Universe Index posted a flat return of 0.0% for the quarter. The FTSE Canada Short Term Bond Index posted a return of 0.6%, while the FTSE Canada Medium Term Index and the FTSE Canada Long Term Bond Index returned -0.4% and -0.8%, respectively. The yield curve steepened during the quarter, driven by a decline in short-term yields and an increase in long-term yields.

Investment-grade credit, as measured by the FTSE Canada Universe Corporate Bond Index, returned 1.0%, while high-yield bonds, based on the FTSE Canada High Yield Bond Index, delivered a strong return of 2.5%.

- In the U.S., the yield curve steepened during the quarter as short-term yields declined following the Fed rate cuts, while long-term yields increased. The Bloomberg US Aggregate Bond Index returned 3.2% (in CAD), while the Bloomberg US Corporate High Yield Index posted 6.7% (in CAD). These strong returns were primarily driven by the appreciation of the USD against the CAD. However, in local currency terms, U.S. bonds delivered lower returns than their Canadian counterparts.

- Global bond indices followed a similar trend, with the Bloomberg Global Aggregate Bond Index posting a return of 1.0% and the Bloomberg Emerging Markets Aggregate Bond Index returning 4.2% (in CAD).

The Impact on Concert Funds™

- In Q4 2024, asset allocation decisions for all Concert Funds, except for the Income Fund, contributed positively to performance. Positive contributions were largely driven by overweight positions in U.S. equities and underweight positions in Canadian bonds, including the short-term investments. The Income Fund did not benefit from these factors, as it maintains a neutral position in equities, and its exposure to global bonds relative to U.S. bonds detracted from performance.

- Equity allocations across the four Concert Funds (excluding the Income Fund, which had a neutral impact) contributed positively to performance. Overweight positions in U.S. equities, when expressed in CAD, were key drivers, as they outperformed all other indices, primarily due to the strong appreciation of the USD against the CAD. However, these gains were partially offset by underweight positions in global equities, which also delivered solid returns relative to Canadian and Emerging Markets.

- Fixed income allocations contributed positively to performance across all Concert Funds, except for the Income Fund. Underweight positions in Canadian fixed income, including short-term investments, benefited all Funds. However, for the Income Fund, a larger exposure to global bonds, combined with underweight positions in U.S. aggregate bonds and high-yield bonds, more than offset the gains from underweight positions in Canadian fixed income, resulting in an overall negative fixed income allocation effect.

- Underlying AGF component funds delivered mixed results. On the positive side, the AGF Global Select Fund, AGF American Growth Fund, and AGF Canadian Small Cap Fund outperformed their respective benchmarks on the equity side, while the AGF Global Corporate Bond Fund did so on the fixed income side. These funds positively contributed to the performance of the Concert Funds. In contrast, the AGF Global Dividend Fund, AGF Global Equity Class, and AGF Canadian Dividend Income Fund were the largest detractors.

- In this 'risk-on' environment favoring growth sectors, high-quality investments tend to underperform. However, enhanced diversification and a focus on high-quality investments are expected to provide an advantage for Concert Funds amid ongoing uncertainties, such as geopolitical tensions, economic slowdown, and inflation concerns.

TELUS Health Investment Management

Performance as of December 31, 2024 (net of fees)

Portfolio name	Performance Start Date (PSD)	3 months	6 Months	1 year	3 years	5 years	10 years	Since PSD
Primerica Global Equity Fund	1997/09/15	4.02%	10.59%	22.25%	6.80%	6.93%	6.67%	5.25%
Primerica Canadian Balanced Growth Fund	1997/09/15	2.68%	9.21%	16.65%	4.64%	5.64%	4.53%	4.58%
Primerica Global Balanced Growth Fund	1997/09/15	4.04%	9.74%	19.74%	5.68%	5.89%	5.33%	4.91%
Primerica Balanced Yield Fund	1997/09/15	2.74%	8.14%	14.29%	3.77%	5.05%	4.95%	4.67%
Primerica Income Fund	1997/09/15	1.25%	6.46%	10.25%	2.32%	3.57%	3.52%	3.78%
Primerica Canadian Money Market Fund*	2001/12/12	0.63%	1.42%	3.13%	2.30%	1.38%	0.71%	0.72%

Source: AGF Investments, in Canadian dollars. Past performance is not indicative of future results.

* This is an annualized historical yield based on the seven-day period ended on December 31, 2024 [annualized in the case of effective yield by compounding the seven-day return] and does not represent an actual one-year return.

Index Information

- The S&P/TSX Composite Index is a capitalization-weighted index designed to measure market activity for securities listed on the Toronto Stock Exchange. It represents a broad measure of the Canadian equity market.
- The S&P 500 Index is a market capitalization-weighted index of roughly 500 common stocks chosen for market size, liquidity, and industry group representation to reflect U.S. equity performance.
- The MSCI EAFE Index covers 21 international markets apart from Canada and the United States. The acronym stands for Europe, Australasia, and the Far East, representing the equity markets of developed markets outside North America.
- The MSCI World Index is a market capitalization-weighted index of over 1,500 stocks from 23 countries (including the United States and Canada), covering 85% of the free float-adjusted market cap of each country. It represents stocks in global developed markets.
- The MSCI ACWI captures large and mid-cap representation across 23 Developed Markets (DM) (including Canada and the US) and 24 Emerging Markets (EM) countries.
- The MSCI Emerging Markets Index captures large and mid-cap representation across 26 Emerging Markets (EM) countries, representing the equity markets of emerging economies.
- The FTSE Canada Canadian Treasury Bill 91 Day Index tracks the performance of Government of Canada 91-Day Treasury Bills.
- The FTSE Canada Universe Bond Index measures the performance of investment-grade domestic government and corporate bonds.
- The FTSE Canada Corporate Bond Index measures the performance of investment-grade corporate bonds issued in the Canadian market. It includes bonds from various sectors, providing a comprehensive view of the corporate bond landscape in Canada.
- The Bloomberg Canada Aggregate Government-Related Bond Index tracks the performance of Canadian government-related bonds, including sovereign, sub-sovereign, and agency bonds. This index provides a broad measure of the performance of government-related debt in the Canadian market.
- The Bloomberg Canadian Aggregate Bond Index measures the performance of the total Canadian bond market. This index includes a wide range of fixed-income securities, such as government, corporate, and securitized bonds, offering a comprehensive view of the Canadian bond market.
- The Bloomberg U.S. Investment Grade Corporate Index tracks the performance of U.S. dollar-denominated, investment-grade, fixed-rate, taxable corporate bonds. This index covers a wide range of sectors, offering insight into the U.S. investment-grade corporate bond market.
- The Bloomberg US Corporate High Yield Total Return Index measures the performance of U.S. dollar-denominated, high-yield, fixed-rate corporate bonds. It includes bonds that are below investment grade, providing a benchmark for the high-yield bond market in the U.S.
- The Bloomberg Global Aggregate Index is a broad-based measure of global investment-grade fixed-income markets. It includes government, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets, representing a comprehensive view of the global bond market.
- The JPM CEMBI Broad Diversified Total Return Index tracks the performance of U.S. dollar-denominated, emerging market corporate bonds. It includes bonds from various sectors and countries, providing a diverse representation of the emerging market corporate bond landscape.

Disclosure

The information contained in this document has been drawn from sources believed to be reliable, accurate and complete. Index returns do not reflect commissions, trailing commissions, management fees and expenses. Forward-looking statements are subject to uncertainties that could cause actual developments and results to differ materially from the expectations expressed. Opinions expressed are subject to change and do not take into account the investment objectives of any particular investor. Nothing in this document should be construed as a solicitation, offer or recommendation.

Mutual funds are offered by PFSL Investments Canada Ltd, mutual fund dealer. The head office is in Mississauga, Ontario.

For all funds: Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

For non-money market funds: The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.

For money market funds: The performance data provided assumes reinvestment of distributions only and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual fund securities are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Past performance may not be repeated.

Effective April 1, 2014, TELUS Health Investment Management Ltd. (THIM) was appointed as portfolio adviser of the Concert Funds. Effective August 29, 2016, AGF Investments Inc. was appointed as an additional portfolio adviser. Had these portfolio advisers been in place throughout the performance measurement period, it could have impacted the portfolio advice given with respect to the fund.

THIM provides portfolio management services to PFSL for each Concert™ Fund which involves making recommendations on the specific underlying Funds to be invested in by each Concert™ Fund. PFSL maintains responsibility for the overall investment fund management of each Concert™ Fund at all times. THIM has, as part of its duties, established the investment strategies for each of the Concert™ Funds.

Currently, the Concert™ Funds are open for limited trading and transactions from existing investors only.