BOREALIS GLOBAL MIDCAP EQUITY STRATEGY

Q1 2025

A GLOBAL CHESS GAME: RESHUFFLING THE RULES OF ENGAGEMENT

Changing Rules of Engagement

In the first quarter of 2025, global trade reached a major turning point, shaken by the new US administration's determination to renegotiate all its trade agreements. This redefinition of the rules of the game precipitated a global reorganization: against a backdrop of accelerating multilateral agreements, with China as a pivot, both commercial and military alliances are being redrawn.

China, and paradoxically Canada and Mexico, were targeted by particularly high tariffs: 60% on all Chinese imports and 25% on Canadian and Mexican products entering the US by land, specifically targeting lumber, automotive parts, and agricultural products. Major European exporters, from luxury goods to renewable energy, were also hit hard by the initial announcements of these new tariffs.

The first fruits of this new tariff strategy are already visible: a shift of investment toward US soil, to the detriment of Europe and Canada. The announcement of major new projects and accelerated production rates by Siemens Energy, Toyota, Honda, Lego, and TSMC testify to this trend, which is expected to continue over the coming quarters.

Conversely, many companies have put their investment plans on pause while awaiting the exact impact of the new tariffs on the entire production chain. This is particularly true in Europe, where political instability in France persists and Germany struggles to emerge from its technical recession. The German industrial slump is deepening, exacerbated by an automotive sector in the doldrums.

Across the Atlantic, despite this influx of industrial investment, 2025 began in a context of heightened unpredictability. The period is marked by early signs of a resurgence in inflation, consumer confidence at its lowest since the pandemic, and a global investment freeze, signaling a potential slowdown in the United States.

The rate-cutting cycle has been suspended in the US, but continues in Canada and Europe. The market pullback reflects the increased risk of inflationary slippage linked to tariffs, while consumer prices are stabilizing solely due to the drop in oil. Consumer confidence (Michigan) continues to erode, weighed down by mass layoffs, the market correction, the burden of tariffs, and inflation expectations at a 40-year high. Thus, the improvement in orders proved short-lived: the tariff announcement put a brutal brake on expectations, with the ISM New Orders index plunging from 55.1 in January to 45.2 in March

.Market Performance Review

This change of course at the White House weighed heavily on US equities, triggering a marked retreat in indices and a weakening of the dollar. Conversely, a geographical divergence is taking hold: international markets (excluding Japan) are advancing. In the first quarter of 2025, the MSCI World and MSCI ACWI indices posted a slight decline, down -1.74% and -1.28% respectively in Canadian dollar terms. The global mid-cap segment fared better with a contained decline of -0.22%, driven by the outperformance of the Value style. Strong gains in defensive sectors, including communication services (+18%), consumer staples, and utilities, helped offset the drop in growth sectors, dragged down by semiconductors (-21%) and consumer discretionary.

Strategy and Positioning

During the quarter, the outperformance of investments in consumer staples, healthcare, utilities, and renewable energy partially offset underperformance in consumer discretionary, materials, and technology, as well as the lack of investment in the energy sector. Holdings in Ryohin Keikaku, BJ's Wholesale Club, American Water Works, BioMérieux, and Nextracker contributed particularly positively to portfolio performance. In contrast, Globant, Burberry, VF Corp, Lululemon, and Kinaxis hurt portfolio results.

As of March 31, 2025, the portfolio was slightly underweight in North American and Asian markets and overweight in European markets. During the quarter, we took profits in financials and consolidated certain positions in the technology sector. The proceeds raised were reinvested at the end of the quarter to capitalize on the market correction.

New positions were initiated in the industrials and consumer staples sectors. The portfolio remains overweight in the technology sector, but we have initiated a rotation justified by more attractive relative valuations in the industrial sector.

While the portfolio exhibits a pro-cyclical bias, with an overweight position in technology, consumer discretionary, and industrials, we have begun building the more defensive portion of the portfolio. The portfolio maintains an underweight in financial services—with the exception of an overweight in the regional banking sub-sector—as well as in consumer staples, telecommunications, and energy.

Outlook: The Storm Before the Calm

While the threat of US tariffs weighed heavily on markets, numerous exemptions negotiated at the end of the quarter provided rapid relief, despite major concessions granted by key trading partners. These agreements had unequal scopes and allowed several countries, such as Italy, to strengthen their position as exporters.

Although global growth forecasts have been revised downward and caution prevails, we maintain a strong conviction on mid-caps, particularly in Europe. Their attractive valuations, coupled with German stimulus plans and their central role in reshoring and economic sovereignty strategies, make them prime opportunities for the years to come.

SOCIAL IMPACT

SUSTAINABILITY PERFORMANCE

	Portfolio	MSCI ACWI
ESG Combined Score (Refinitiv)	65	51
ESG Controversies Score (Refinitiv)	83	41
Corruption Perception Index Score (Transparency Intl)	71	67
W.A. Carbon Intensity (tons CO2e/U$M rev.)	46	125
Carbon Footprint (tons CO2e/US$M invested)	21	63
Clean Energy Exposure (% of AUM)	16%	29%
Water technology >50% of sales (% of AUM)	16%	3%
Exposure to controversial sectors (5+coal)	0.0%	7.5%
Board gender diversity (%)	36	33
Community Involvement Score (Refinitiv)	77.4	77.7
Microfinance investing (% of AUM)	6%	4%
SBTi Carbone reduction Near Term Targets	56%	33%
Of which Targets Committed	15%	14%
Of which Targets Set and Validated	85%	86%
SBTi Net Zero targets set	31%	11%
SBTi Near Term Targets Removed	0%	6%

Note: While AI tools (Gemini) were used to assist in drafting this newsletter, all content has been reviewed, verified, and finalized by Valérie Cecchini.