

2025

Semi-Annual Report



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As we're halfway through the year and into the hot summer days, I thought this would be a good time to write a longer post covering several topics. This is the first semi-annual report, which I hope will become a recurring feature for our clients. In this first edition, we'll focus on a few main topics. First, this is a more detailed review of my two private pools. The emphasis here is less on the returns and more on the positioning and strategy. Second, I will discuss topics like tariffs, the overall economy, and the current investment climate. Finally, I will answer common questions about investing, strategies, and insights. Please let me know if you have questions or topics you'd like me to cover in future newsletters!

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The Orion Fund

- The Orion Fund is a medium-risk, actively managed fund with a go-anywhere mandate and global diversification.
 - Geographic allocation:
 - 24% in European and international holdings, including ASML and European defence contractors
 - 32% in Canadian companies, notably Fairfax Financial and Cameco
 - 40% in the US (including QXO and other major global corporations)
 - The fund has achieved a 10.32% annual return since inception and 16.30% over the past three years.
 - Holdings are chosen for their stability, compound-growth potential, and alignment with global trends and macro-events.
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The Orion Fund

This fund has a go-anywhere mandate and remains medium-risk. It is actively managed, so I change and adapt the holdings as needed. We hold approximately 24% in European and International companies, 32% in Canada, and 40% in the US. The exact percentages differ to some extent as the underlying companies fluctuate in value. Through the end of June, the fund has compounded at 10.32% since inception and 16.30% annually, over the previous 3 years. I will highlight some of the holdings here and explain why we hold some of the companies that we have.

Performance

This section tells you how Class A units of the Fund have performed since inception. Returns are calculated after the Fund's expenses have been deducted.



Europe and International Holdings:

Over the past year, I have added several positions in European companies and international holdings. Some of these may be unfamiliar to you, as the companies are not well-known in North America. However, this should not be a concern, as they are large, stable businesses that present good opportunities for us despite their being less well-known.

ASML: It's common knowledge that almost all modern conveniences and tools need semiconductors. This company is essential in the manufacture of chips, and it is far ahead of its competitors. It is the sole provider of extreme ultraviolet lithography machines, which are essential in the production of chips, so its future looks bright and very stable.

European Defence Contractors: I'm not the least ashamed to note that taking a position in these businesses was difficult for me. There are three main reasons that we hold these companies, and while I'm not sure which of these three scenarios will play out, they are all positive for this sector. First, there is the drive to have NATO members spend 5% of their GDP on defence. This appears underway and will mean a lot of money flowing into these businesses. Second, is the US withdrawal from NATO, which has been floated, though I don't know how serious that concern is. If that were to happen, European defence contractors would see significant increases in investment. And lastly, the outcome of the Russia/Ukraine war. This isn't easy to know, of course, but if that were to end in an agreement that sees Russia gain a lot of territories and appear emboldened, I believe that would push the case for significant European rearmament.

Canada

While we have less exposure to energy than we did in past years, we maintain a significant holding in Canada and Canadian businesses. The largest holding in the fund at this time is Fairfax Financial, a Canadian business with excellent Canadian companies. I remain optimistic about the Canadian economy and our newfound push toward economic expansion, reducing barriers within the country, and a push for more international trading partners.

Fairfax Financial: I am a big fan of this business, and this is our largest holding by design. While this is predominantly an insurance company, they also own several other well-known Canadian companies and brands.

Cameco: I firmly believe that nuclear power will be a significant piece of global energy requirements. Canada has a high-quality uranium deposit, and Cameco is well-positioned to benefit. They are a pure-play investment in the future of nuclear energy. I would note that despite some comments about the US not needing anything from Canada, their nuclear program has two options for this. One is from Canada, and the other is from Kazakhstan. I

suppose that could mean that the US could import from Central Asia instead of Canada, but I feel there is a low likelihood of that outcome.

United States

The US remains the largest economy on the planet, and despite some current trials and tribulations, it will remain Canada's largest trading partner. There are some excellent businesses here, and we continue to invest there, regardless of the current political climate. Our holdings in the US are wide-ranging in terms of business size and the sectors in which we are invested.

QXO: Rather than talk about some of our better-known holdings, I thought I would talk a little about this smaller company. I am very optimistic about the future of QXO. They are currently the largest publicly traded roofing supply business. The long-term plan for this company is to amalgamate the fractured building materials sector and use technology to improve the delivery and better coordinate these services. Market watchers have seen this plan in action with the principals, and they are very experienced in building an empire in this manner. I would temper this to some extent, as I anticipate dilutive events for shareholders, which could mean some volatile times for the stock, but we are long-term investors, and I am confident of the long-term outcome here.

The Artemis Fund

- The Artemis Fund is tailored for condominium reserve funds, prioritizing lower risk and consistent income.
 - Primary investments include Canadian government bonds and high-quality corporate bonds.
 - A small allocation is dedicated to dividend-paying equities.
 - Since inception, the fund has achieved an annual return of 7.8% as of June 30, 2025.
 - Government bonds provide secure, virtually risk-free investments backed by the Canadian government.
 - Corporate bonds offer additional yield from reputable institutions.
 - The equity portion features established companies with reliable dividend records, delivering income and potential capital growth.
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The Artemis Fund

The Artemis Fund is a lower-risk mandate designed explicitly for condominium reserve funds. Its most significant holdings are government bonds and high-quality corporate bonds. A sliver of dividend-paying equities is also present. We use this income-producing fund for clients looking for lower-risk and steadier performance overall. The fund's return since inception was 7.8% annually through June 30, 2025. Because of the nature of the holdings, I won't give you specific commentary on individual holdings, but instead a quick overview of the fund sectors.

Government Bonds: The government bonds held in the fund are all Canadian, and the way to think of these bonds is that you are lending money to a government. They pay you interest to borrow this, and at the end of the term, they pay you your money back. It is not a political comment at all, but the government of Canada will pay its bills regardless of which party is in power. These are virtually guaranteed investments because of that government backing.

Corporate Bonds: The corporate bonds held in this fund are of high-credit quality. These are predominantly large financial institutions (but not entirely), and like the government bonds above, we are essentially lending money to these entities. They pay us interest, and at the end of the term, they pay us our money back. The interest rates here are based on the risk of default (if you have better credit, you can pay less interest) and the current inflation and interest rates of the day. Our goal in managing these investments is to be compensated appropriately for the risk we take in lending these funds.

Dividend-Paying Equities: While I will write more on dividends later in this update, these dividend-paying companies must meet certain criteria. They are generally large, well-known companies that have paid steady dividends for many years. They are factored into the portfolio at their dividend rate, and any share growth is a bonus.

Tariffs, Trade Wars, and the Current Investment Climate

- Initial tariff announcements caused market volatility.
 - Over time, markets became less reactive as investors anticipated a 10% average tariff rate.
 - The impact of tariffs on consumer prices is somewhat muted because costs are distributed among consumers, importers, and retailers.
 - Markets have rebounded from earlier lows.
 - Economic indicators in Canada and the US remain generally stable.
 - Potential risks include rising interest rates and geopolitical issues.
 - In Canada, significant interest rate changes are unlikely soon.
 - In the US, uncertainty exists due to political pressure on the Federal Reserve and possible changes to its leadership.
 - Risks are "exogenous," meaning they are driven by external political and policy decisions rather than internal economic weaknesses.
 - Such risks are challenging to predict or forecast.
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Tariffs, Trade Wars, and the Current Investment Climate

The year's first half was so volatile that we've become accustomed to it, and events now hardly register. We saw significant reactions to tariff and trade announcements when Trump was first inaugurated six months ago. This was a few months before the so-called "Liberation Day" announcement, which threw the market into a tailspin. Over the past week or two, the same tariff announcements put out by the Trump administration have had nearly no impact, though. It's not because the damage was done, as the markets recovered from those lows. Instead, the harsh fact for the US to accept here is that no one believes them. You might think this is because of the TACO trade (Trump Always Chickens Out), or a scenario like the boy who cried wolf. I believe that the explanation is partly that, and partly just more straightforward.

The outcome of all these tariffs and trade talks has been telegraphed. I've seen the Secretary of the Treasury, Scott Bessent, talk about tariffs several times, saying they will raise \$300 billion in revenue. Using broad numbers, the US imports about \$3 trillion each year. The \$300 billion he refers to is 10% of this figure, so you can infer that the final tariff will be around that figure. Some countries will pay more than 10%, and others will fare better, with an average somewhere around that figure. This doesn't mean everything will be settled on August 1st (the current deadline set by the US). We could see some higher tariffs at that stage, but I do think that as agreements and deals are negotiated, this is how things

will end up. To add some credibility to my thought here, I'll suggest that others in the market have also come to that conclusion.

As I mentioned last month, the 10% tariffs are not as punishing for the consumer as might be thought. First, the tariff is on the imported goods, and the bulk of the consumer price is added after the products pass through the port (about 60%). Second, if this is split several ways between the consumer and importer/retailer, then the impacts are muted. It makes sense that the tariffs are likely around that 10% mark, and with the impacts somewhat muted, the markets are not taking much action due to this impending deadline.

Current Investment Climate

The markets have rebounded strongly from the April lows and look steady. The economic data from Canada and the US doesn't suggest areas of significant concern. While there are some slowing figures, there are also good reasons to be optimistic. While the market has increased significantly, it's not a market where you can buy anything, but with some selective decisions, there are good investment opportunities.

The remaining half of 2025 could still prove very interesting for investors. There are several threats, but one of them is increased interest rates. You could see these come to bear in a couple of ways. First, in Canada, I don't think we would expect to see movement from the Bank of Canada. They're not in a position to raise rates, and at the same time, with the latest inflation and employment data, a cut is not likely at this point. The Canadian picture on that front is a little clearer than the US.

The US picture is more uncertain because of the looming threat to fire Jerome Powell. I don't know if Trump can do this, but he could at least try! His comments on firing him are mainly based on Powell not cutting interest rates fast enough for the President's liking. If he were to replace him, ostensibly, we would see interest rate cuts. Those rate cuts would apply to the shorter term, and the rates set by the Reserve are the overnight rates. If bond purchasers for the long term thought that this decrease would exacerbate inflation, there is a good chance that the long-term bond rates would rise as opposed to decline. And without getting into a long explanation of how things operate in the bond market, there are a couple of things to realize. First, the Federal Reserve only controls the overnight rate, which is short-term. They cannot directly control the long-term rate. Second, a rise in the long-term rates impacts the economy and the financial markets elsewhere. It makes financing more expensive for corporate (and government) borrowers. It will be very interesting to see whether we see a change in the Federal Reserve this fall, or whether Jerome Powell remains in this position until his term as Chairman is complete in May 2026.

These types of potential issues and disruptions in the market are exogenous. By that, I mean that outside influences create them. They emanate from the Trump administration and are not issues within the markets. Think of it in this manner. The financial crisis we saw in 2008-09 was internal. It was created within the economic system and the result of

several factors within the system. You could see with economics why this happened, and how things took place, because the causation was economic and financial. The issues in 2025 have primarily resulted from policies and actions, or geopolitical factors. Those are incredibly difficult to predict and forecast because they are human decisions and actions.

Dividends and Investment Decisions

- This section examines whether dividends are a reliable measure of an investment's value.
 - Many investors prefer dividend-paying companies for their steady income flow.
 - Total return—including dividends and capital gains—is more important than dividends alone.
 - Share buybacks have become an increasingly popular method for companies to return value to shareholders.
 - Share buybacks can offer tax advantages and are often more tax-efficient than dividends.
 - Some highly successful companies, such as Berkshire Hathaway, do not pay dividends but reinvest profits to foster business growth, ultimately benefiting shareholders in the long run.
 - The essential takeaway is that dividends should not be the sole criterion for evaluating an investment.
 - Investors should consider overall returns and the company's strategic approach when making decisions.
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Are Dividends a Good Measure of an Investment?

I get a lot of questions about dividends, enough that I thought it would be helpful to give some thoughts and explanations about whether dividends are essential and whether they're a good measure of a potential investment. A lot of people like dividend payers as investments, for various reasons. They like the cash flow, they want the investment account to have a bit of a buffer to see the values stay a little steadier, and some just like the income for their account or themselves.

First, to ensure we're all on the same page, a dividend is a distribution paid to the company's owners. As an owner of the company shares, you are a part-owner of that business (even if this is a tiny percentage!) and are entitled to those dividends. Investors commonly implement one of two strategies here. They will either buy the shares and take the dividends as cash to reinvest elsewhere or spend as income. Alternatively, they will hold the shares in a Dividend Reinvestment Program (DRIP) and use those dividend payments to buy more shares.

The most common question about dividend-paying companies is whether we should buy one with a high dividend payout. Of course, I can't answer that directly here; it depends on several factors. But it's important to recognize that the dividend payout is just part of your

total return. Your total investment return comprises the capital gains you see on the investment and distributions, which could be dividends, interest, or other ways for a company to return funds to shareholders. I am not concerned with how we receive a return on fund holdings. I'm not overly worried about whether we receive dividends or share buybacks, and instead focus on the total return, however we receive this total return.

Share buybacks have become increasingly prevalent over the past few years. A share buyback has the same impact for an investor as a dividend; it's another way a company distributes money to its shareholders. This can create a dilemma for investors who might otherwise look purely at dividends to analyze whether a company is a good investment. If the tax treatment is a primary concern, investors should prefer buybacks to dividends. The buyback will impact the long-term capital gain for a stock but not create a taxable event for the investor at the time. The dividend will create this taxable event and could have other ramifications for the investor (such as the claw back of Old Age Security and other government benefits).

Share buybacks have also thrown a wrinkle into analyzing whether something is a good investment from this perspective. While we have seen some overall dividend rates fall, and it might appear that some companies aren't paying as high a dividend as they once were, they are buying back shares instead. Because the share buyback is equivalent to a dividend, just looking at the dividend to determine whether something should be invested in will not provide you with the whole picture. In my opinion, many notable companies are great investments (in my opinion) that pay minimal or no dividends, but they have repurchased significant shares in the past 4-5 years.

Maybe this is a good time to shed some light on why a company might not pay you a dividend, but could still be a good investment. The most obvious is that they will put that money to work within the business to build your business into something better! Berkshire Hathaway is one of the most prevalent companies that pays no dividend and never has. Instead, they invest the dividends that they receive internally and build that business into much more than it was. They have plenty of cash and could send those funds to investors. Instead, they invested and compounded that money over many years to become their massive conglomerate. If Berkshire were to pay a dividend of, say \$10 per share per year to their investors, it could afford to do so. This would cost them roughly \$21 billion and immediately drop the business's value by that amount (that's how the dividend payment works, as they're transferring that value from the corporation to the owners). Chairman Warren Buffett believes shareholders are better served by reinvesting those funds into the business rather than paying a dividend, leading to a better share price over the long term. Frankly, given the results of Berkshire Hathaway, it's difficult to argue against his position!

Let me be clear that there is nothing wrong with dividends, and I'm not arguing that we should ignore them. I would say that they are not the primary consideration, and getting a

dividend or not getting a dividend should not be the determining factor in whether a business should be included as an investment.



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