Overview

The Fund posted a return of +0.95% in Q4, 2024 and +9.95% for the year. Our blended benchmark returned -1.99 and +9.18% respectively, so Q4 was period of solid outperformance.

Our outperformance in Q4 was largely the result of limiting non-US equity exposure, tilting further into smaller capitalized US companies, maintaining exposure to US dollars and boosting our allocation to commodities – especially gold and bitcoin.

Our GIP Model (Growth, Inflation and Policy) drives our top-down approach to managing money. Our forecast for inflationary stickiness and a solid US GDP backdrop thanks to rising US government deficits and income wage growth, kept the US in QUAD 2, while the rest of the world was stuck in QUAD 3 stagflationary conditions.

We noted in prior quarters that the "P" (Policy) conditions were making forecasting macro-outcomes more challenging. In Q4 that has changed somewhat with the election of Donald Trump as the incoming President of the US. The known facts are that his basic policy of "America First" which includes "beautiful" tariffs, immigration restrictions, tax cuts, and deregulation, will be implemented. The unknown facts are that we don't really know the sequencing or the size of the changes yet to understand the future path of inflation and growth. Consequently, we are defensively invested purely on the grounds of uncertainty. We will know more post the January 20th Trump inauguration.

A key development is the appointment of Scott Bessent to run the US Treasury Department. Mr. Bessent is well known to the investment community and his views are widely understood. His 3-3-3 policy program (3% government deficits to GDP, 3 million bpd in growth of oil equivalents, and 3% real GDP growth via de-regulation) is an overall pro-growth policy.

Currently we are forecasting moving between QUAD 2 and 3 (between inflationary growth and stagflationary conditions) for the next 6 months in the US. Consensus for real US GDP in 2025 is +2.1%. Analysts have trimmed the rapid 2024 growth rate of approximately 2.7% down, especially in the 2H 2025. We are estimating a solid Quad 2 in Q1 25 but with growth tailing off for the balance of the year on QoQ and YoY basis. We don't believe the US equity market is positioned for this change of direction likely due to the optimism around Trump policies.

Our outlook for US inflation is for headline CPI to steadily accelerate through the third quarter of 2025. Our forecast is higher than consensus and if we are proven correct, it will be difficult for the FED to cut and for duration to rally. This is the challenge for the pro growth policy of Trump.

Asset Allocation

Asset Allocation	Benchmark	Exposure as of 3Q24	Exposure as of 4Q24	Change
Equities	50.0%	56.2%	50.9%	-5.3%
Fixed Income	40.0%	30.9%	25.4%	-5.5%
Commodities	10.0%	8.2%	9.6%	1.4%
Cash	0.0%	4.7%	14.1%	9.4%

We closed the year with a large amount of cash (14%) given our comments above. In part this is a function of our still negative view of bonds and duration in general. A further 25% is in US fixed income with a duration of under 3 years. Equities are at the benchmark level of 50% along with commodities at almost 10%.

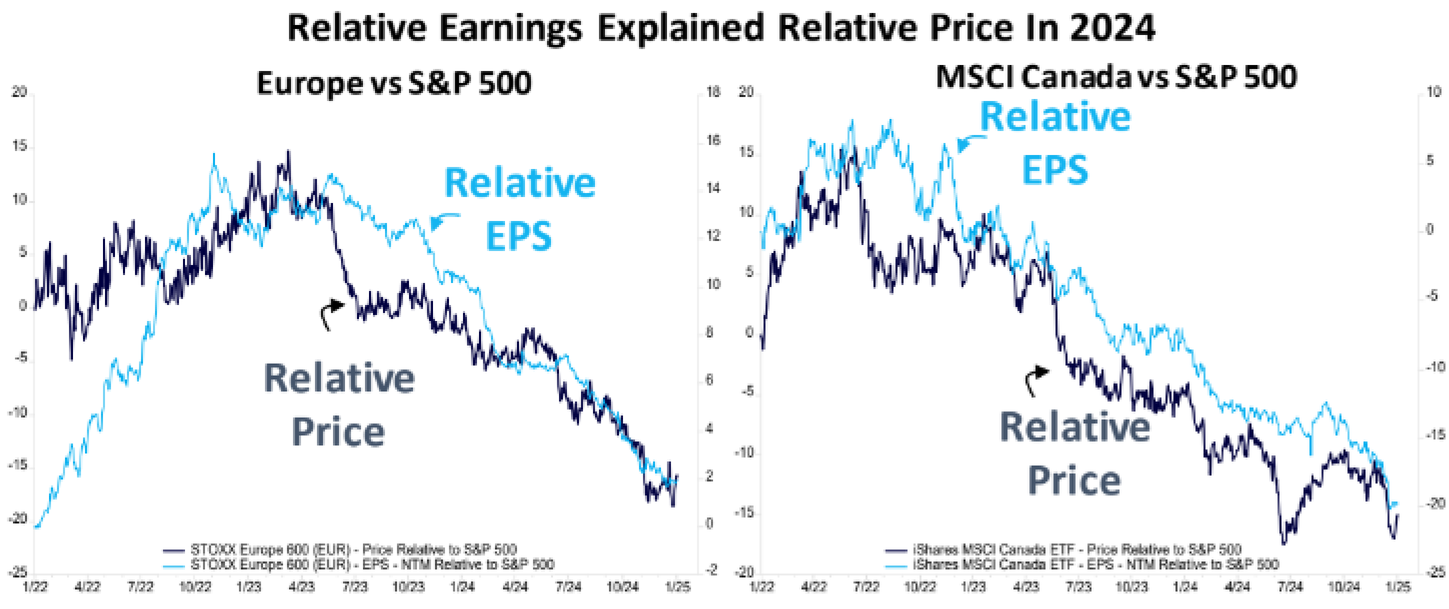
Equities

Region	ETF	Q4	2024 Year
Global	ACWI	-0.99%	17.46%
US	SPY US	2.4%	24.89%
Non-US	ETA US	-8.11%	3.51%
Emerging Markets	EEM US	-7.27%	6.50%

As noted above, if you were not invested in US and Canadian stocks you really underperformed a global equity mandate. With the rest of the world largely in QUAD 3, it is not surprising that Europe, Japan and Emerging Markets were all negative on the quarter. Canada was a bright spot up 3.8% on the back of firming energy and financial shares and a lower C$.

US large cap equities are not cheap. A good deal of the +20% gains in back-to-back years has been the result of multiple expansion. We are now at the high end of historical levels and as such we expect earnings growth only to generate returns. The market has EPS for the S&P growing 17% in 2025 which seems high to us but again policy will have an important role to play. Nominal GDP growth will be critical

There is no question that the Trump presidency has injected fear into markets outside of the US. We will be watching to see how the extent of tariffs and other foreign policy initiatives impact these markets. The chart below shows that these markets have just not delivered the earnings growth relative to the US.



Source: Piper Sandler

Emerging market performance will be tied to US-China relations under Trump's administration. Do we get détente and a warming of relations or is it economic war? If we were to guess, it will be somewhere in the middle – less bark than bite – but again it is not something were are comfortable overweighting on a very low conviction level.

In terms of sectors, it was the year of tech, communications and consumer discretionary and that is also where the MAG 7 are located. The only other sector to outperform the S&P 500 was financials on the back of hoped for lower regulatory burdens. A contrarian would favour energy, healthcare, materials etc. going into 2025. We have started to add to these sectors as there now many idiosyncratic opportunities.

Sectors	Exemplar Global G&I	ACWI	Overweight/Underweight
Communications	9.16	9.08	0.08
Consumer Discretionary	6.88	10.64	-3.76
Consumer Staples	3.04	5.97	-2.93
Energy	6.84	4.04	2.8
Financials	13.02	17.27	-4.25
Health Care	4.48	9.57	-5.09
Industrials	13.66	9.5	4.16
Materials	4.18	3.89	0.29
Real Estate	2.18	1.98	0.2
Information	17.96	25.5	-7.54
Utilities	3.82	2.49	1.33

Finally, in terms of factors, throughout the year, it was all about momentum, large stocks over small stocks and growth over value. The only unusual factor discrepancy was high beta under performing low volatility; this was largely due to the performance of utilities on the back of hyperscaler demand for power and rising energy costs.

With the new Trump administration, the promise of de-regulation should mean that a broader range of equities (not just mega-cap) will perform as additional merger and acquisition activity should ensue along with additional capital investment. In terms of ETF's, we would favour RSP (equal weight S&P) over SPY (Market cap weighted). We will see.

Fixed Income

Bonds	Duration	Exposure
Long Term	>10yrs	0%
Medium Term	5-10yrs	5.50%
Short Term	<5yrs	14.60%

Gov't		100%
Credit		0%

The Bloomberg Global Aggregate Bond Index as measured by the VGAB ETF was down 2.1% in Q4 and returned only 0.81% for the year. Despite the 100 basis points cut in rates by the FED, the 10-year yield on US treasury bonds rose by 69 bps to 4.57% by the end of the year. Credit, a QUAD 2 allocation, performed better than government bonds, especially at the short end.

Bond yields have risen largely on the back of stronger economic growth especially post the 50bps cut this past September. The market is also signalling through higher term premiums that funding debts and deficits in 2025 will require higher yields to attract buyers. Our view is that 10-year bonds in the 4.75% to 5% yield area are reasonably good value and importantly can act as a diversifier should the Trump economic agenda falter.

Commodities

The broad-based Invesco DB Commodity Index (DBC) returned 1.12% in Q4 and 2.18% for the year – only slightly better than bonds. However, gold (GLD) returned 26.6% for the year and bitcoin (IBIT) returned over 100%! Having a reasonable amount in gold over the year (2%-5%) and bitcoin (at 0.5% to 1.0%) helped returns and diversification.

Foreign Exchange

The US dollar was the centre of the universe in 2024 with American exceptionalism holding sway. The USD appreciated over 5% against the C$ and the euro. A higher dollar is generally poor news for S&P earnings and global liquidity. We are getting mixed news from the Trump team on whether they prefer a weaker or softer USD, but again the policy mix will be critical to watch along with the FED's reaction function.

Bonds	FX Exposure (%)
CAD	62.50
USD	30.50
Other	0.60
GBP	4.10
EUR	0.30
JPY	2.00
Total Fund	**100%**

Concluding Thoughts

The Fund had a good year. We beat our benchmark by being under weight bonds and duration, overweight US equities versus the rest of the world, and long gold and the USD. We could have a had a great year if we had had more equities i.e. closer to 60% on average. Our focus on risk management and downside protection however prevailed.

What could change in 2025? Plenty. We will know more soon in terms of policy in the US. How the rest of the world reacts will also inform our positioning. It is very hard to forecast right now because the deltas on policy changes are very large. If global inflation results, we will favour equities, gold, short term bonds and the USD. If global growth results, will favour international equities and currencies, hard assets and global credit.

As Canadians, there is great deal of uncertainty priced into the C$, but is it enough? What will be the impact of Trump's tariffs and how will Canada react and manage? Will political change here in Canada impact policy? We are likely going to experience a great deal of volatility in 2025. Fasten your seatbelts as it will be bumpy!

*Our internal benchmark is not a traditional 60/40 or 50/50 stock to bond benchmark used by most of our peers. Rather we include commodities as this improves the overall risk/return ratio. We have back tested an allocation of 50% stocks / 40% bonds / 10% commodities and this model has generated lower volatility and better risk adjusted returns over the long run. As you would expect, it is especially good during inflationary periods. You can see the impact in Q1 below for example given the poor performance of bonds versus commodities. Feel free to ask your wholesaler for further details if you like.

	Benchmark Weight	Underlying Benchmark	Q4 Performance
Equities	50%	ACWI ETF	-0.99
Bonds	40%	VGAB ETF	-2.15
Commodities	10%	DBA ETF	1.12
Benchmark Total			-0.95

Historical Performance	1 yr	3 yr	ITD
Exemplar Global Growth & Income Fund - Ser FD	9.95	0.64	0.64

Returns as of December 31, 2024

Effective June 25, 2024, Exemplar Global Growth and Income Class was merged into Exemplar Global Growth and Income Fund as part of the corporate class fund mergers. Effective April 16, 2024, Series A and F Shares of Exemplar Global Growth and Income Class were re-designated as Series AD and FD Shares, and Series AN and FN Share were re-designated as Series A and F Shares.

Commissions, trailing commissions, management and performance fees and expenses all may be associated with mutual fund and exchange-traded fund (ETF) investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compound total returns net of fees and expenses payable by the fund (except for figures of one year or less, which are simple total returns) including changes in security 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 and ETFs are not guaranteed, their values change frequently and past performance may not be repeated. You will usually pay brokerage fees to your dealer if you purchase or sell securities of an ETF on recognized Canadian exchanges. If the securities are purchased or sold on these Canadian exchanges, investors may pay more than the current net asset value when buying securities of the ETF and may receive less than the current net asset value when selling them.

The rates of return are used only to illustrate the effects of the compound growth rate and are not intended to reflect future values or returns on investment in an investment fund.

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The comparison presented is intended to illustrate the historical performance of Exemplar Growth and Income Fund (the “Fund”) as compared with the historical performance of a widely quoted market index or a weighted blend of widely quoted market indices or other investments. There are various important differences that may exist between the Fund and the stated indices or other investments that may affect the performance of each. The objectives and strategies of the Fund result in holdings that do not necessarily reflect the constituents of and their weights within the comparable indices. Indexes are unmanaged and their returns do not include any sales charges or fees. It is not possible to invest directly in market indices. Certain statements contained in this communication are based in whole or in part on information provided by third parties and Arrow Capital Management has taken reasonable steps to ensure their accuracy. Market conditions may change which may impact the information contained in this document.

More information about the Fund can be found on our website www.arrow-capital.com. Published January 2025.