BOREALIS GLOBAL MIDCAP EQUITY STRATEGY

Q3 2025

ECONOMIC GROWTH: SMALL AND MID-CAP COMPANIES TAKE THE LEAD

The Return of Small and Mid-Sized Companies

Since the April 2025 low, we have observed a continued migration of capital. Investors are moving away from the high concentration and stretched valuations of large-cap stocks—particularly in technology—to redeploy assets into emerging markets as well as small and mid-cap stocks. The return of the easing cycle has also favored smaller companies, which tend to carry higher debt loads.

U.S. economic growth exceeded forecasts, supported by a labor market that appears strong on the surface, although statistics may have been clouded by the U.S. budget paralysis this autumn. While consumer prices (CPI) remain stable, upstream inflation (PPI) is accelerating, causing the Federal Reserve to hesitate regarding its next move. Corporate agility, combined with inventory normalization, helped limit discounting and protect margins during the quarter. However, a significant portion of U.S. sales growth was driven by a favorable exchange rate (USD weakness) and price increases, rather than volume growth.

During the quarter, the disconnect between household sentiment and spending propensity was striking. Despite low morale (with the Michigan sentiment index showing only a fleeting rebound), consumption proved more resilient than expected. This resilience may be explained by a major structural shift that began a decade ago but now seems firmly established with the new generation. With mortgage rates and home prices still elevated, homeownership remains difficult to access. Lacking purchase prospects, savings that might have been used for a down payment are being massively redirected toward discretionary consumption. This trend has put a sudden brake on the entire real estate ecosystem, from builders and equipment manufacturers to renovation specialists.

Market Performance

The rebound that began in the second quarter continued into the third, with small caps outperforming large caps driven by growth stocks. In US dollars, the MSCI ACWI and MSCI World indices posted solid returns of 7.62% and 7.27%, respectively, while the Small Cap World index outperformed with a gain of 8.53%.

The Mid-Cap World index advanced more modestly by 4.62% in US currency. Although supported by Japan and Canada (the latter benefiting from strength in technology and commodities), it was held back by Europe, as well as the consumer goods, software, and financial services sectors.

Strategy and Positioning

Outperformance in the Industrials and Technology sectors was the primary source of value added during the third quarter of 2025. Investments in Consumer Discretionary and Materials, along with zero exposure to the Energy and Telecommunication Services sectors, detracted from performance during the quarter. Lattice Semiconductor, PTC, Nextpower, Assa Abloy, and VF Corp were the top contributors to security selection. Conversely, Kinaxis, Qiagen, Brunello Cucinelli, Smurfit Westrock, and Ryohin Keikaku had a negative impact on strategy performance.

As of September 30, 2025, the portfolio remained overweight in North American and European markets, while maintaining a persistent underweight in Asian markets, excluding Japan. During the quarter, we continued to increase our exposure to Germany and the United States, notably through the addition of new positions. The Industrials and Health Care sectors continue to represent our largest overweights relative to the benchmark. Although the strategy maintains a pro-cyclical bias, we continue to build its defensive portion.

The portfolio's average market capitalization stood at CAD 19.6 billion at quarter-end, with a median of USD 14.2 billion. The top 15 positions accounted for 45.4% of the total portfolio value. This relative concentration constitutes the main factor of portfolio volatility. The portfolio's share of green revenues stood at 14.3%, nearly double that of its benchmark.

Outlook: Between Easing and Vigilance

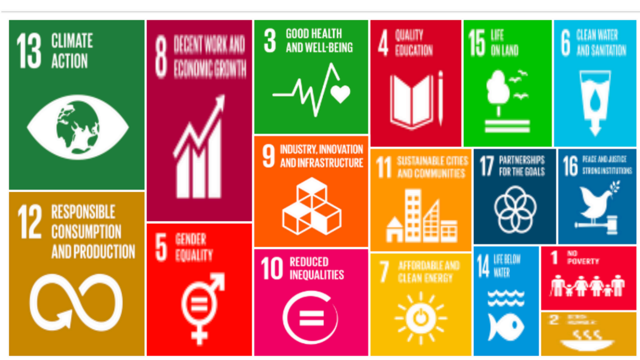
Since the beginning of 2025, we have witnessed a dual dynamic: a race for international trade agreements combined with a resurgence of protectionism—the legacy of numerous elections held globally over the past eighteen months. A standoff has also emerged between new leaders, who promised better days to citizens, and central banks intent on maintaining monetary discipline.

Japan remains ideally positioned to capitalize on the anticipated economic recovery in Asia, despite tighter controls on foreign investment. The stimulus policy led by Prime Minister Sanae Takaichi—featuring tax relief for households (particularly lower-income ones) and a halt to rate hikes—should support domestic growth. In Europe, divisions over fiscal and budgetary strategies are expected to persist, while in the U.S., the positive "back-to-school" dynamic is expected to continue through Black Friday. Investment flows are redeploying geographically without progressing in volume.

This lack of organic growth creates favorable conditions for mergers and acquisitions, which should accelerate over the coming quarters, given that monetary easing in the U.S., Europe, and the U.K. may not be sufficient to stimulate growth beyond year-end. These conditions are also favorable for the small and mid-cap segment, which offers sources of external growth at valuations that remain attractive.

In this context, we continue to pivot the portfolio toward more defensive sectors (consumer staples, recurring business models) and remain attentive to stimulus policies, political stabilization in Europe, and the trade agreements that will continue to emerge in the coming months and shape global trades for the years to come.

SOCIAL IMPACT



SUSTAINABILITY PERFORMANCE

	Portfolio	MSCI ACWI
ESG Combined Score (Refinitiv)	63	50
ESG Controversies Score (Refinitiv)	81	39
Corruption Perception Index Score (Transparency Intl)	63	67
W.A. Carbon Intensity (tons CO2e/U$M rev.)	42	119
Carbon Footprint (tons CO2e/US$M invested)	19	53
Clean Energy Exposure (% of AUM)	18%	31%
Water technology >50% of sales (% of AUM)	18%	4%
Exposure to controversial sectors (5+coal)	0.0%	5.3%
Board gender diversity (%)	36	33
Community Involvement Score (Refinitiv)	75.3	76.8
Microfinance investing (% of AUM)	6%	5%
SBTi Carbone reduction Near Term Targets	43%	32%
Of which Targets Committed	10%	11%
Of which Targets Set and Validated	90%	89%
SBTi Net Zero targets set	24%	12%
SBTi Near Term Targets Removed	0%	7%

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

BOREALIS Global Asset Management

Certified B Corporation

www.borealis-gam.com