



Investment success doesn't come from buying good things, but rather from buying things well.

– Howard Marks



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Tug of War

Investors today find themselves pulled in two directions. On one side: strong corporate earnings, a resilient consumer, and an economy that continues to hold up reasonably well. On the other: ongoing geopolitical tensions, military action in the Middle East, and continued uncertainty surrounding Canada - U.S. trade. In periods like these, headlines can easily drive emotion and distract investors from what matters most: maintaining an appropriate asset allocation, staying well diversified, and owning high-quality businesses at attractive valuations.

What's to like

One of the strongest supports for equity markets continues to be the strength of corporate earnings. S&P 500 earnings continue to impress, largely fueled by technology and communications. Revenues have also been impressive, growing approximately 15% year-over-year, their strongest pace since 2021. While geopolitical risks and economic uncertainty continue to dominate the headlines, corporate America remains resilient, with businesses continuing to grow revenues, generating strong profits, buying back shares, and creating shareholder value as a result.

Corporate earnings in Canada have also been resilient. Despite a more challenging domestic economy and ongoing trade uncertainty, many of Canada's largest companies have continued to deliver strong profit growth. The banks have been a particular source of strength, with recent results showing double-digit earnings increases, while strong results have also extended into industrial, technology and consumer businesses.

If the recent Canadian Investment Summit lives up to expectations, the anticipated inflow of foreign investment should bolster the economy for years to come.

Tariffs

The greatest risk to this strong corporate backdrop may be a prolonged North American trade war. If tariffs persist or escalate, businesses on both sides of the border could face higher input costs, disrupted supply chains and greater uncertainty, all of which would put pressure on profit margins while potentially delaying investment and hiring.

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The Bank of Canada has highlighted these same risks, particularly for highly integrated industries where components can cross the Canada - U.S. border multiple times during production.

For investors, the concern is that tariffs could ultimately translate into slower economic growth, higher inflation and weaker corporate earnings. Just as importantly, continued uncertainty around trade policy can make it more difficult for businesses to plan and invest, resulting in ongoing market volatility even when underlying corporate fundamentals remain sound.

“Bond Bloodbath” ... for some

The media has an excellent track record for scaring investors, this time with respect to the “bloodbath in bonds” over the past several weeks. The truth is that yields have risen as a direct result of stubbornly high inflation and the possibility of rising rates in the future. Bond prices move inversely to interest rates. As yields have risen, longer dated bonds (10 - 30 years) have seen the sharpest declines, and holders of those bonds have had a painful ride. However, short-term bonds (1 - 5 years) have been minimally impacted. Our bond portfolios focus on the shorter-term as we view bonds as a volatility dampener and source of reliable income – and don’t want to be exposed to the risk of sharply rising rates.

Is it too late to buy?

One of the most common questions asked by investors is: “After such a great run in the markets, is it too late to invest new money now?”

The answer is two-fold: it depends on your time horizon, and no, it is not too late. Markets suffer steep declines from time-to-time. That is the price investors pay for returns that are greater than guaranteed bank deposits.

The key is to own great businesses whose shares are attractively priced.

The financial crisis provides a great example of this.

The stock market’s all-time closing high, before the financial crisis, was reached on October 9, 2007. The market then fell to its lowest closing price during the crisis on March 9, 2009. If one had invested at the high, there would certainly have been a steep decline over the next 17 months.

However, despite that decline, the investment made on October 9, 2007 (the worst possible time to have invested) would have still generated a very healthy annualized return over time. An annualized return is the average rate of return an investment earned per year over a given period, accounting for compounding. The table below illustrates this well. For example, an investor who purchased American Express on October 9, 2007, at \$62.52 per share, would have seen the share price decline to \$10.64 per share. However, had they simply held on, they would have generated a 10.87% annualized return - despite purchasing American Express at the worst possible time:

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	Price: 10/9/2007	Price: 03/9/2009	Annualized Return: 10/9/2007 - 8/31/2026
American Express	\$62.52	\$10.64	10.87%
Allstate	\$58.83	\$14.12	10.77%
Berkshire Hathaway	\$122,700	\$73,285	10.10%
Microsoft	\$30.10	\$15.15	18.23%
Kimberly-Clark	\$70.03	\$43.41	6.00%
SunLife	\$52.77	\$15.00	8.50%
Loblaw	\$45.50	\$31.05	12.52%
Royal Bank of Canada	\$55.76	\$28.79	13.36%

Source: Bloomberg

When owning quality businesses, such as those featured in the table above, one should focus far less on timing, and should enjoy the rewards of wealth creation, and inflation protection, over time.

Below are three companies we introduced to the Global portfolio in the third quarter of this year. Each of which represent the type of competitive positioning, balance sheet strength, and quality value that is a common theme across the entire portfolio.

PepsiCo

While many associate PepsiCo primarily with its namesake carbonated soft drink, the company today actually earns more from its food and snacks division (comprising iconic brands such as Lay's, Doritos, Cheetos, and Tostitos).

Unlike Coca-Cola, which sells syrup to independent bottlers, PepsiCo is vertically integrated and views the ability to distribute its beverages (including Gatorade, Mountain Dew, Lipton, and various waters such as Bubly) directly to retailers, as a key competitive advantage.

Their extensive international footprint spans most of the globe, providing direct exposure to rising consumer incomes and growing snack penetration across emerging markets. The business has shown itself to be a modest but predictable revenue grower, while becoming incrementally more profitable over time. Management maintains a disciplined approach to capital allocation, continuously investing in productivity initiatives, while refreshing the product portfolio, both through reformulations of existing lines and selective acquisitions. However, most of the prodigious free cash flow is returned to shareholders each year. As a longstanding dividend aristocrat, they have now increased their payout for over 50 consecutive years. PepsiCo represents a classic defensive compounder capable of navigating macroeconomic volatility while delivering reliable long-term returns.

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EssilorLuxottica

Formed through the 2018 merger of French ophthalmic lens pioneer Essilor and Italian eyewear giant Luxottica, EssilorLuxottica is the undisputed global leader in the design, manufacture, and distribution of prescription lenses, frames, and sunglasses. In addition to owning brands such as Ray-Ban and Oakley, the company operates a fully vertically integrated business model spanning R&D, lens manufacturing, brand licensing (Prada, Gucci, Tom Ford and a slew of others), and an extensive global retail network that includes LensCrafters and Sunglass Hut.

This integration allows the group to capture value across every step of the vision care value chain. The investment case is anchored by strong structural tailwinds, including an ageing global population, increasing prevalence of myopia (nearsightedness) driven by screen usage, and expanding access to vision care in emerging markets.

Furthermore, the company is at the forefront of optical innovation, leading the market in myopia control lenses and pioneering smart eyewear partnerships, most notably with Meta on Ray-Ban smart glasses. Supported by high barriers to entry, pricing power, strong free cash flow generation, and a conservative balance sheet, EssilorLuxottica provides a highly defensible, high-quality exposure to the secular growth of the global eye healthcare market.



Zoetis

Spun out of Pfizer in 2013, Zoetis is the world's leading animal pharmaceutical business. Products cater to both commercial livestock production (cattle, swine, poultry, fish, etc.) and companion animals (dogs, cats, and horses). Unlike human pharmaceuticals, the animal health sector benefits from significantly less regulation, shorter development timelines, and longer product lifecycles. Indeed, its product portfolio is highly diversified and has been very durable, with the average market life of its top products spanning approximately 30 years.

The companion animal segment, which now accounts for the majority of revenues, is driven by the ongoing "pet humanization" trend, with owners increasingly willing to spend on advanced healthcare, dermatology, and pain management solutions for their pets. Meanwhile, its livestock business provides steadier demand tied to global protein consumption and food security. The company commands leading market positions across multiple therapeutic areas, bolstered by an industry-leading R&D engine and an extensive direct sales force. Growth is heightened by emerging therapeutic areas such as cardiology, obesity and anxiety (reputedly over 70% of dogs today face anxiety challenges). Supported by high operating margins and strong cash generation, Zoetis offers an attractive blend of defensive characteristics alongside secular growth.



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Final Thoughts

The quote at the beginning of this letter captures an important principle of investing: a great company is not necessarily a great investment at any price. Price matters, and owning high-quality businesses, purchased at sensible valuations, and having the patience to allow those businesses to compound in value over time, is one of the most reliable ways to build wealth over the long term.

Markets will rise and fall, headlines will change, and periods of uncertainty are inevitable.

As always, the best response is not to try to predict market movements, but to remain disciplined - focused on quality, valuation, diversification and a long-term perspective. That philosophy has guided us through many market cycles, and it remains at the heart of how we grow and protect our clients' wealth.

Sincerely,



Lorne Steinberg
Co-President

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