

# MACRO INVESTMENT DIVISION

**HECONOMIE**  
Global Research

## Tactical Allocation Team Pitch *Macro Review*

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February 2026



# TODAY'S AGENDA

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# I. Executive Summary

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# Macro Team Division

Revamped Macro Investment Team - Now Larger, Sharper, and More Equipped than Ever

## Team Composition



**Hugo Brossard**  
Chief Investment Officer

Previous experiences:



3  
Years of experience

Interests: Skiing, F1,  
Space Exploration



**Mika Grenier**  
Investment Associate

Previous experiences:



Interests: Ski, Reading



**Zineb Bouchich**  
Investment Analyst

Previous experiences:



1  
Years of experience

Interests: History, Painting



**Laurent Desorcy-Dupont**  
Investment Analyst

Previous experiences:



Interests: Hockey,  
Traveling, Politics



**Isabelle Yu**  
Investment Analyst

Previous experiences:



Interests: Music, Cooking



**Diego Menda**  
Investment Analyst

Previous experiences:



Interests: Soccer, Music,  
Languages



## Our Raison d'Être



Supercharging Near-Term Performance by Seizing Short-Term Opportunistic Allocation



Strategically Shielding the Portfolio by Anticipating and Mitigating Emerging Risks



Empowering Portfolio Agility with Real-Time Asset Allocation Adjustments



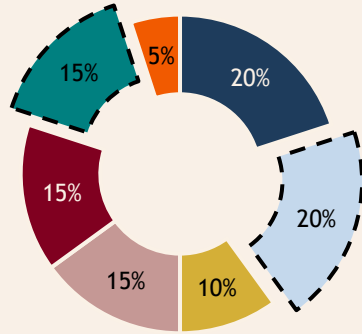
Maximizing Risk-Adjusted Returns by Continuously Balancing Growth Potential and Stability

# Proposed Allocation

Optimized for the Next 6 Months of Trend Impact with Precise Asset Positioning

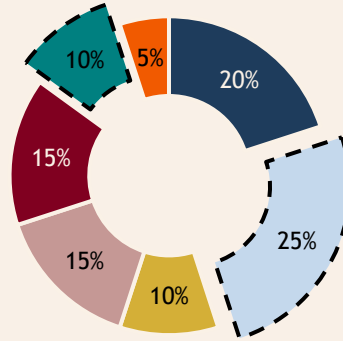
## Current Allocation

- USE
- CE
- SCA
- EE
- EM
- GPE
- C&E

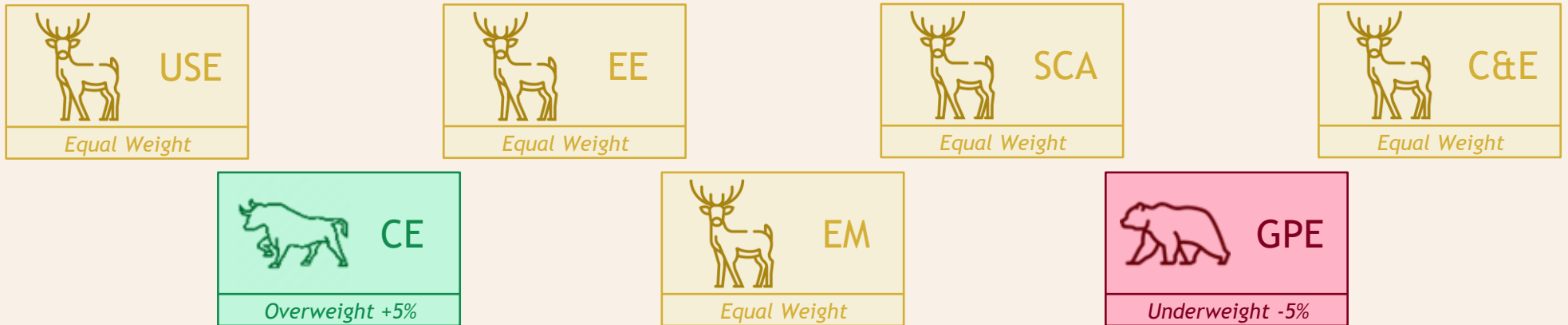


## Proposed Allocation

- USE
- CE
- SCA
- EE
- EM
- GPE
- C&E

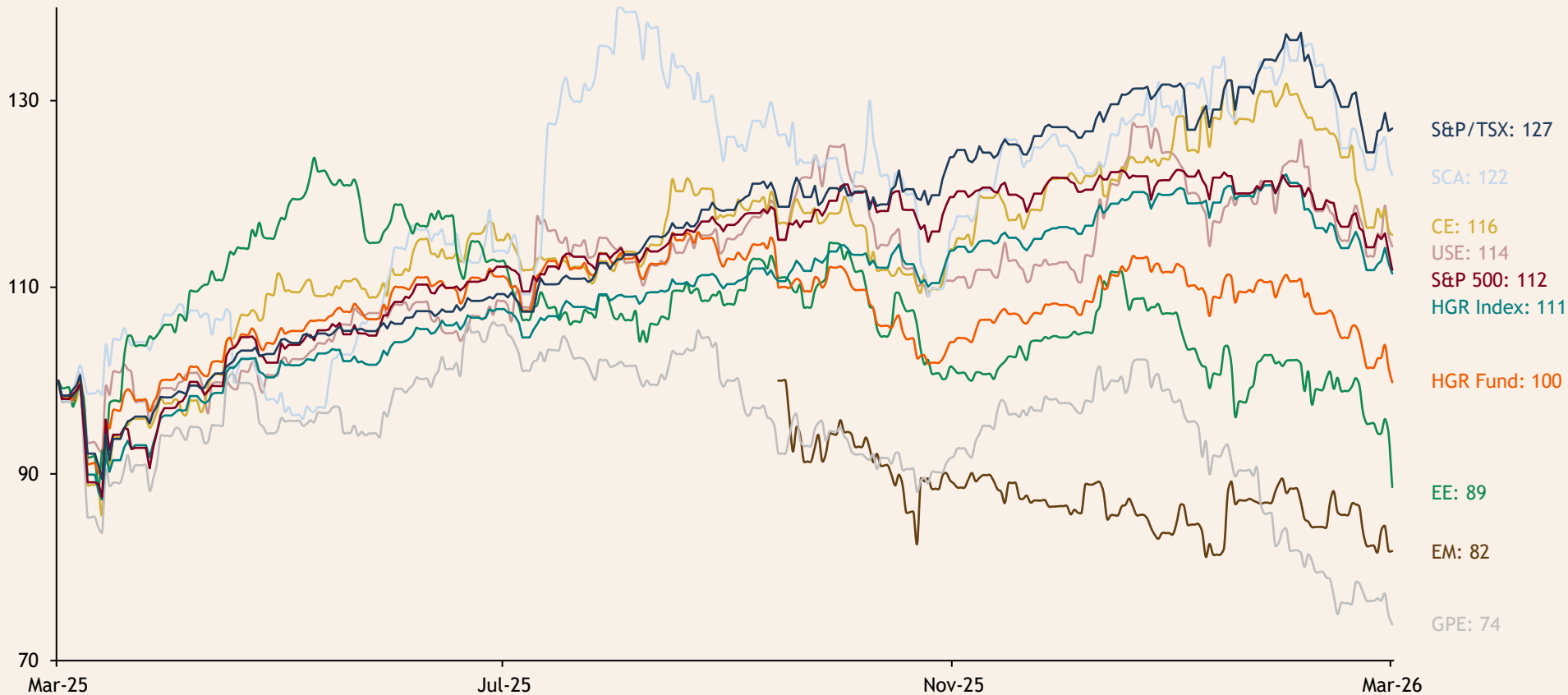


## Proposed Portfolio Positioning (vs Index)



# HGR Fund Performance Review LTM

## Performance Review - Capital Gains (Unrealized Returns)



Since TAT's Fall  
2025 Pitch ...

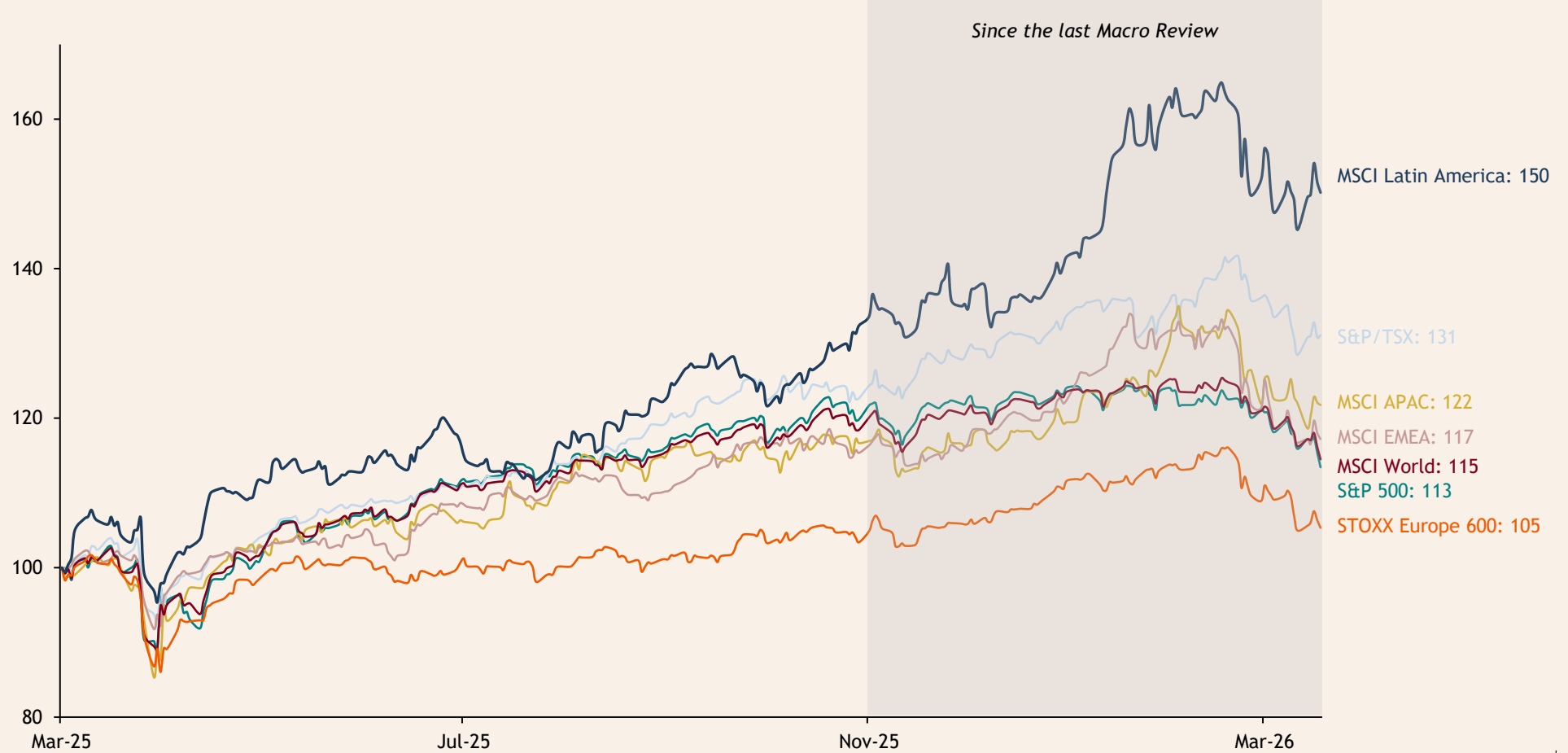
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# World Markets Performance Review

The Latin America and Canadian Stock Markets Have Outperformed the Rest in the Last 12 Months

## LTM Stock Market Performance by World Indices



- Executive Summary
- Global Macro Review
- Funds' Review
- Appendix

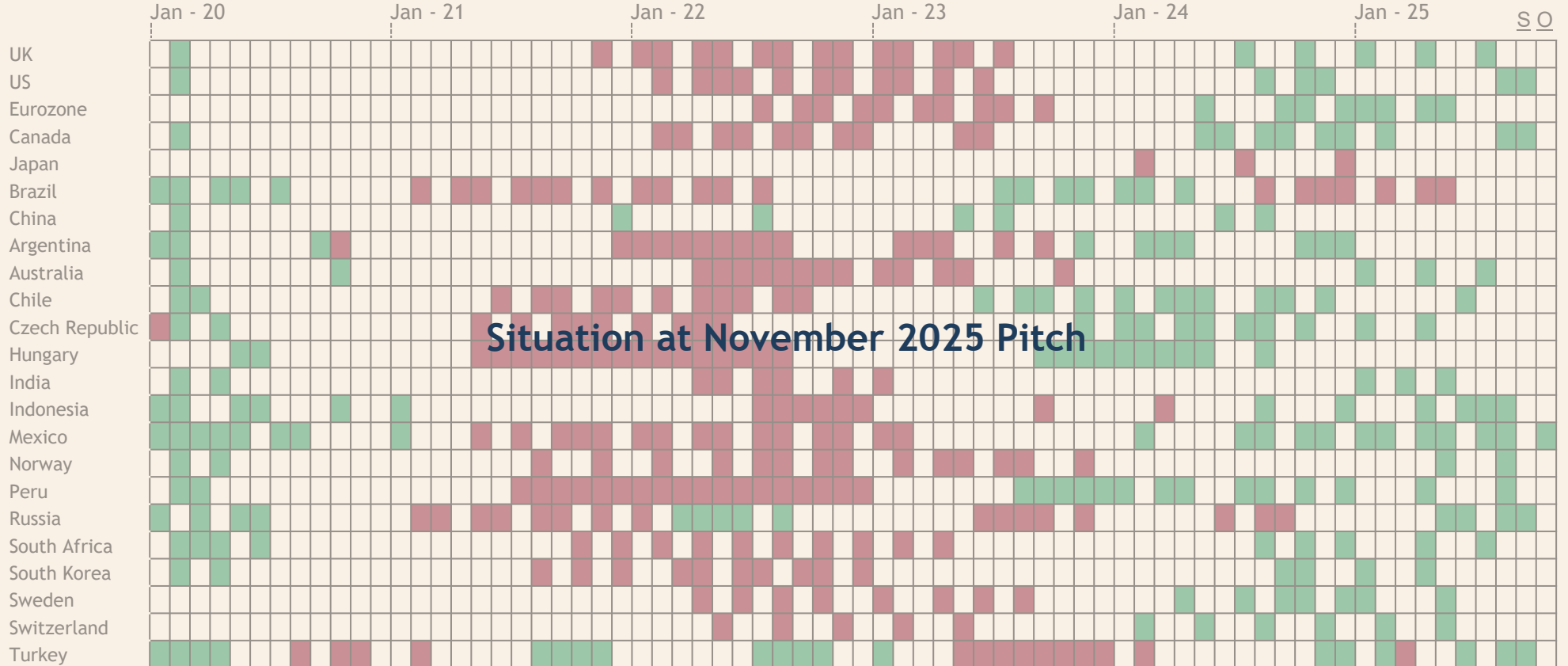
# Global Macro Pulse Check

Signals of Interest Rates Pauses Loom Over Concerns Inflation Uncertainty

## Central Bank Policy Rate Decisions

Policy rate decision: ■ Cut ■ Hike  Neutral

- Executive Summary
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- Appendix



Situation at November 2025 Pitch

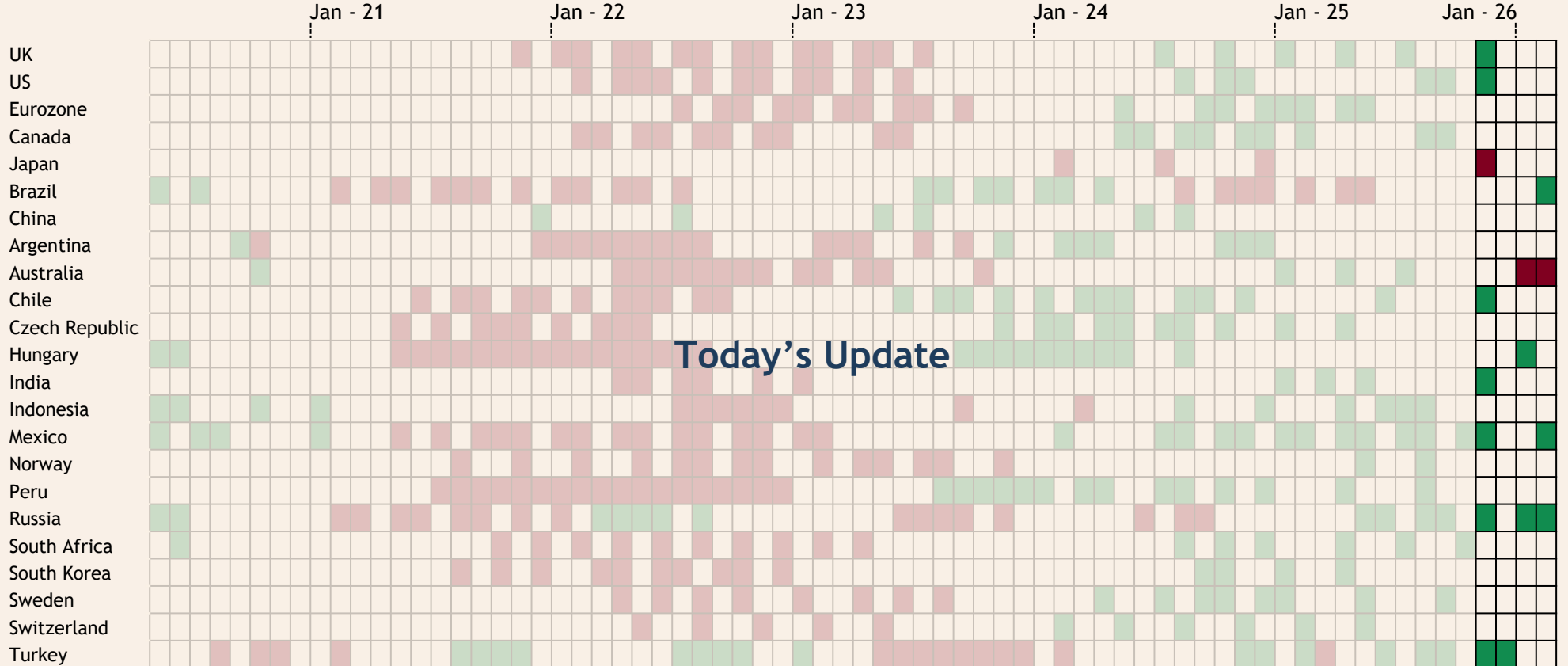
# Global Macro Pulse Check

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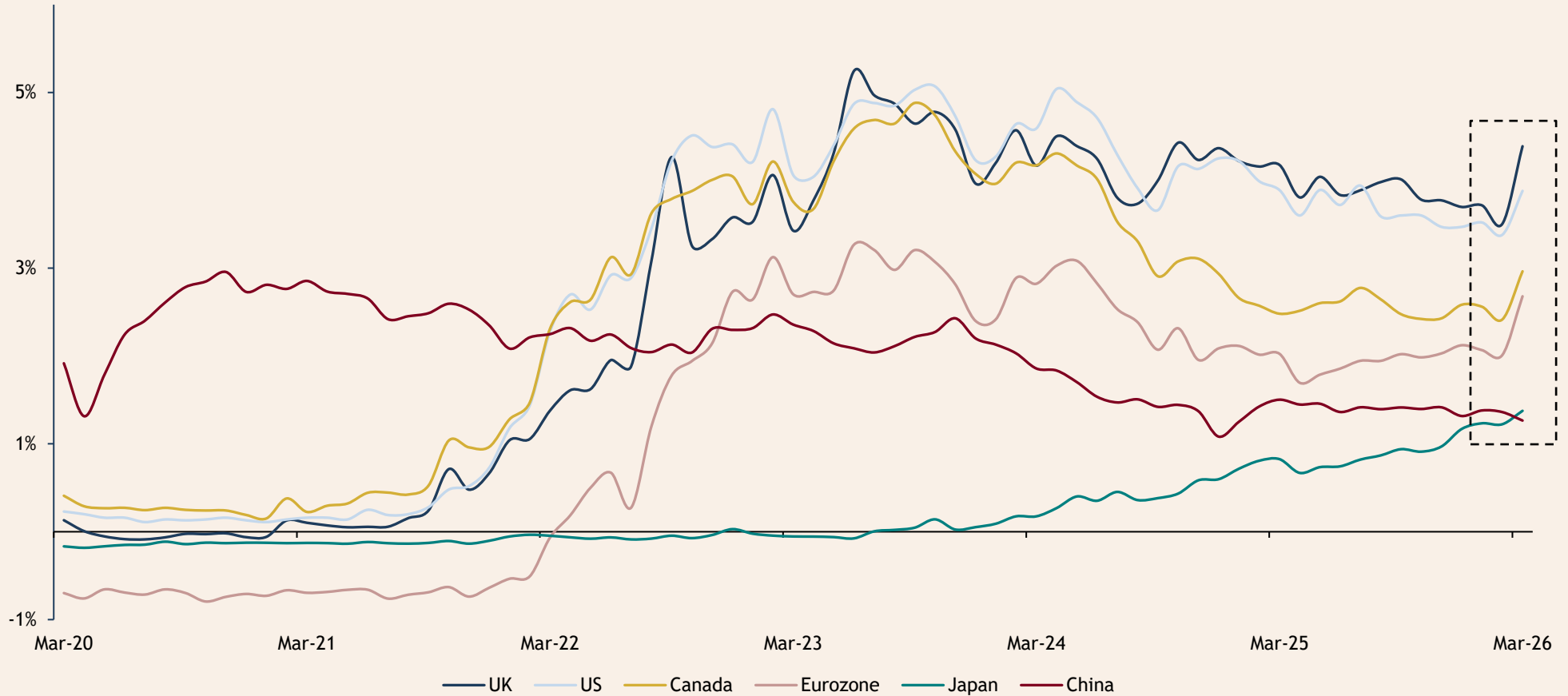
Today's Update

Sources: Financial Times: Inflation and Interest Rates Tracker

# Global Macro Pulse Check

Heightened Inflation Fear Due to Middle East's Recent Development

## 2-Year Government Notes Yield



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- Global Macro Review
- Funds' Review
- Appendix

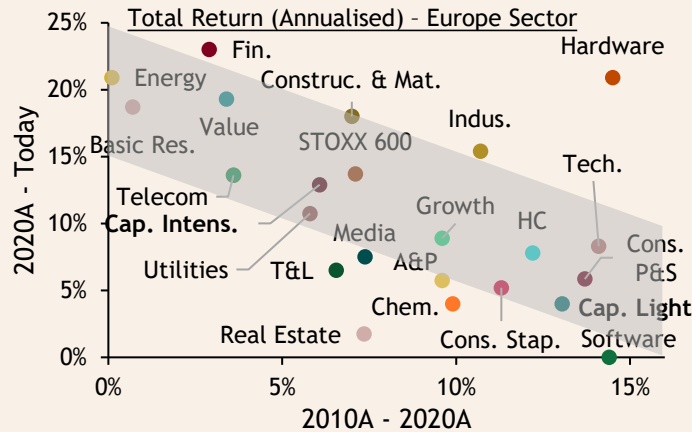
# In the Era of AI Disruption, Capital Intensives Seek to Lead

The Forces Supporting Assets that are Costly to Replicate and Less Exposed to Technological Obsolescence are Strengthening

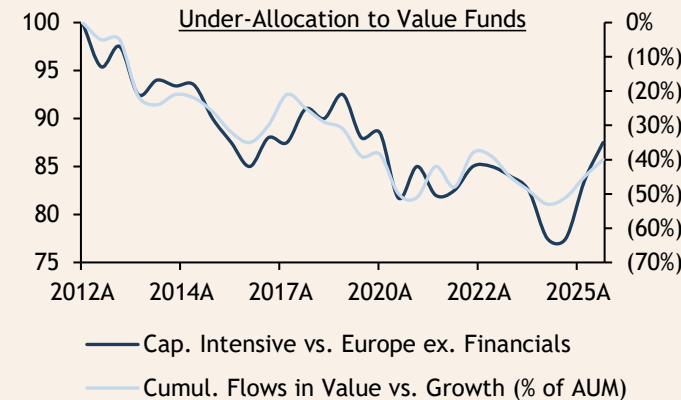
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- 1 Repricing Scarcity:** higher real yields, geopolitical fragmentation & supply-chain rewiring have shifted equity leadership back to tangible productive assets.
- 2 AI's Dual Shock:** AI revolution questions margins & terminal values in info. tech. while turning biggest capital light winners into largest capital spenders.
- 3 Focus on HALO (Heavy-Assets, Low Obsolescence):** pairing of substantial physical capital w/ long-lived economic relevance.
- 4 Valuation Convergence:** valuation gap between cap. intens. vs. cap. light has narrowed sharply (almost in line).
- 5 Macro Tailwinds:** fiscal expansion, higher replacement costs and manufact. reshoring support cap. intens. sectors.
- 6 Flows Favour HALO:** strong inflows into value strategies & diversification away from US Tech exposure.
- 7 Earnings Momentum Shift:** consensus expects faster EPS growth & improving ROE for cap. intens. businesses

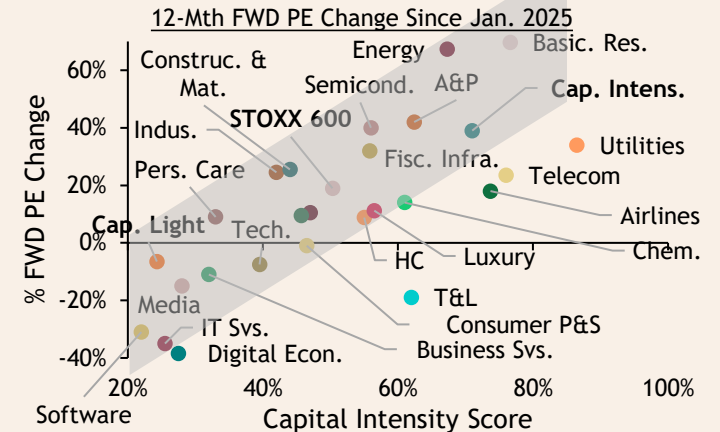
## Shift Away From Growth Assets Post 2020



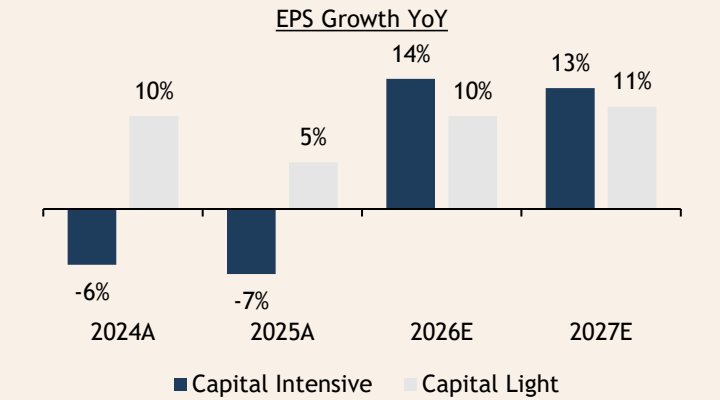
## Further Room for Capital Intensive



## Capital Intensity Command Valuations



## More Constructive Long-Term Picture



# A. USA Equity Fund

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# Macro 101

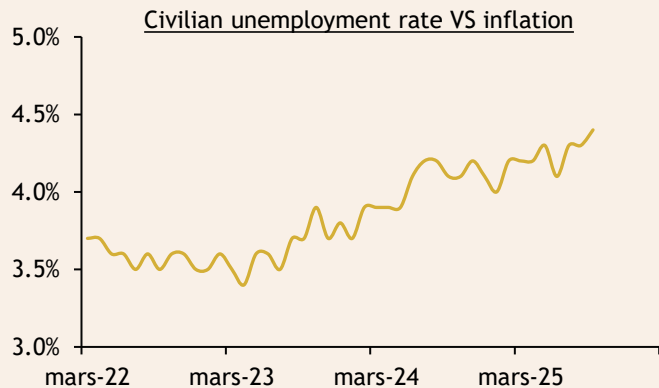
## What the Indicators Say

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### Small but Present Growth



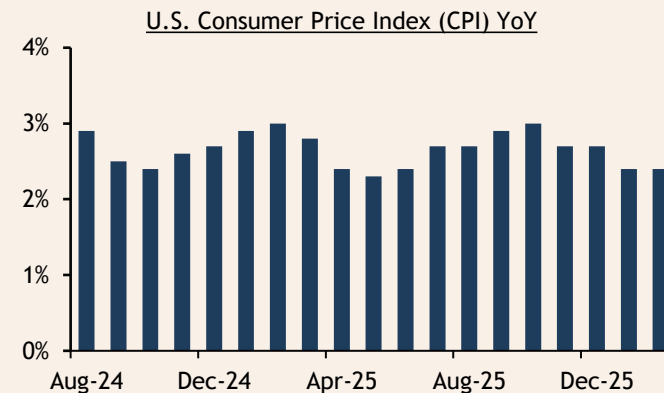
### Rising Unemployment



### Mixed Signals From Leading Indicators

Index	Feb	% Change since Jan	Direction
Manufacturing PMI	52.4	-0.2	Growing
New Orders	55.8	-1.3	Growing
Production	53.5	-2.4	Growing
Employment	48.8	+0.7	Contracting
Supplier Deliveries	55.1	+0.7	Slowing
Inventories	48.8	+1.2	Contracting
Customers' Inventories	38.8	+0.1	Too Low
Prices	70.5	+11.5	Increasing
Backlog of Orders	56.6	+5.0	Growing
New Export Orders	50.3	+0.1	Growing
Imports	54.9	+4.9	Growing

### Inflation measure



### Comments

**1** U.S. GDP growth was mainly driven by strong consumer spending and government expenditure, partially offset by weaker investment and inventories, reflecting resilient but uneven growth

**2** Leading indicators (PMIs) show mixed signals: production and orders are holding up, but employment and inventories point to softening demand

**3** Inflation remains relatively sticky while unemployment is trending upward, signaling a gradual cooling of the labor market

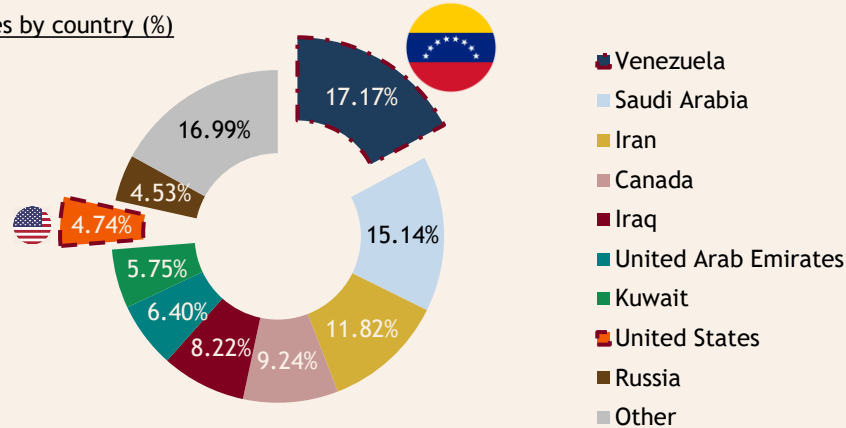
Sources: XBank, Bank of Canada, Statistic Canada, BDC, FRED

# Geopolitics

## Act I of the Donroe Doctrine

### Timeline, Motives and Results of the U.S. Intervention in Venezuela

Proven oil reserves by country (%)



Venezuela holds the world's largest proven oil reserves, estimated at 17% of the global total, or 300 billion barrels. In December 2025, the US began a maritime blockade of sanctioned oil or shadow fleet tankers.

The operation was in line with a **foreign policy doctrine (Monroe Doctrine)** that asserts U.S. influence in the Western Hemisphere, saying that under Maduro, the South American country was “hosting foreign adversaries” and “acquiring menacing, offensive weapons” that threatened U.S. security.

Rebuilding Venezuela’s dilapidated oil industry is no easy task—one that some experts estimate could take more than a decade. Currently, Chevron is the only American oil company that still operates in the country under a special license granted by the Biden Administration that exempts it from U.S. sanctions.

Most large foreign investors are reluctant to make important investment decisions when there is uncertainty, especially given Mr. Trump’s mercurial reputation. A temporary license does not provide the security that corporations normally require. Recuperating the Venezuelan oil industry would necessitate “a gigantic investment.” Such investments will be unlikely if Venezuela is sanctioned, the licenses notwithstanding.

January 3<sup>rd</sup>

The U.S. launched a military strike in Venezuela and captured Venezuelan president Nicolas Maduro and his wife, while attacking his compound in Caracas. Their captives were transported to NY to face their trial related to narcoterrorism

January 20<sup>th</sup>

Trump and his administration made **clear that access to Venezuelan oil was a core reason for the action.** Trump also announced that Venezuela will be “turning over” 30-50 million barrels of “Sanctioned Oil” to the U.S.—worth around \$2-3 billion.

January 29<sup>th</sup>

A new law was passed by Rodriguez, Maduro’s VP, to give private companies control over the production and sale of oil. In parallel, the united states lifted sanctions imposed on Venezuelan oil trade and issued licenses for companies to trade Venezuelan oil

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# Trade Policy Ruling

## The Ultimate Betrayal

### IEEPA Ruling, What it Means and What it Doesn't

#### What?

- On February 20<sup>th</sup> the court, in a 6-to-3 decision written by Chief Justice John G. Roberts Jr., ruled that Mr. Trump had exceeded his authority when he imposed tariffs on nearly every U.S. trading partner last year.

#### Why?

- The court held that the IEEPA authorization to “regulate importation” does not include the power to impose tariffs. Because tariffs raise revenue, the majority concluded, they are in effect taxes, and require explicit congressional

#### Trump's reaction

- In a conference at the White House, Trump referred to the justices who had ruled against him as “fools and lap dogs” and foreshadowed the new tariffs, of up to 15%, he announced an hours later , to begin on February 24<sup>th</sup> on an array of U.S. trading partners, further escalating global trade tensions.

#### Trump's recourses

- The court acknowledged that the president retains broad and powerful authority under numerous other statutes to impose tariffs: - **section 232** of the Trade Expansion Act for national-security tariffs on products such as steel and aluminum, and potentially on critical minerals; - **section 301** of the Trade Act to impose country-specific tariffs in response to unfair trade practices, as with China; - **section 201** safeguard measures, used in his first term to impose tariffs on solar panels and washing machines, with the solar protections still in place; and **section 122**, just invoked to implement the temporary global surcharge.

#### Consequences

- For corporate tax and trade compliance professionals, it is a trigger for one of the largest refund opportunities in history. The decision effectively invalidates billions of dollars in tariffs collected under IEEPA authority, potentially opening the door to an estimated **\$175 billion** in refunds for affected businesses.
- This ruling will directly impact the Reciprocal Trade Agreements that the Administration has negotiated with 21 countries to date, which could significantly impact the Administration's leverage in ongoing negotiations and potentially undermine the ability to ensure that partner countries meet their commitments under these bilateral frameworks.
- Initial estimates suggested Trump's tariffs would raise **\$3 trillion** over a decade to pay down the national debt. Under the new, lower-rate **Section 122** regime, that projection has dropped to roughly **\$1.3 trillion**.
- For businesses and consumers, the Section 122 Tariffs means that price stability and supply chain certainty are things of the past. Trade policy and tariff structures are expected to remain uncertain and change frequently through the first half of 2026, creating ongoing uncertainty for markets and international negotiations.

# Geopolitics

## Act II of the Donroe Doctrine

### Middle-East War: A Major Geopolitical Escalation

- On February 28, the U.S. and Israel launched a joint military strike on Iran. The conflict led to the assassination of supreme leader Ali Khamenei, rapidly escalating into a regional crisis with major implications for global energy markets.
- Even with the 4<sup>th</sup> largest proven reserve of crude oil, Iran's oil exports no longer make up a major share of the world's supply. The main source of market concern is Iran's influence over shipping in the Strait of Hormuz, through which the oil and gas of its Gulf neighbors has to pass, and its sponsorship of militias throughout the region that could launch attacks on energy infrastructure.
- The International Energy Agency warned the conflict could cause the largest supply disruption in the history of the global oil market.



*BBC, The Strait of Hormuz*

### The Limits of Trump's Power

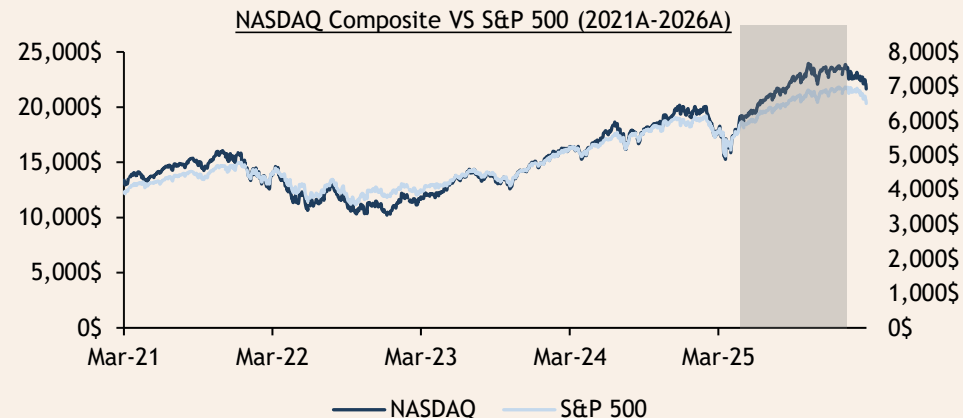
- Donald Trump has further extended the deadline for the US to bomb Iran's energy infrastructure to April 6<sup>th</sup>.
- The US president's message, delivered in a social media post, came after Wall Street stocks closed at a six-month low as traders worried Trump's initial Friday deadline was looming with few signs of a breakthrough.
- As of late Pakistan is working to bring "both the US and Iran to the negotiating table", and Iran has agreed to allow 20 more Pakistani-flagged ships to pass through the Strait of Hormuz.

Around 21mn barrels of oil from Iran, Iraq, Kuwait, Saudi Arabia and the United Arab Emirates pass each day through the Strait of Hormuz.

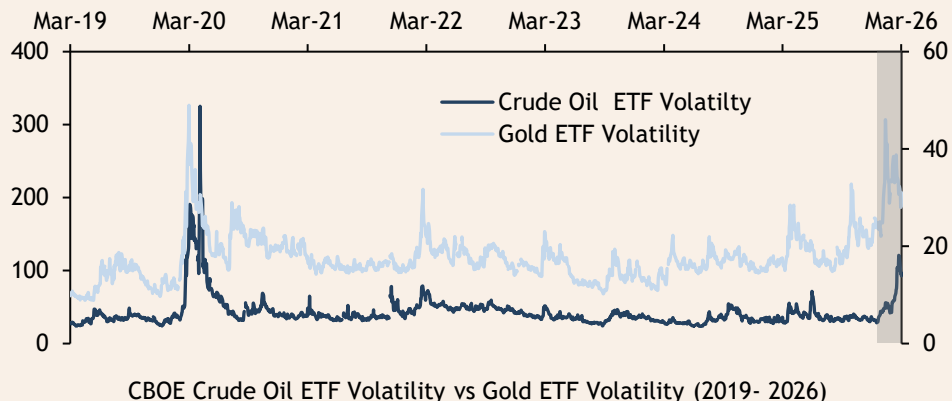
# Markets at a Turning Point

From AI Euphoria to Geopolitical Reality

## Peak Optimism Before the Shock



## Energy Shocks Dominate Volatility



## AI Related Corrections

### Persistent Outflows

Continuous small-cap fund flows since July 2025 show the geopolitical shock translated into sustained risk aversion

### December Stress Peak

The sharp trough in mid-December marks the height of political uncertainty, triggering accelerated capital withdrawal

### No flow reversal yet

Despite minor rebounds, flows remain negative into January, signaling unresolved policy related concerns

### Small cap exposure cut

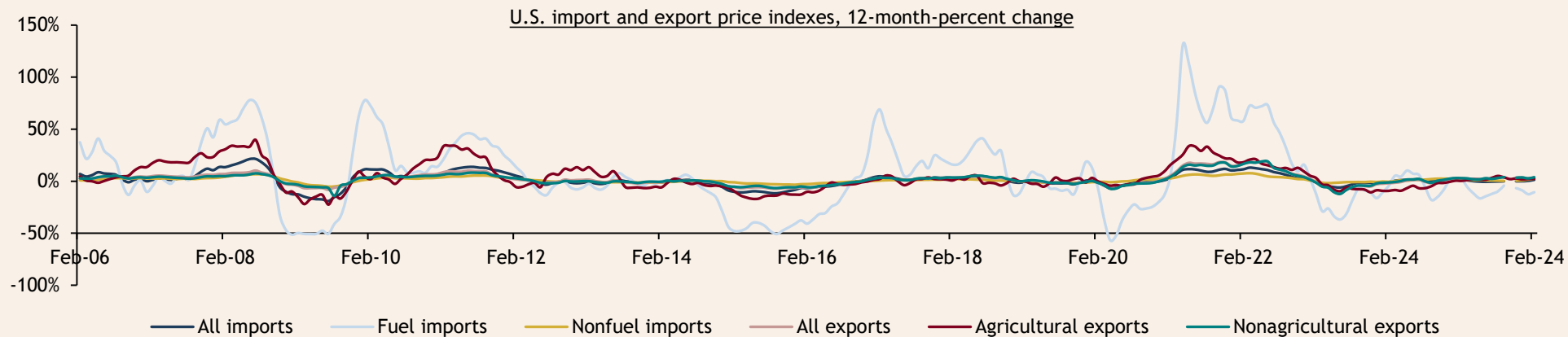
Investors reduced positions in less liquid Canadian and U.S. small caps most sensitive to political headlines

## Surface Stability Masks Deeper Vulnerabilities

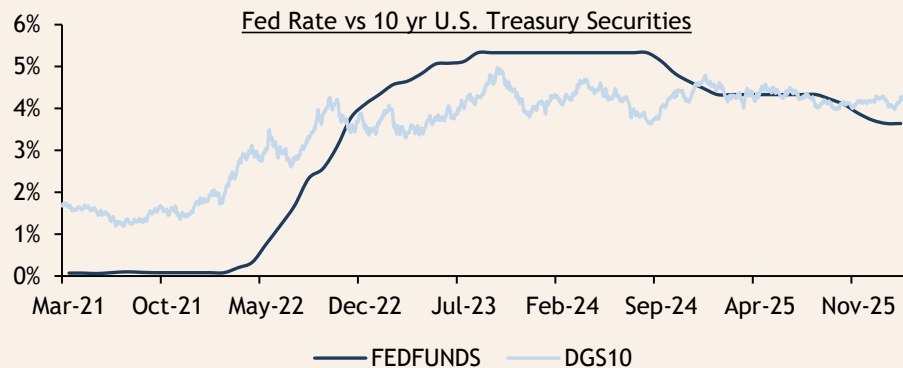
- As the new year begins, equity markets appeared largely unfazed by the fact that one-fifth of global imports are now subject to protectionist measures, more than four times 2024's share. At that time, the markets appeared more focused on earnings momentum and central-bank liquidity than on trade frictions, as policymakers have pursued a broadly synchronized easing cycle for most of the past two years.
- Amid Iran war, Brent crude oil surged more than 10% intraday and WTI rose above \$96, as the International Energy Agency warned of a potentially largest-ever global oil supply disruption;
- Markets reacted negatively at the March 12 close with the S&P 500 down over 1.5%, Nasdaq -1.8%, Dow -740 points, and Russell 2000 -2%.

# Trade Pressures, Monetary Tightening, and Policy Signals

## From Oil Shocks to Trade Tremors



## The Fed vs The Market: Who's Leading?



## Decoding the Fed's Playbook

The FOMC left the target for the fed funds rate unchanged at 3.50-3.75%, marking the second consecutive hold.

The Fed still leans toward gradual easing, but with stronger growth and stickier inflation. Policy rates edge down, yet 10-year yields stay high, meaning markets still see persistent nominal pressure

On growth, the Fed chair claimed that the upgrade to growth reflects greater confidence about higher productivity. As for unemployment, there were "a number" of indicators that suggest a degree of stability.

When discussing the stance of monetary policy, Powell said the current setting could be described as being at the high end of neutral, mildly restrictive or even modestly restrictive.

# HGR's Economic Take

1

## Late-cycle resilience, but weakening momentum

U.S. growth remains positive, primarily driven by resilient consumer spending and ongoing fiscal support. However, rising unemployment and the contraction in employment components of PMIs point to a gradually cooling labor market. At the same time, weakness in inventories and uneven business investment suggest that growth is becoming narrower, signaling a more fragile expansion.

2

## Inflation stickiness limits policy flexibility

Inflation remains persistent around the 2.5-3.0% range, limiting the Federal Reserve's ability to ease policy aggressively. Even with a pause in rate hikes, long-term yields remain elevated, continuing to weigh on equity valuations and tightening credit conditions. This reinforces a "higher for longer" environment in which monetary policy remains restrictive and increasingly constrains economic activity.

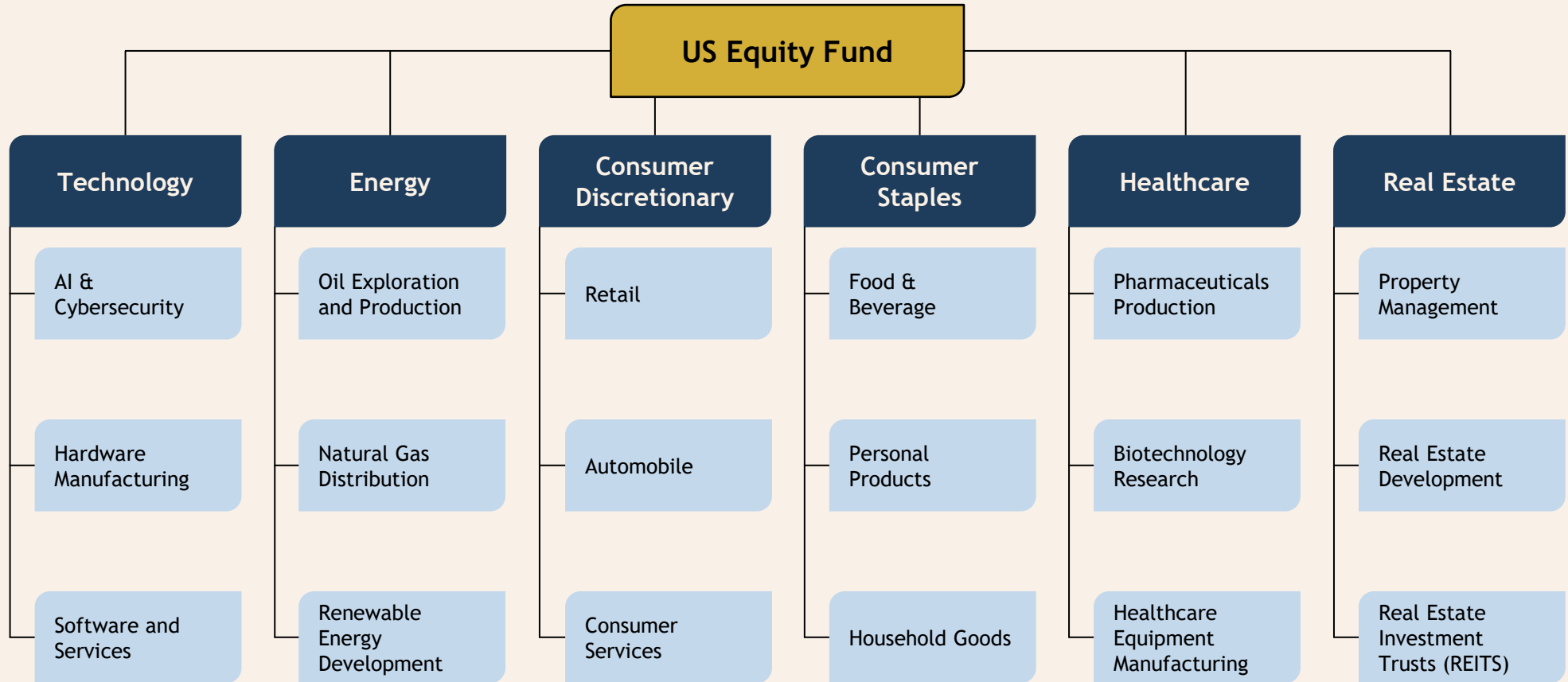
3

## Geopolitics is the new macro driver

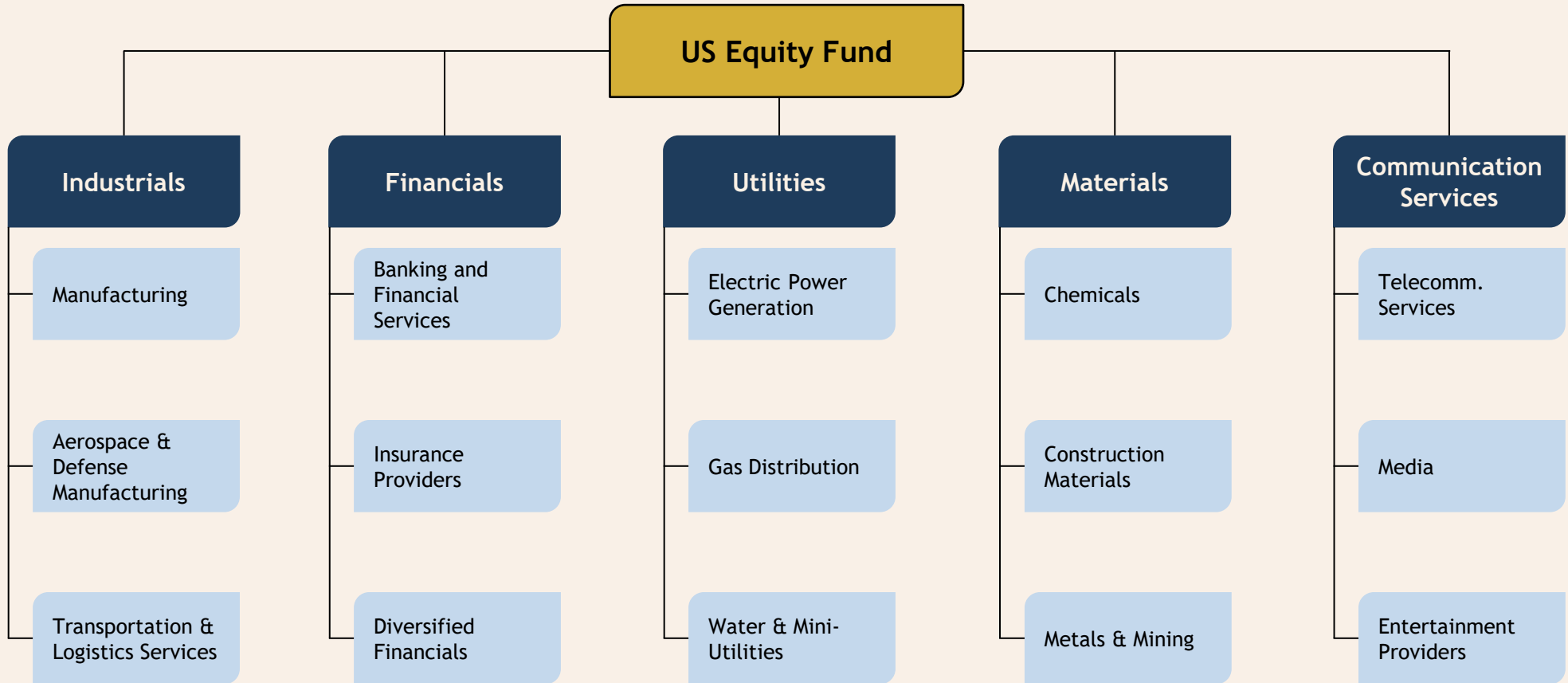
Recent geopolitical tensions, particularly the escalation involving Iran, have triggered a sharp rise in oil prices, highlighting renewed exposure to energy-driven inflation shocks. Potential disruptions in critical transit routes such as the Strait of Hormuz could further amplify global supply constraints. Combined with rising trade tensions and policy uncertainty, these dynamics are increasing market volatility and reinforcing downside risks for equities.

## Negative Growth Outlook

# Overview of USE's Sectors and Industries

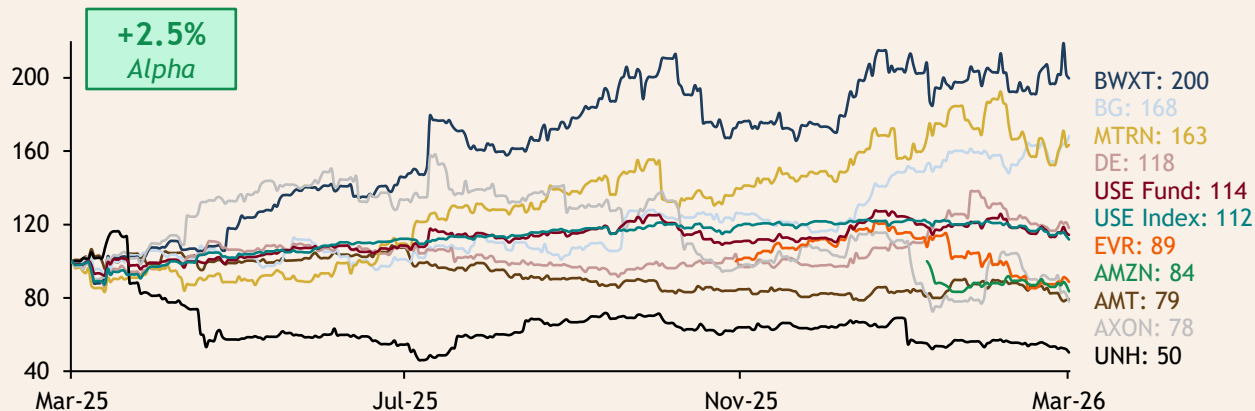


# Overview of USE's Sectors and Industries

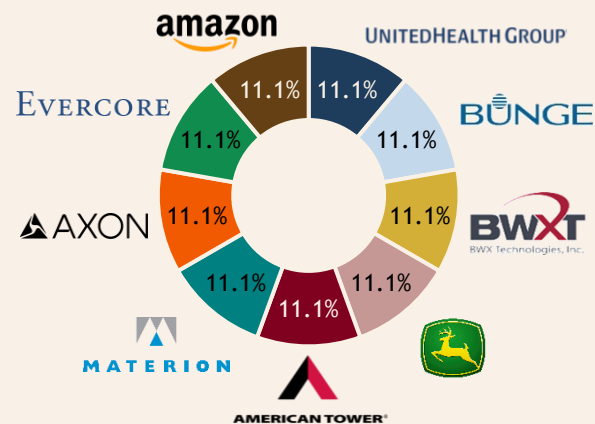


# USE Fund Overview

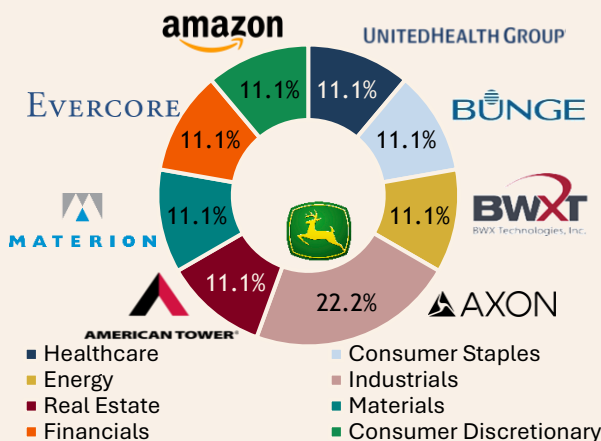
## LTM Fund Relative Performance (Unrealized Returns)



## Portfolio Composition



## Sectorial Exposure



## Commentary

1

The USE Fund overperformed compared to its benchmark, the S&P 500 Index, over the last twelve months.

2

Top performers include BWXT, BG and MTRN while AXON and UNH have underperformed relative to the index.

3

The portfolio consists of 9 equally weighted stocks, with 10% of capital remaining for deployment in USE.

4

HGR's USE current sector allocations are in healthcare, consumer staples, energy, industrials, real estate, materials, financials, consumer discretionary.

# Sector Level Perspectives

## Industry Themes

### HGR Sectorial Pulse

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Technology	<ul style="list-style-type: none"> <li>AI has the potential to raise labor productivity as it spreads through the economy. Early evidence suggests productivity gains are emerging as the focus shifts from initial investment costs to faster company-level implementation, but still early. Ongoing shift from crowded US tech investments to other parts of the market.</li> </ul>	
Energy	<ul style="list-style-type: none"> <li>Energy stands to gain from the GenAI theme, benefiting from growing interest in energy capacity. Reliable energy has become increasingly critical, and post-Covid recovery has driven renewed capex. Utilities involved in both traditional and clean energy are well-positioned to profit</li> </ul>	
Consumer Discretionary	<ul style="list-style-type: none"> <li>Persistent tariff pressures, limited pricing power, rising costs of goods sold are likely to continue squeezing margins and industry struggling with decreasing profits.</li> </ul>	
Consumer Staples	<ul style="list-style-type: none"> <li>Persistent tariff pressures and limited pricing power continue posing risks.</li> <li>But sector is benefiting from rotation into defense, AI-resistant areas of the market.</li> </ul>	
Healthcare	<ul style="list-style-type: none"> <li>As a defensive sector, hold on healthcare is preferred. Parts of the sector, namely Biotech remains attractive and performs well in above trend and falling rate environments</li> </ul>	
Real Estate	<ul style="list-style-type: none"> <li>Mixed earnings risk across cyclical and defensive segments The sector's high dividends and lease-based inflation protection are appealing.</li> </ul>	
Industrials	<ul style="list-style-type: none"> <li>Industrials are best positioned to gain from the administration's infrastructure push and rising defense spending, with bonus depreciation boosting both cash flow and equipment investment.</li> </ul>	
Financials	<ul style="list-style-type: none"> <li>Slower GDP growth and uncertainty weigh on M&amp;A and markets, but buybacks, loan growth, and improved earnings revisions suggest room for growth, with valuations still below their 20-year average.</li> </ul>	
Utilities	<ul style="list-style-type: none"> <li>Utilities act as a defensive hedge amid volatility, benefiting from stable cash flows, though sensitivity to interest rates remains a constraint.</li> </ul>	
Materials	<ul style="list-style-type: none"> <li>Materials are cyclical and closely tied to global growth, with performance reliant on commodity prices that may lag a US soft landing. Rising capex could act as a catalyst, positioning the sector to benefit from a new investment cycle.</li> </ul>	
Communication Services	<ul style="list-style-type: none"> <li>Megacap communication services with strong fundamentals and innovative strategies continue to drive sector performance. Monitor equal-weighted trends for signs of broader participation before expanding into smaller incumbents.</li> </ul>	

# HGR's Allocation Rationale

1

## Tilt Toward Energy and Real Assets for Inflation and Geopolitics Hedge

The current macro environment tensions supports a strategic tilt toward energy and materials. Rising oil and commodity prices provide a direct earnings tailwind for these sectors, while also offering a natural hedge against persistent inflationary pressures, making them key contributors to portfolio resilience.

2

## Maintain Defensive Exposure Amid Late-Cycle Dynamics

As the economy transitions into a late-cycle phase, with slowing growth and a gradually weakening labor market, maintaining exposure to defensive sectors such as healthcare, utilities, and consumer staples becomes essential. These sectors provide more stable earnings and help protect the portfolio against increasing volatility and downside risks.

3

## Selective Exposure to Cyclical with Policy Support

Selective exposure to technology and cyclicals remains justified, supported by AI-driven productivity gains, reindustrialization trends, and infrastructure investment. While valuation pressures persist due to elevated interest rates and tightening financial conditions, AI continues to act as a key structural driver of earnings growth while industrials benefit from infrastructure and defense spending. Positioning remains selective to balance upside potential with growing macro risks.

Equal Weight

# B. Canadian Equity Fund

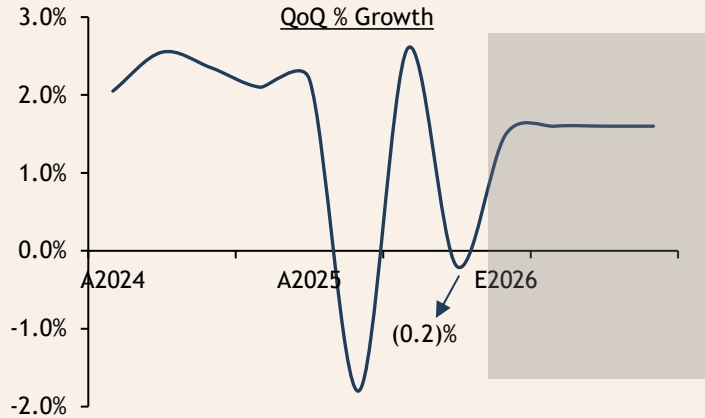
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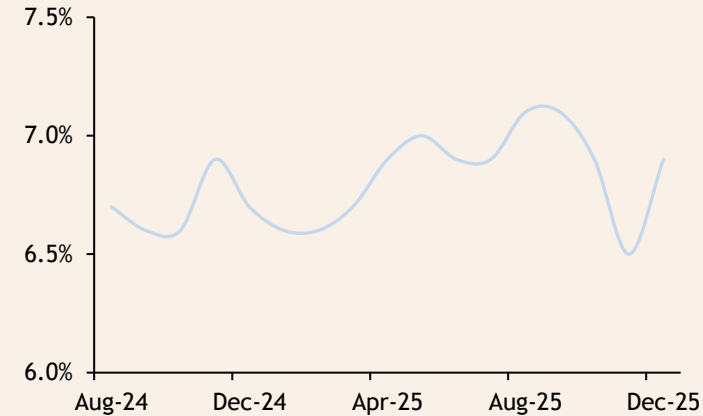
# Canadian Economy's State

Tariff Threats, GDP Instability and Labor Markets Loosening Forces BoC to Hold Rate

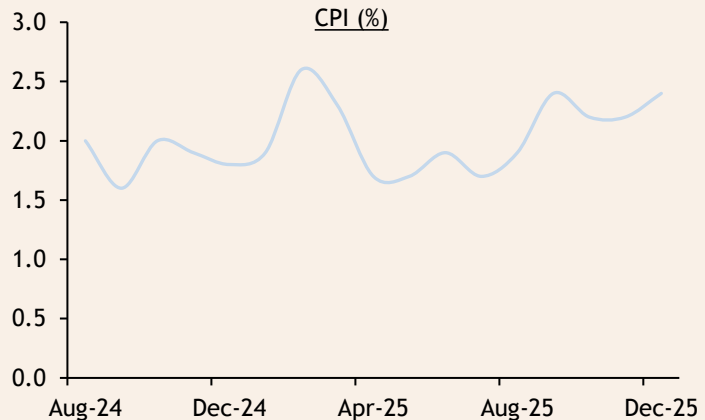
## Bounce Back of GDP Growth



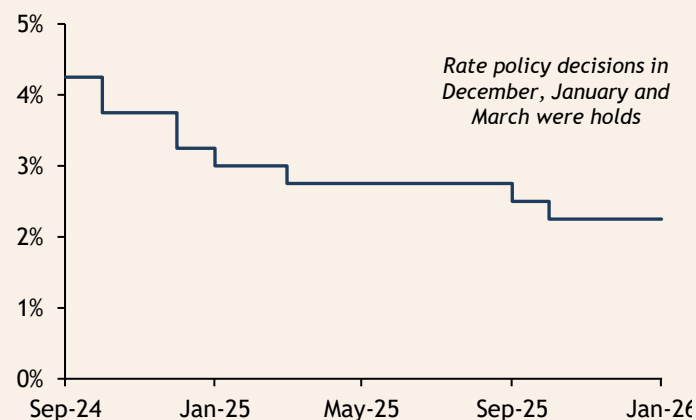
## Labor Markets (Unemployment Rate %)



## Slight Pressure on Inflation



## Boc Policy Rate



## Comments

1

GDP growth has been unstable in that last year because of the drop in imports and exports in 2025. Q4 GDP growth dropped to -0.2 but is forecasted to be more stable in the coming year.

2

Bank of Canada have seemed to stop their aggressive cutting cycle in December and January holding the overnight rate at 2.25%. Financials will benefit from stabilized NIMs after years of volatility.

3

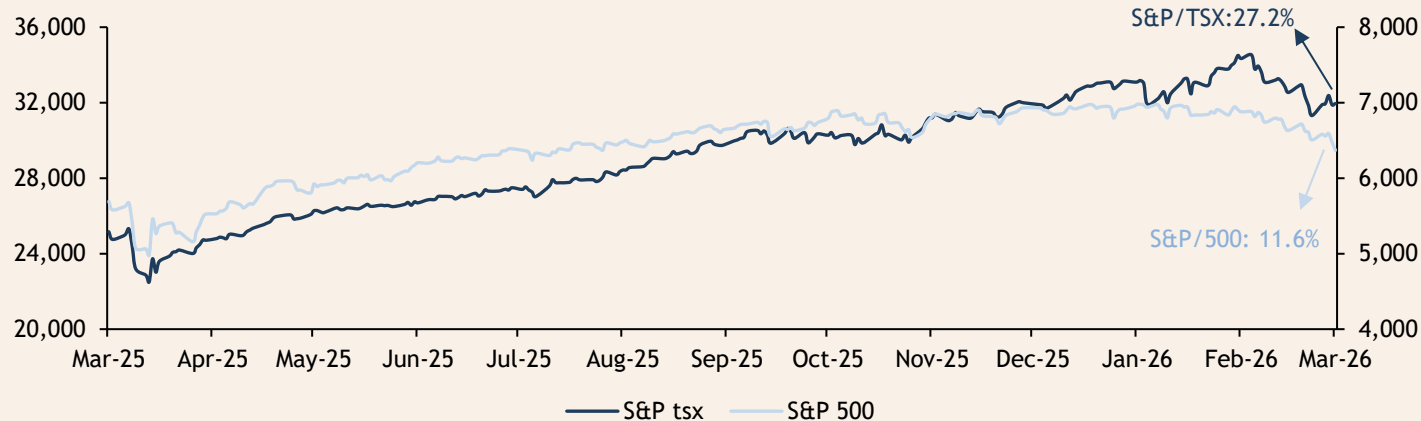
With December inflation ticking up to 2.4% and the labor market loosening with unemployment at 6.8%, the bank has decided to take a maintenance stand to defend the CAD against the USD and to wait out and see the effects of tariffs.

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# Recap on Canadian Market Performance

BoC Interest Rate Cuts & Strong Industries Boosted Canadian Stocks to Grow Twice as Much as US

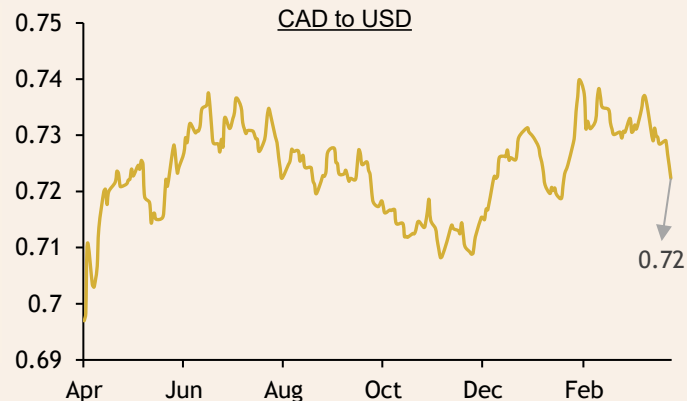
## Outstanding Performance by the Canadian Market



## Key drivers

- Strong sector performance has helped the Canadian market grow.
- Materials sector rose 88% throughout 2025.
- Financials sector rose 31% throughout 2025.
- Energy sector rose 10% throughout 2025.
- Canada's TSX's dividend yield is at 3% which half what the S&P/500 offers.
- Bank of Canada cut rates throughout the year and are holding steady at 2.25%.

## Canadian Currency Strengthening



## Comments

1

Canadian markets reached a historic high with the S&P/TSX growing 27.2% even into 2026. This doubles the S&P 500's performance for the same period which was of 11.6%. Market is expected to keep growing but at a slower pace throughout 2026.

2

Three key sectors powered the rally : Basic Materials due to record gold prices and haven demand. Financials followed with good growth due to the banks policies, while Energy contributed steady gains fueled by infrastructures projects.



3

Macro tailwinds favored Canada: The Bank of Canada's aggressive 1% interest rate cut since December 2024 significantly lowered borrowing costs, aiding bank profits. This will also help boost Canada's leading economic driver into 2026 which is consumer spending.

# US-Trade War and Geopolitical Uncertainty

A New Trade Deal with China and the Changes in Venezuela's Geopolitical Situation Has Meant More Uncertainty

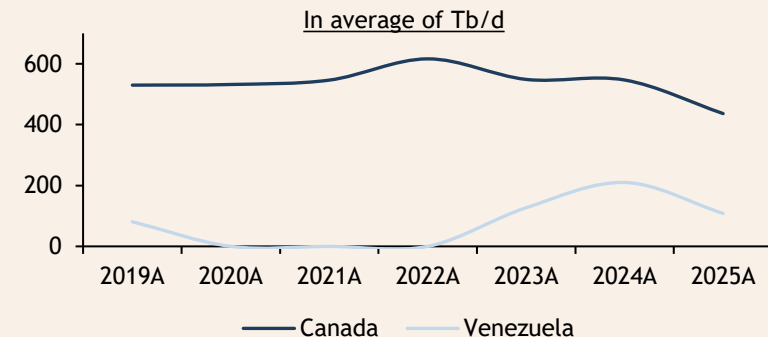
## Current Situation

Country Involved	What has happened
	<p><b>Carney's response to previous tariffs :</b></p> <ul style="list-style-type: none"> <li>Limiting imports of steel to ensure that Canadian producers have more access to domestic markets</li> <li>Making lumber transportation less expensive interprovincially, by trying to cut freight rates by 50%</li> </ul> <p><b>January 2026 :</b></p> <ul style="list-style-type: none"> <li>BoC flags risk of potential economic shock related to U.S Trade policy</li> <li>If Canada continues with a new deal with China, the U.S are menacing 100% on Canadian tariffs on Canada</li> </ul> <p><b>February 2026 :</b></p> <ul style="list-style-type: none"> <li>The supreme court ruled that the president cannot impose tariffs under IEEPA</li> <li>Canada is now subject to only 10% tariffs on non-CUSMA which is a significant decrease from 35%</li> </ul>
	<p><b>New possible Canada-China trade deal</b></p> <ul style="list-style-type: none"> <li>China will lower tariffs on Canadian Canola seeds to a combined rate of approximately 15%</li> <li>Canada will allow up to 49,000 Chinese electrical vehicles (EV) into the Canadian market, with the most-favored-tariff rate of 6.1%</li> </ul> <p><b>What would this mean for the Canadian economy?</b></p> <ul style="list-style-type: none"> <li>Unlock 3b\$ in exports, strengthen supply chains, create jobs and deepen long-term economic ties between the two countries</li> </ul>

## The Venezuela Take

- Potential easing of U.S. sanctions and regime change talks in Venezuela open the door to a rebound in Venezuelan heavy-oil exports.
- More Venezuela heavy Crude to the U.S. refineries would directly compete with Canadian Crude, especially in the gulf coast (PADD 3).
- Net effect : higher earnings volatility for TSX energy names, especially heavy-oil producers, even as global supply becomes less tight.
- That said there is a limit to how much more of Venezuela heavy Crude could be exported to the U.S. and refined in PADD 3, which reduces the real risk.

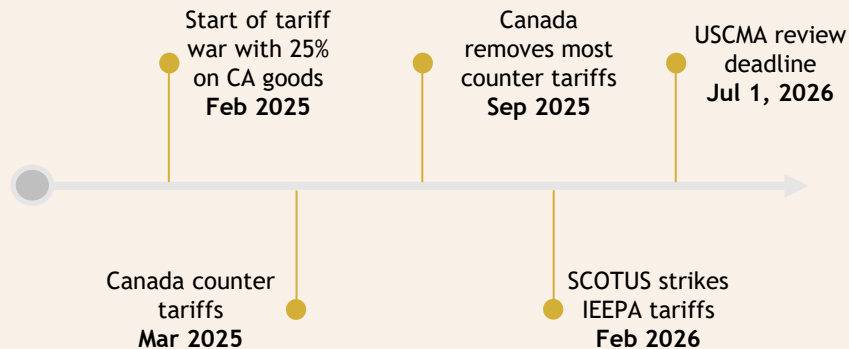
## Exports to PADD 3 Over the Years



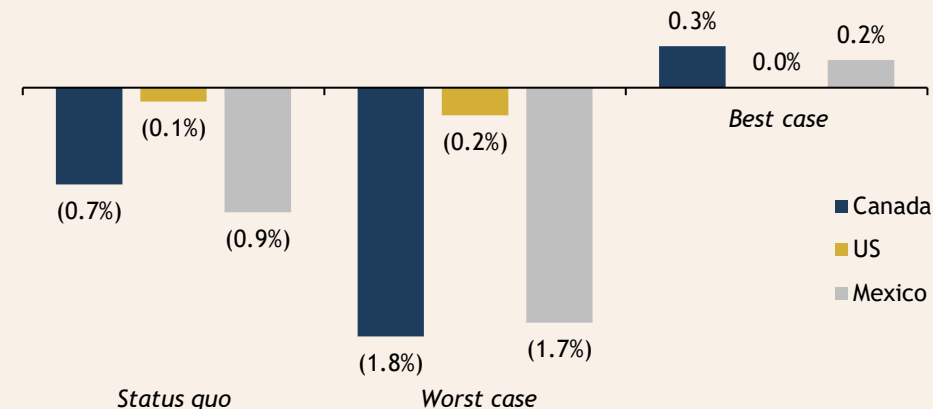
# USMCA Renegotiations & Ongoing Tariff War Equilibrium

From Short-Term Friction to Long-Term Equilibrium: The New Trade Reality

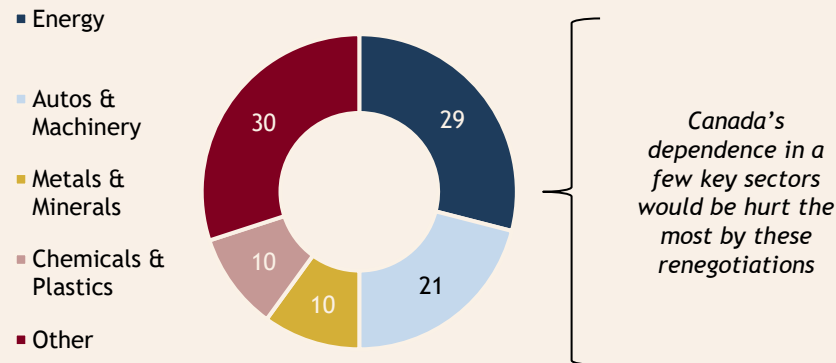
## Timeline of USMCA



## Real GDP Growth Under USMCA Scenarios



## Canada's Dependent Sectors that Would be Hit the Most



## Impact of Zombie Scenario on the Market

- **Sectoral Tariffs Become Permanent Leveraging Tools** : Steel, aluminum and auto tariffs remain in place indefinitely not as negotiating chips but as the new normal.
- **TSX' Resilience Masks Underlying Fragility** : Even with the TSX hitting records high thanks to commodities, we can see that beneath the index tariff exposed sectors are quietly underperforming.
- **Supply Chain Restructuring Accelerates** : Companies that can pivot to domestic or deeper Canada-Mexico trade corridors will outperform

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# Canada's Defense Industrial Revolution

The 2035 Roadmap: Establishing Defence as a Permanent Pillar of Canadian GDP

## Canada's First Ever Defense Industrial Strategy

- **Historically** : The defence industry is heavily under-invested in Canada for the past 20 years. The Canadian government is trying to repair this structural problem and take control of its defence.
- **Geopolitical Turmoil** : The deterioration of global relations, notably with the US, has forced Canadian government officials to find a new way of protecting national interest, which forced them to find a plan\*.
- **Canadian Defence Industrial Strategy** : This new strategy is framed around rebuilding, rearming and reinvesting in Canadian Armed Forces for the next 10 years.

## Key Promises of the Strategy

### Important Promises

- Increase the share of defense acquisitions awarded to Canada by **70%**.
- Increase Canadian defense industry revenue by more than **240%**.

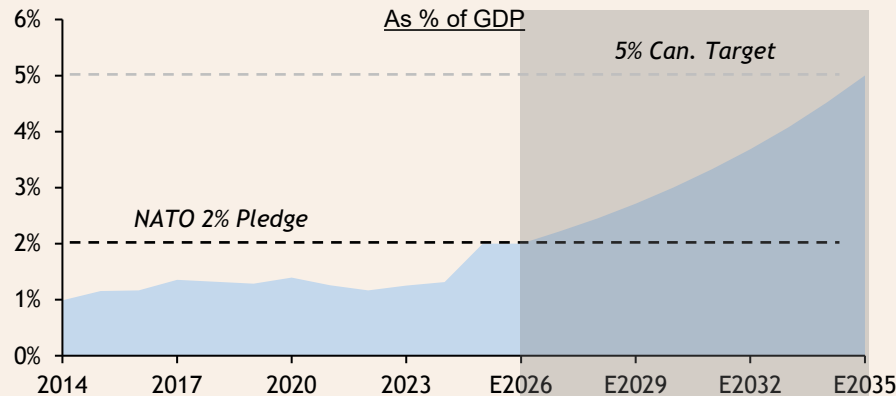
### Spending Commitments

- **\$180B** in defense procurement opportunities over the next 10 years.
- **\$290B** in total investment in defense related infrastructure.

### Economic growth

- Create **125,000** new jobs by 2035.
- Increase defense exports by **50%**.
- Grow defence industry contribution towards the greater economy.

## Canadian Defense Spending Over the Years



## New Plan to Modernize Arctic Defense

- **\$40B+ Total Investments** : Over \$35B in federal funds plus \$10B in infrastructure to defend and develop Canada's Arctic
- **\$32B NORAD Modernization** : Includes major infrastructure upgrades that will allow the Canadian Armed Forces to act independently, without relying on other states
- **Arctic Airport Upgrades with More Infrastructure Projects** : To modernize certain airports in northern cities to accommodate military jets and large transport aircrafts and also interconnect cities with NORAD bases

# HGR's Economic Take

1

## Potential Divergence Between Market Performance and Economic Fundamentals

While the S&P/TSX reached historical highs growing 30.51%, the underlying macro picture tells a more cautious story GDP dropped to -0.2% in Q4, unemployment sits at 6.8%, and the BoC has paused its cutting cycle. The market's record performance is concentrated in a few key sectors rather than reflecting broad economic strength.

2

## Uncertain Worldwide Trade Policy and Shifting Geopolitical Situation

The Bank of Canada has shifted from an aggressive cutting cycle to a maintenance stand at 2.25% to defend the CAD and wait out the effects of tariffs; meanwhile, USMCA renegotiations and ongoing trade wars (especially 10% non-CUSMA tariffs) create a high-risk Zombie Scenario for export-heavy sectors.

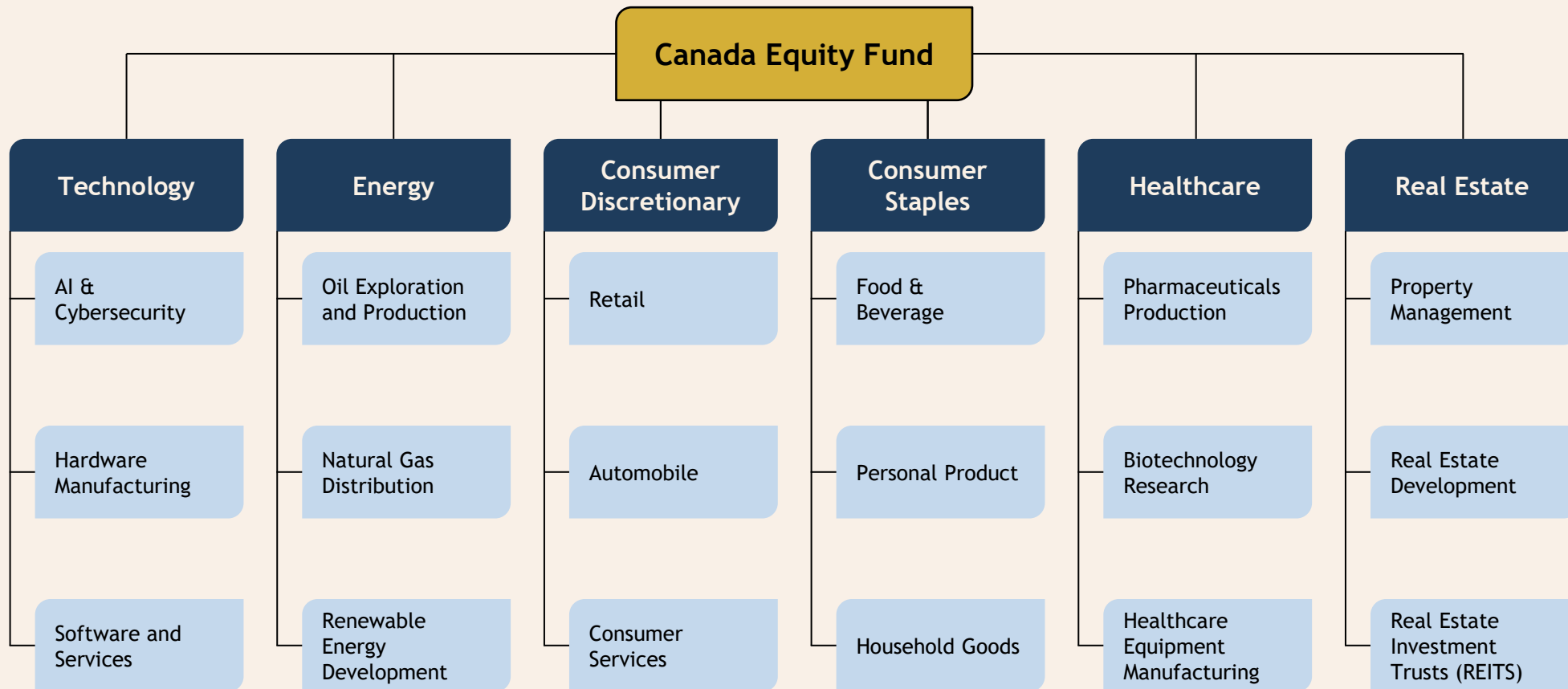
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## Diverging Sectoral Resilience Amidst Trade and Policy Uncertainty

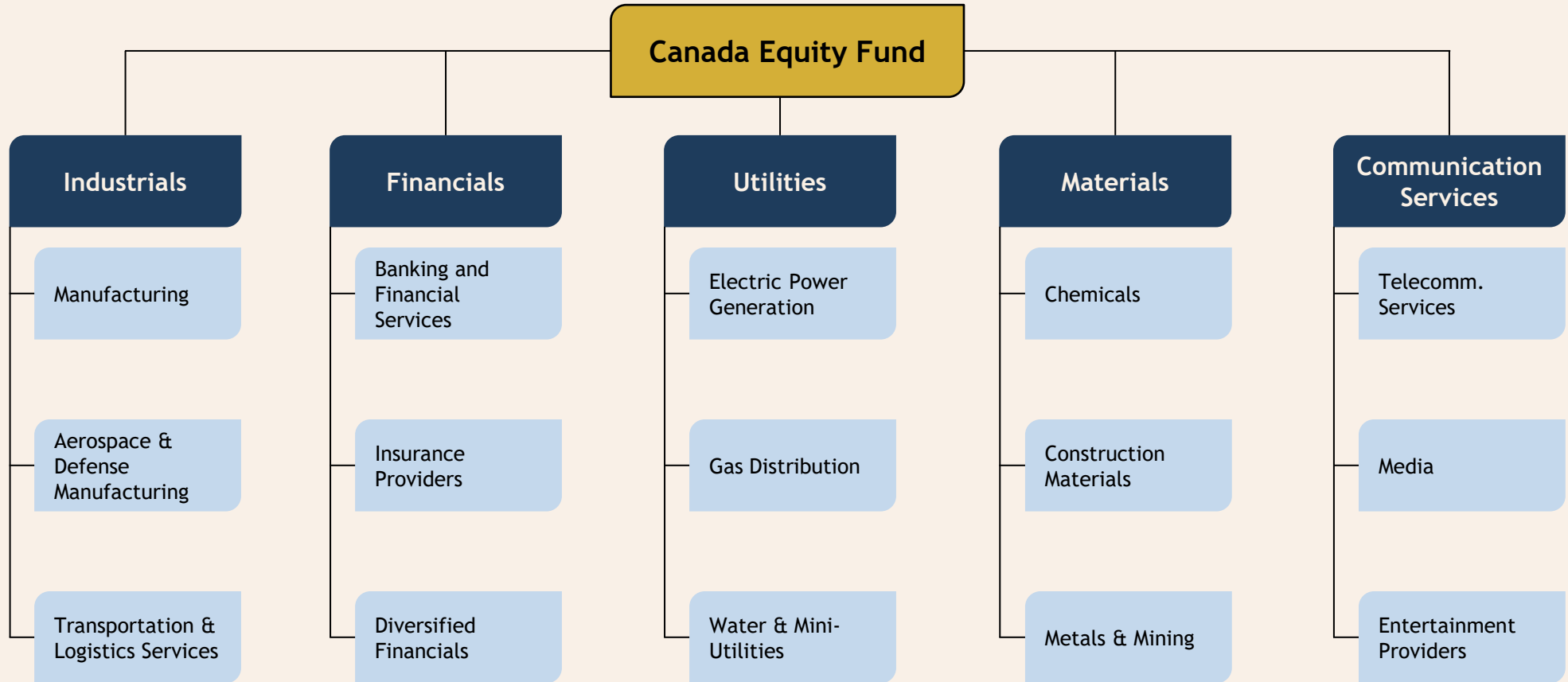
The Canadian market's record performance masks a fragile equilibrium. While Financials and Materials provide a strong floor supported by the stabilized 2.25% BoC rate and the \$180B Defense Industrial Strategy, these gains are countered by tariff headwinds hitting Energy, Autos & Machinery, and Metals sectors representing nearly 70% of Canada's trade-dependent exports. This tug-of-war between domestic industrial tailwinds and external trade volatility maintains a neutral growth outlook.

Neutral Growth Outlook

# Overview of CE's Sectors and Industries

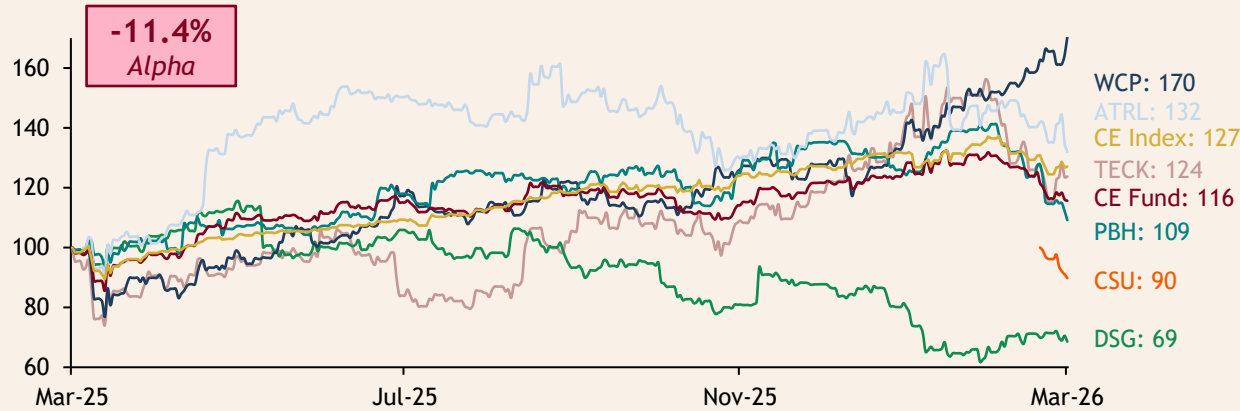


# Overview of CE's Sectors and Industries

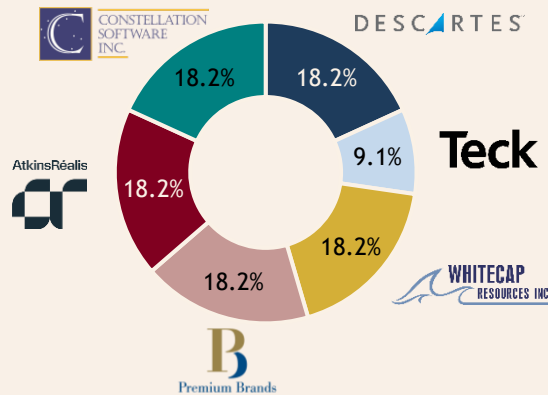


# CE Fund Overview

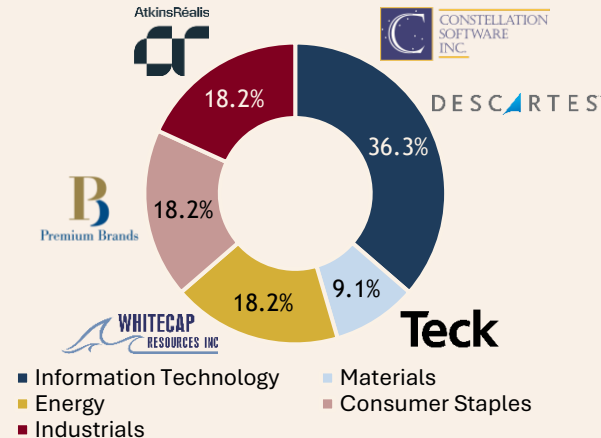
## LTM Fund Relative Performance (Unrealized Returns)



## Portfolio Composition



## Sectorial Exposure



## Commentary

1

The CE Fund underperformed compared to its benchmark, the S&P 500 Index, over the last twelve months.

2

Top performers include CRWD and BWXT while UNH and AMT have underperformed relative to the index.

3

The portfolio consists of 8 equally weighted stocks, with 20% of capital remaining for deployment in USE.

4











HGR's USE current sector allocations are in healthcare, energy, real estate, tech, consumer staples, industrials, materials and aerospace & defense.

# Sector Level Perspectives

## Industry Themes

### HGR Sectorial Pulse

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Information Technology	<ul style="list-style-type: none"> <li>Offers investors a wide range of defensive and dividend options, which makes it attractive in uncertain times. Will benefit from rising Canada &amp; US energy demand and rate cuts.</li> </ul>	
Energy	<ul style="list-style-type: none"> <li>Remains impacted by the uncertain macro backdrop and commodity price outlook and potentially lasting geopolitical tensions affecting the sector, but will profit from the changing regulatory backdrop.</li> </ul>	
Consumer Discretionary	<ul style="list-style-type: none"> <li>High rates, inflation risk and diminished consumer spending have characterized harder economic momentum for discretionary spending as consumers are expected to continue to favour essentials.</li> </ul>	
Consumer Staples	<ul style="list-style-type: none"> <li>Consumer confidence is stabilizing but still below historical average, underlying longer-term economic outlook concerns. Staples likely to continue being preferred to discretionary in the short-term as geopolitical uncertainty hasn't faded.</li> </ul>	
Healthcare	<ul style="list-style-type: none"> <li>Defensive sector that will continue to offer stability in uncertain times with relatively no sensitivity to rates. There could be headwinds steaming from US policy issues.</li> </ul>	
Real Estate	<ul style="list-style-type: none"> <li>Affordability &amp; limited supply remain major constraints with buyers staying on the sidelines due to high employment and U.S. trade-war &amp; broader economic-driven uncertainty. Pockets of strenghts don't offset fully.</li> </ul>	
Industrials	<ul style="list-style-type: none"> <li>Macro indicators are mixed, but we see a solid medium to long-term outlook. The sector is negatively impacted by tariffs but is poised to highly benefit from USMCA compliance and defense spending tailwinds.</li> </ul>	
Financials	<ul style="list-style-type: none"> <li>Slowed-down economy and steepening yield curve could imply outperformance. However, slowdown in mortgage loan growth comes as a warning for earnings. Valuations above historical levels.</li> </ul>	
Utilities	<ul style="list-style-type: none"> <li>Offers investors a wide range of defensive and dividend options, which makes it attractive in uncertain times. Will benefit from rising Canada &amp; US energy demand and rate cuts.</li> </ul>	
Materials	<ul style="list-style-type: none"> <li>Offers investors a wide range of defensive and dividend options, which makes it attractive in uncertain times. Will benefit from rising Canada &amp; US energy demand and rate cuts.</li> </ul>	
Communication Services	<ul style="list-style-type: none"> <li>Prices have turned positive, balance sheets are deleveraging, and industry fundamentals are improving. However, there is negative EPS momentum and valuation remain high compared to historical level. Recovery very uncertain and gradual.</li> </ul>	

# HGR's Allocation Rationale

1

## Natural Resources Heavy Market Positioned to Benefit from the Global Oil Supply Disruptions

About half of Canada's markets consists of natural resources stocks. Oil producers are positioned for significant benefits from geopolitical tensions in the Middle East. Rising crude prices deliver a \$90B windfall with oil production hitting record levels of 5.2M barrels/day in the first half of 2025. The war reinforces the national priority for the country to expand its oil export infrastructure, which could add up to ~\$31B to national real domestic product each year over the next decade.

2

## Runway for Capital Inflows into Defense-Adjacent Segments Still Has Legs

Canada is undergoing a historic military build-up, with a pledge to boost defense spending to 5% of GDP by 2035. Recently released Defense-Industrial Strategy aims to award local companies 70% of the country's funding, up from 50%, potentially boosting revenues for local businesses by more than \$5.1B/year. This build-out is only standing at its starting phase and we believe as we move closer to the its acceleration, we are likely to continue seeing inflows into the market.

3

## Net Energy Exporter Status Provides Some Insulation from Oil Price Shocks

The IMF forecasts Canada's GDP growth at 1.6% trailing only behind the U.S., ranking 2<sup>nd</sup> within the G7 group. The inflation rate in February came in at 1.8%, down from 2.3% in January, remaining within the BoC's 1-3% target range. However, the country faces additional uncertainty from the Iran war's impact on global commodity prices and potential supply chain disruptions, though Canada's net energy exporter status provides some insulation from oil price shocks.

Overweight

# C. Small Cap America Fund

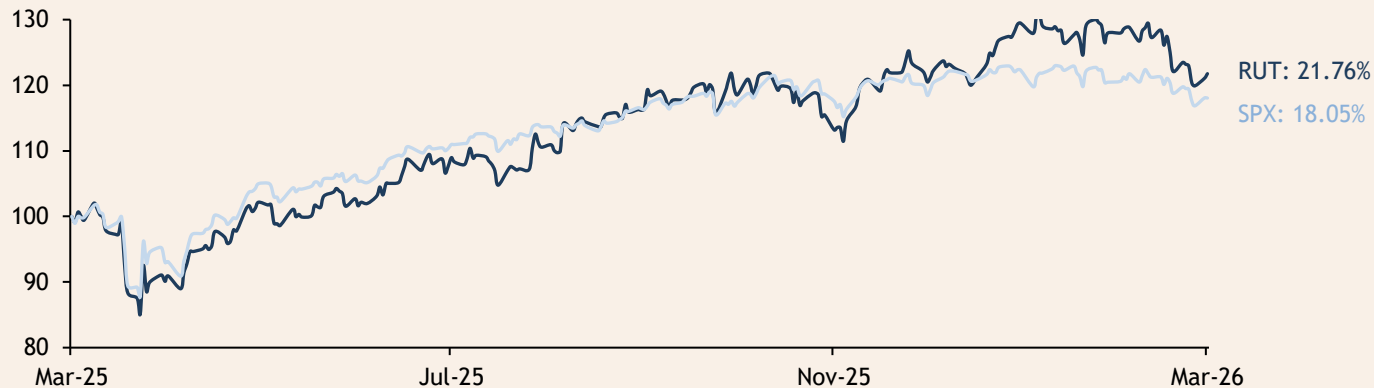
**HECONOMIE**  
Global Research



# Rates Tailwinds in 2026

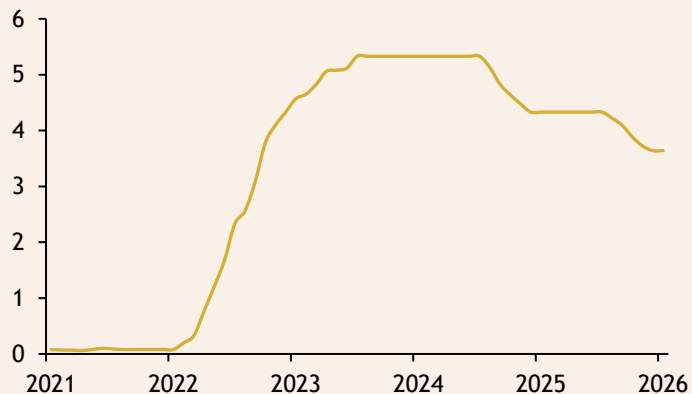
Improving Liquidity Supports Small-Cap Risk Appetite

## Russell 2000 vs S&P 500: Recent Performance

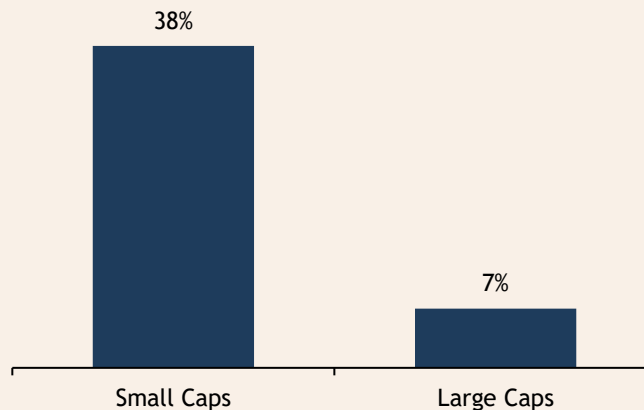


## Federal Funds Effective Rate

(In %, Last 5 Years)



## Historical Rate Sensitivity



## Commentary

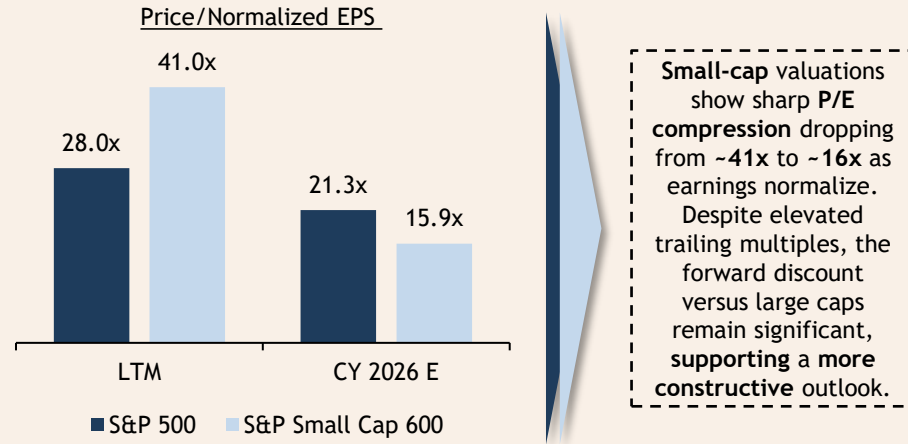
- 1 Small caps have strengthened since late 2025 as expectations of rate cuts improved liquidity conditions and boost investor demand for more cyclical and domestically focused segments.
- 2 Declining financing costs eased pressure on leveraged small-cap balance sheets, improving cash flow visibility and supporting a more constructing earnings outlook into early 2026.
- 3 Given their higher sensitivity to interest-rate movements, small cap have benefited disproportionately from the shift toward a softer policy stance, narrowing performance gaps with large caps.
- 4 A more stable macro backdrop, characterized by moderating inflation and steady demand, has helped redirect flows toward small-cap industries with stronger cyclical leverage.

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# Valuation & Earnings Momentum

Undervalued, Recovering, Re-Accelerating into 2026

## Small-Cap Valuation



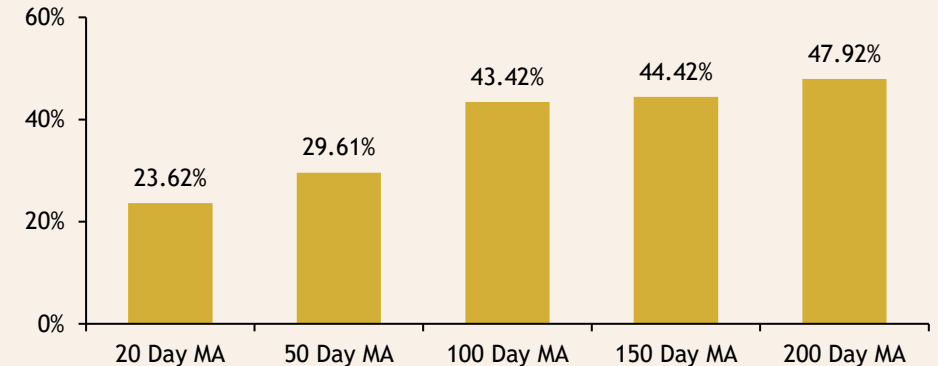
## Earnings Revisions

- Consensus forecasts anticipate ~19% EPS growth for small caps in 2026, outpacing the ~12-13% expected for large caps.
- Upward revisions are broadening across industrials, consumer cyclicals and financials as demand stabilize.
- Margin normalization and efficiency gains are improving earnings visibility after a weak 2023-2024 base.
- Small-cap earnings leverage to domestic GDP suggests further upside if 2026 growth accelerates.

## Fundamental Drivers

<b>Improving Margin Profile</b>	Disinflation and easing supply-chain pressures continue to support margin recovery across small-cap industries
<b>Domestic Revenue Leverage</b>	Small-caps derives a larger share of revenue from U.S. demand, benefiting from improving mid-market and consumer trends
<b>Operational Efficiency Tailwinds</b>	Cost efficiency built during the tariff period are now flowing through to stronger operating leverage
<b>2026 Earnings Recovery Setup</b>	Analysts expect earnings breadth to improve as cyclical sectors regain momentum and fundamentals stabilize

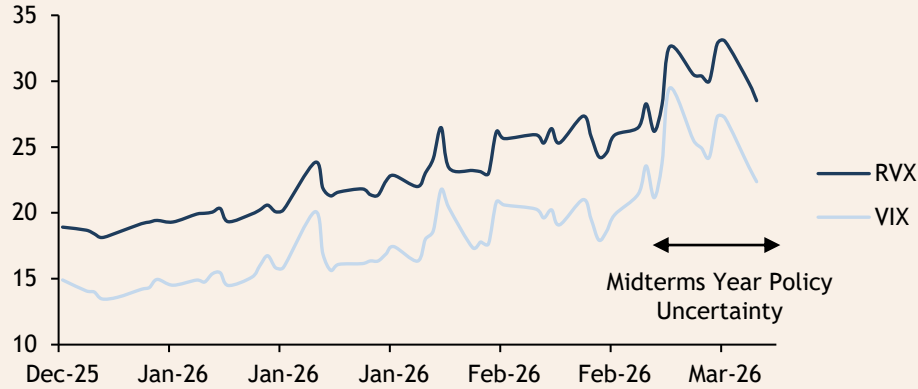
## Market Positioning - S&P Small Cap 600 Breadth



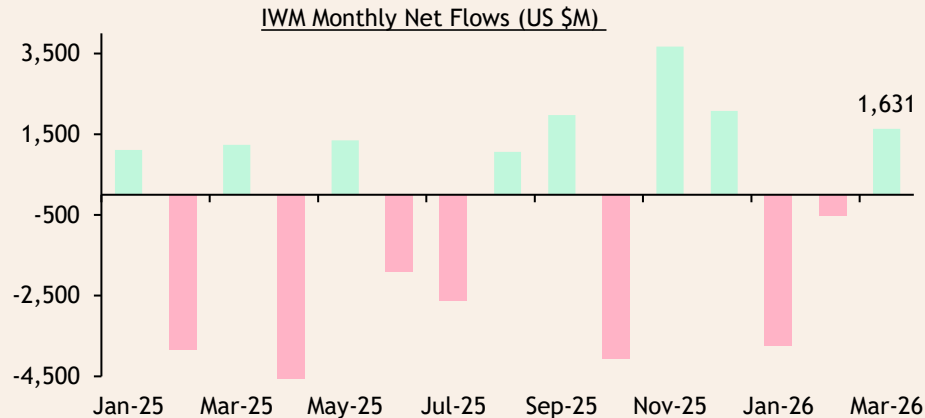
# 2026 Election-Year Uncertainty

Policy Risk, Volatility and Sentiment Implications for Small-Caps

## Small-Cap Volatility Index (RVX) vs VIX



## Small-Cap ETF Flows



## Election-Year Uncertainty Drivers

### Shifting Policy Expectations

Limited clarity on fiscal, tax and regulatory direction ahead of the 2026 election keeps uncertainty elevated

### Mixed Policy Signals

Contradictory indications on corporate taxes, labor rules and regulatory standards sustain ambiguity

### High Domestic Pressure

Small caps react more directly to U.S. policy swings due to heavier domestic revenue concentration

### Risk Premium Re-Pricing

Markets demand a higher risk premium for small caps as political outcomes remain difficult to gauge

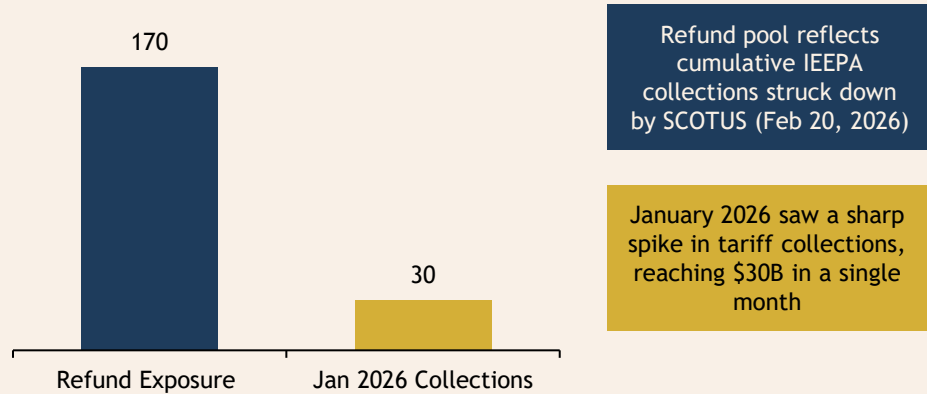
## Implications for Small Caps

- Elevated uncertainty may delay full risk-on shift, keeping small-cap performance more volatile than large caps.
- Greater dispersion across small-cap industries is likely until policy direction becomes clearer.
- Investors may remain selective, favoring companies with stronger balance-sheet resilience and lower regulatory exposure.
- A clearer post U.S. midterms backdrop could serve as a catalyst for a more sustained broadening of market leadership.

# IEEPA Tariff Ruling

## Refund Opportunity & Supply-Chain Reset for Small Businesses

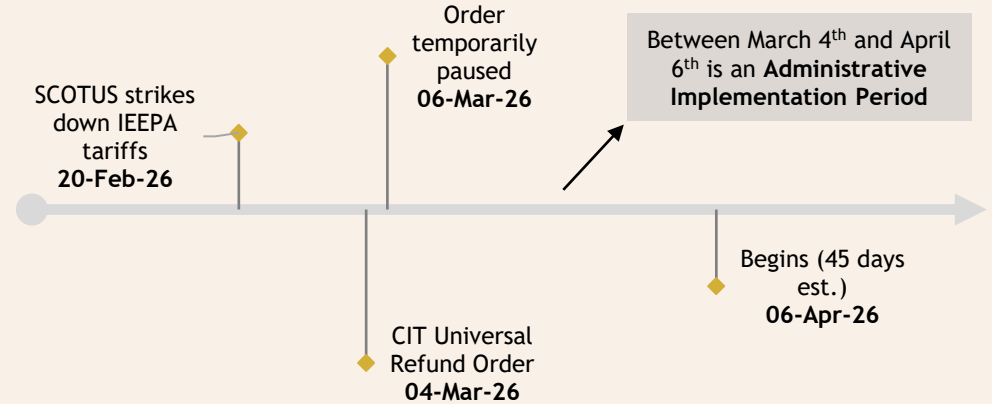
### IEEPA Refund Exposure (\$B)



### Refund Mechanics

	Mechanic	Meaning for Small Businesses
	Entry Status	Unliquidated entries are refunded through standard corrections, while liquidated entries require protests or litigations, leading to longer delays for small businesses.
	Administrative Path	PSCs do not secure refund rights, so SMEs often still need to file protests or pursue legal remedies.
	System Readiness	Refunds depend on CBP upgrading ACE, which cannot yet process IEEPA refunds at scale, extending wait times for small firms.

### Refund Process Timeline



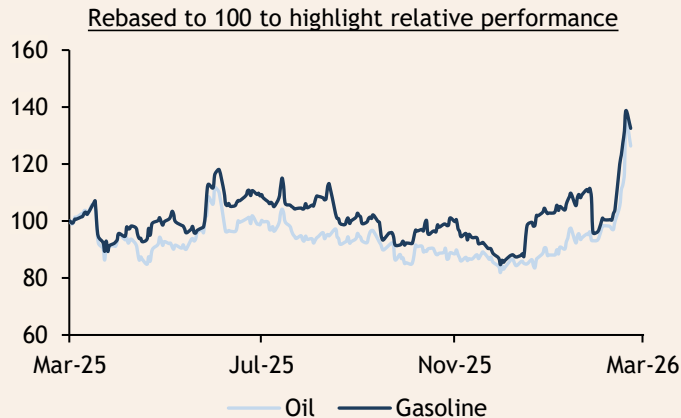
### Alternative SME Impact

- Small businesses may tighten inventory rotation or reduce order frequency because refund uncertainty limits their ability to forecast purchasing cycles.
- SMEs with concentrated suppliers face higher vulnerability to cost surges, making it harder to maintain stable pricing in competitive markets.
- Smaller firms may delay growth initiatives or postpone capital investments as they wait for more predictable policy and cost conditions.
- Limited negotiating leverage leaves small businesses more exposed to supplier cost increases, reducing their ability to protect margins during volatility.

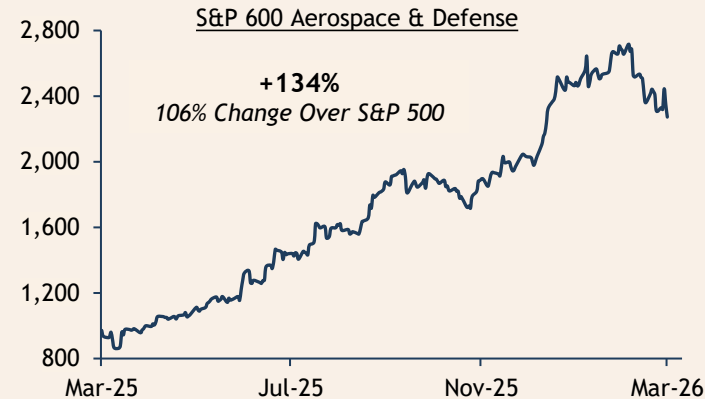
# U.S.-Iran War Energy Shock

## Small-Cap Bifurcation and Sector Implications

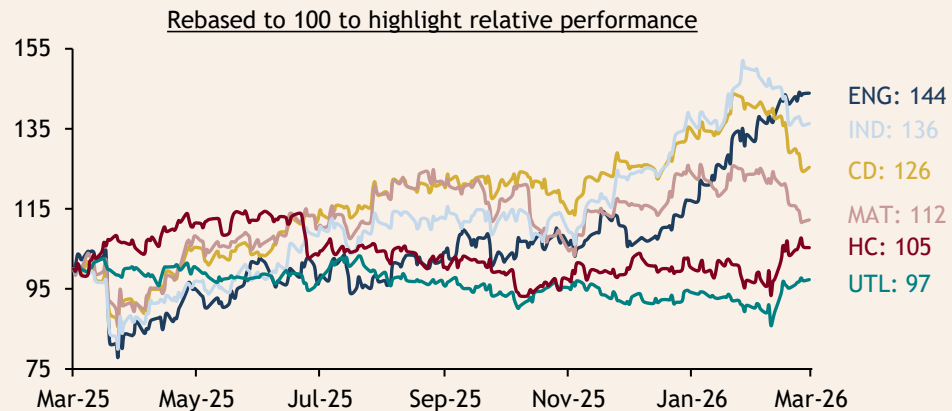
### Oil & Gasoline Prices



### Defense-Related Small Caps Index



### Small-Cap Sector Divergence



**Overweight**

- Energy
- Defense-adjacent small-caps

**Underweight**

- Consumer Discretionary
- Transportation
- Import-dependent manufacturers

### Commentary

- 1 The surge in oil and gasoline prices following recent geopolitical tensions is widening the performance gap across small-cap sectors, with energy producers outperforming while fuel-sensitive and import-dependent industries come under pressure.
- 2 Defense small caps, represented as the S&P 600 Aerospace & Defense Index, continue to benefit from stronger procurement flows and rising private-market defense activity, supported by geopolitical tensions that are unlikely to ease in the near term.
- 3 Defensive sectors such as healthcare and utilities have remained comparatively stable, reflecting a rotation away from higher-beta areas and toward more resilient segments during the energy-driven shock.
- 4 Sector leadership is shifting toward energy, defense-adjacent and defensive segments, while consumer discretionary, transportation, tech-linked small caps and other cost sensitive industries face a more challenging backdrop.

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# HGR's Economic Take

1

## Improving Medium-Term Monetary Conditions Support Small-Cap Upside

Medium-term easing rate expectations and improving liquidity conditions continue to favor small caps, given their high sensitivity to financing costs and domestic demand compared to large caps. However, given the recent increased tensions in the Middle East, further rate easing in the short-term seems unlikely.

2

## Fundamentals are Inflecting, but Leadership Remains Selective

Valuation remain attractive and earnings momentum is improving, yet policy uncertainty and geopolitical shocks are driving dispersion, favoring sectors with pricing power, defense exposure or defensive characteristics .

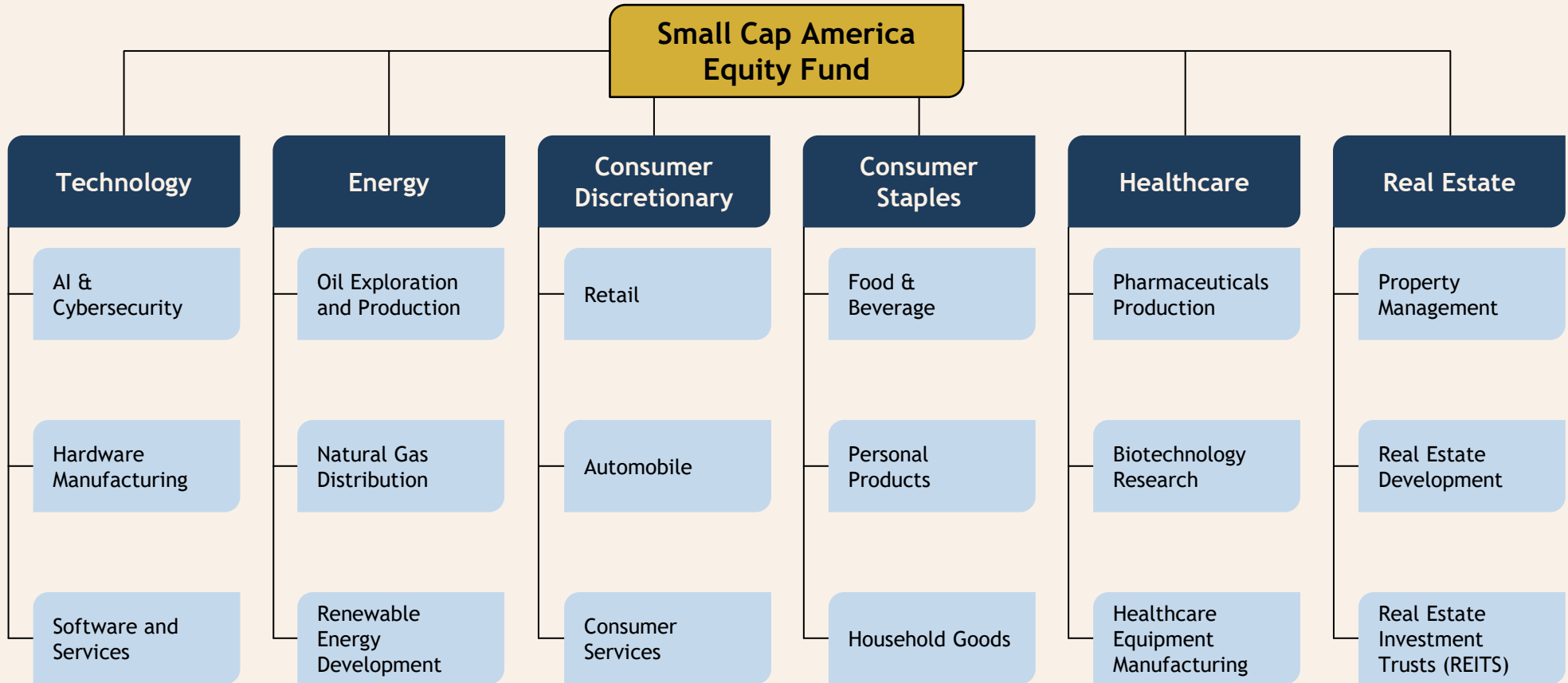
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## Near-Term Volatility Masks a Constructive Medium-Term Setup

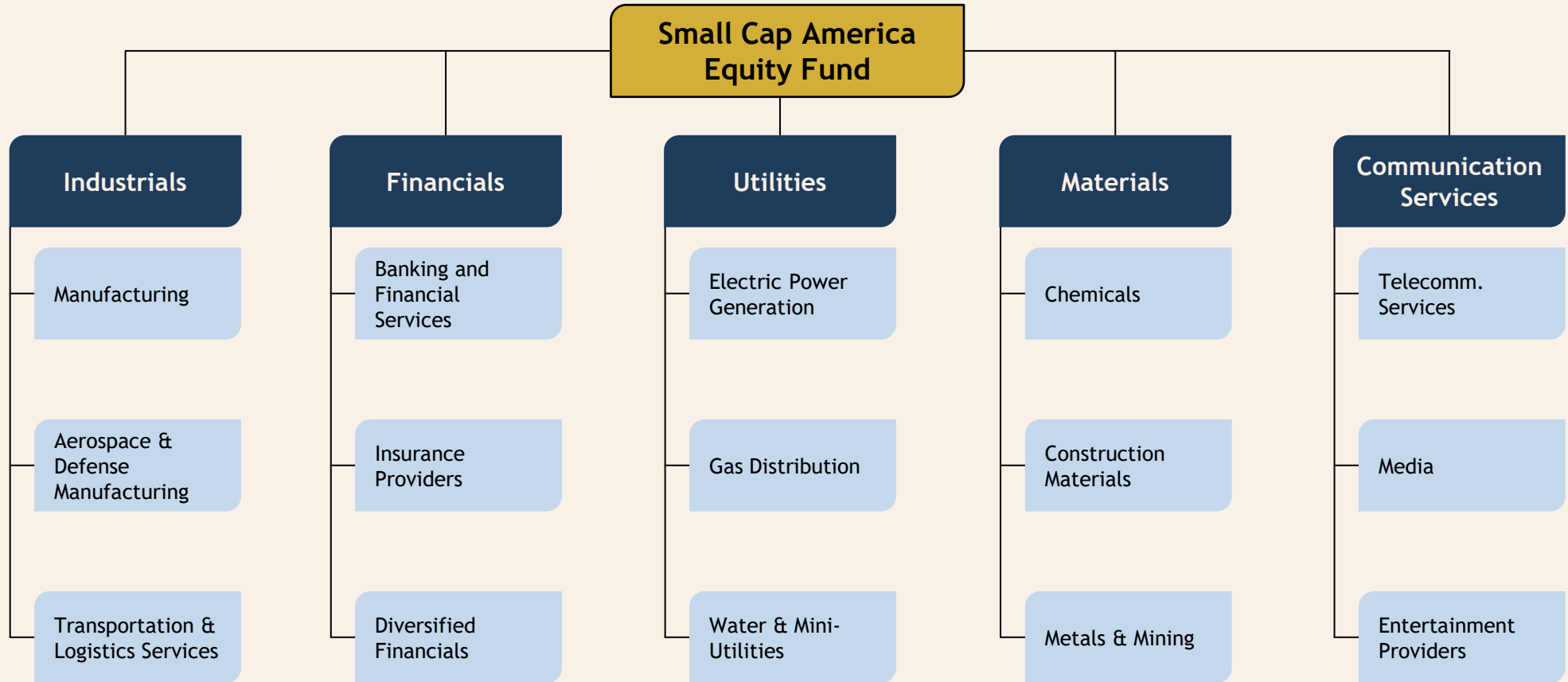
Election-year uncertainty and geopolitical risks are weighing on sentiment in the near term, but improving breadth, stabilizing flows and post-event clarity point to a potential re-engagement with small caps later in the year if geopolitical tensions ease eventually.

Neutral Growth Outlook

# Overview of SCA's Sectors and Industries

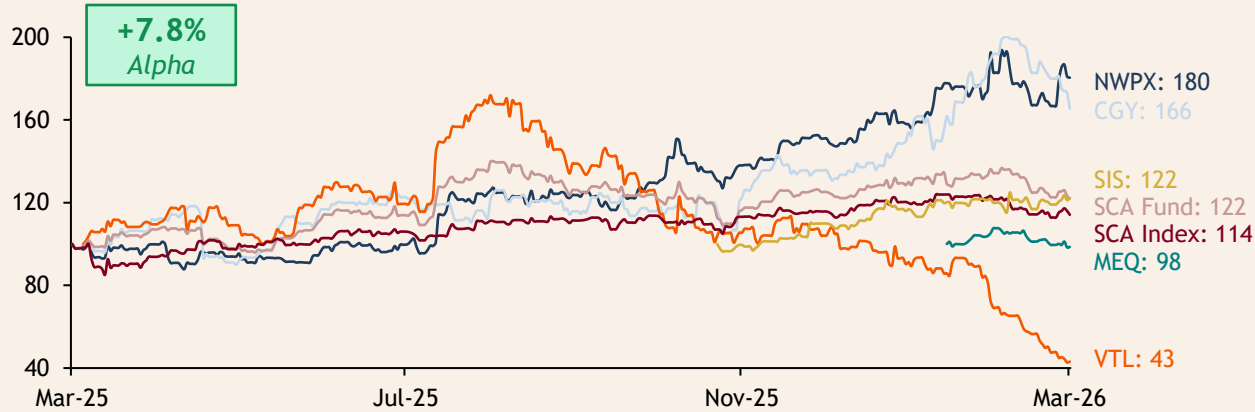


# Overview of SCA's Sectors and Industries

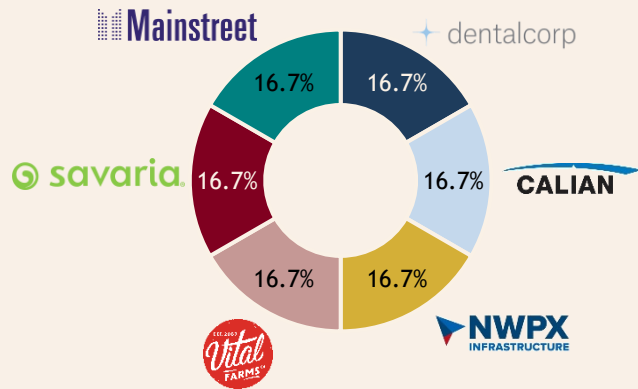


# SCA Fund Overview

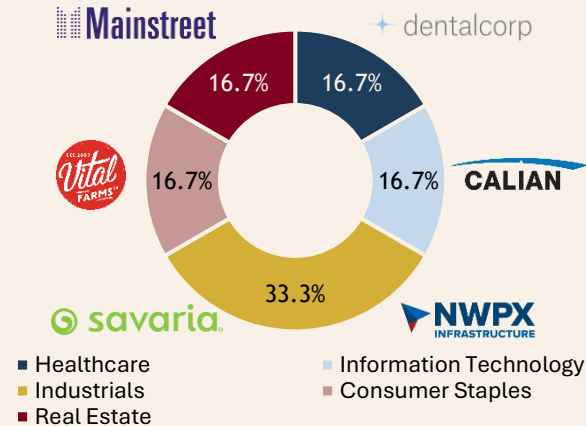
## LTM Fund Relative Performance (Unrealized Returns)



## Portfolio Composition



## Sectorial Exposure



## Commentary

1

The SCA Fund overperformed compared to its benchmark, the S&P Small-Cap 600, over the last twelve months.

2

Top performers include NWPX and CGY while MEQ and VTL have underperformed relative to the index.

3

The portfolio consists of 6 equally weighted stocks, with 40% of capital remaining for deployment in SCA.












4

HGR's SCA current sector allocations are in healthcare, information technology, industrials, consumer staples, real estate.

# Sector Level Perspectives

## Industry Themes

### HGR Sectorial Pulse

	<b>Technology</b>	<ul style="list-style-type: none"> <li>Selective upside: smaller tech firms can thrive in niches (AI, software tools) but lack the scale and balance sheet cushion of large peers, riskier in volatile rates environments.</li> </ul>	
	<b>Energy</b>	<ul style="list-style-type: none"> <li>Conventional E&amp;Ps and services gain from fossil-friendly policy/geopolitics; renewables small caps face permitting/subsidy uncertainty, be selective.</li> </ul>	
	<b>Consumer Discretionary</b>	<ul style="list-style-type: none"> <li>Highly cyclical: small-cap consumer firms are sensitive to consumer sentiment and wage pressures, but could gain if household disposable income recovers.</li> </ul>	
	<b>Consumer Staples</b>	<ul style="list-style-type: none"> <li>Safe but low growth: small-cap producers of essentials may hold up in downturns, but face low pricing power and intense competition.</li> </ul>	
	<b>Healthcare</b>	<ul style="list-style-type: none"> <li>Stable undercurrent: smaller biotech/medtech players have long-term tailwinds from aging and innovation, but face regulatory, reimbursement, and capital access risks.</li> </ul>	
	<b>Real Estate</b>	<ul style="list-style-type: none"> <li>Most rate-sensitive; refinancing walls and office headwinds persist, only selective logistics/SFR names work if cuts accelerate.</li> </ul>	
	<b>Industrials</b>	<ul style="list-style-type: none"> <li>The sweet spot: small-cap industrials stand to benefit from reshoring, infrastructure stimulus, and increased defense gear spending, but face input cost pressures and energy inefficiencies.</li> </ul>	
	<b>Financials</b>	<ul style="list-style-type: none"> <li>Interest-rate levered: small regional banks and specialty lenders are dependent on net interest margins and credit cycles; easing or increased credit demand could unlock value.</li> </ul>	
	<b>Utilities</b>	<ul style="list-style-type: none"> <li>Defensive but challenged: small-cap utilities less common, access to capital and regulatory risk remain high, with downward pressure on prices</li> </ul>	
	<b>Materials</b>	<ul style="list-style-type: none"> <li>Mixed bag: companies tied to commodities or advanced materials may benefit from decarbonization trends in Democratic states, but exposure to raw input costs and global competition is a headwind.</li> </ul>	
	<b>Communication Services</b>	<ul style="list-style-type: none"> <li>Constrained upside: small-cap telecom or media firms have thin margins and heavy capital needs; growth more likely in digital platforms or niche content/ads.</li> </ul>	

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# HGR's Allocation Rationale

1

## Poised to Benefit from a Rotation Away from U.S.' Crowded Big Tech

Small-caps remain attractively valued relative to large-caps, with, forward earnings trading at ~40% discount to the S&P 500's and this discount is even larger than the mid caps. From a historical perspective, small-caps traded at parity/premium to large caps before US tech skyrocketed post-Covid. Evidence shows that a rotation away from tech towards capital intensive pockets of the market driven by the threat of AI has started and small caps could benefit from it, were conditions to get better.

2

## Mixed Economic Signals Cloud the Future Outlook

On one hand, the earnings backdrop appears supportive for small-caps going forward, as consensus expects +18% EPS growth for small caps vs. 16% for mid cap and 13% for large caps in '26. On the other hand, in the past month, fears of an energy price-driven inflation uptick caused expectations of a Fed rate increase to go up, sending down small caps into correction territory.

3

## Expectations Bifurcation Amongst Small Caps Created by Energy Shocks Volatility

The surge in oil and gasoline prices following recent geopolitical tensions is widening the performance gap across small-cap sectors. Sector leadership is shifting toward energy, defense-adjacent and defensive segments, while consumer discretionary, transportation, tech-linked small caps and other cost sensitive industries face a more challenging backdrop. Small caps are more volatile and economically sensitive than mid/large caps making them vulnerable to any economic slowdown.

Equal Weight

# D. European Equity Fund

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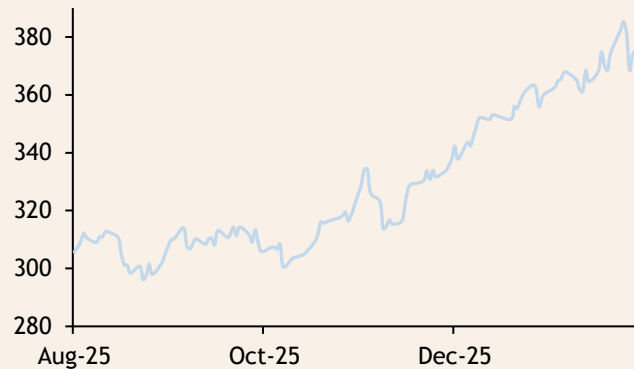
# EU Market Performance

Monetary Easing and Fiscal Support Drove Europe's Equity Catch-up

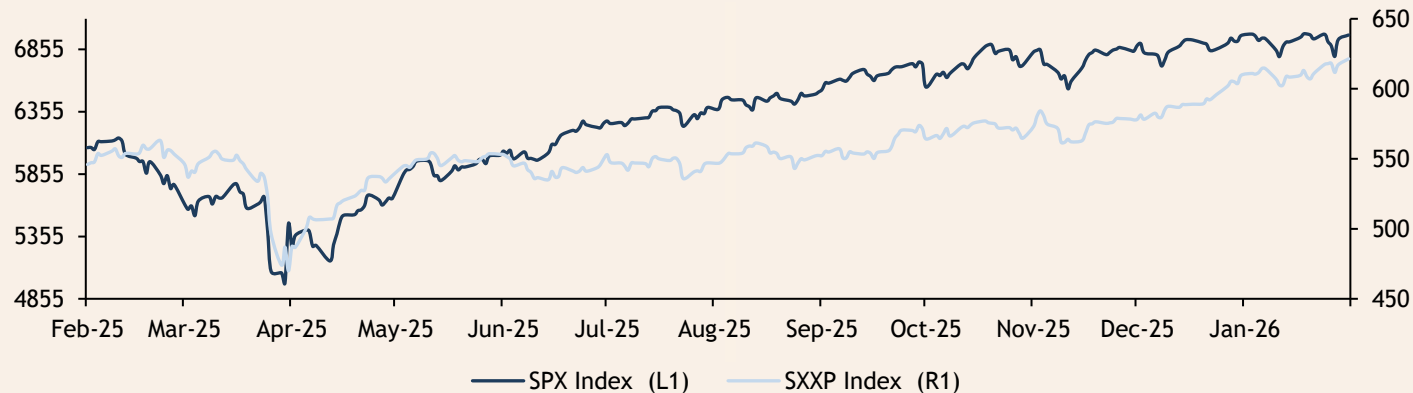
## Defense Spending



## Financial Sector Performance (SX7P)



## Recent Performance: SXXP vs. S&P 500



## Comments

1 After trailing the U.S. earlier in the year, EU equities caught up as macro fears eased and financial conditions stabilized. The rally reflects a re-rating from pessimistic starting points rather than a shift to a high-growth regime.

2 Financials led performance as ECB easing improved credit conditions without materially compressing bank margins. Resilient labor markets limited asset-quality risks, supporting earnings visibility and valuation exp.

3 Defense-related equities benefited from a step-up in EU defense spending commitments since November, as governments accelerated procurement and budget allocations amid heightened geopolitical uncertainty.

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# EUR Strength Signals Macro Stabilization

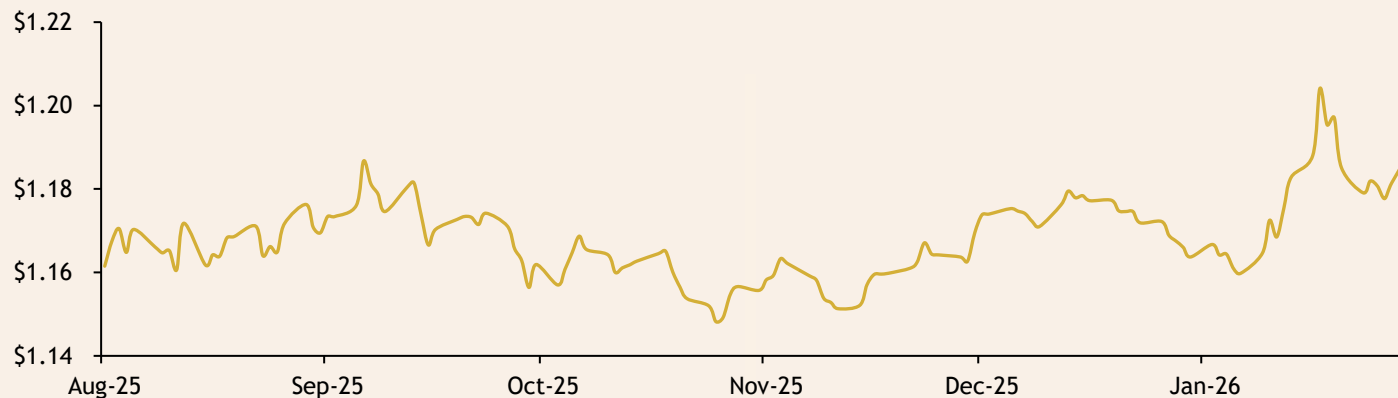
Driven by Rate Convergence and Risk Sentiment Rather than Growth Acceleration

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## EUR Currency Cycle



## EUR/USD



## Comments

- 1 EUR/USD appreciated after a period of weakness as ECB easing and converging rate expectations reduced downward pressure on the euro.
- 2 EUR strength provided a tailwind for domestic-oriented and rate-sensitive sectors, while limiting upside for export-heavy industries.
- 3 FX gains reinforce a domestic-tilted equity bias but leave EU vulnerable to external shocks; exporters and cyclicals tied to global demand remain pressure points.

# Davos Signals: Europe Pushing Toward Strategic Autonomy

*Policy Signals Point to a More Domestically Driven, Fiscally Supported Growth Model*

## Davos 2026: Key Messages for Europe

European leaders emphasized reduced reliance on the U.S. across defense, energy, and critical supply chains

Strong focus on industrial policy, strategic autonomy, and domestic investment

Continued commitment to higher defense and infrastructure spending

Cautious tone on global trade, with risks from tariffs and geopolitical fragmentation highlighted

## Implications for EU Growth & Sectors

Domestic demand and public investment become more important growth drivers

Structural support for defense, infrastructure, and industrials

Less dependence on U.S. demand reduces cyclical risk, but may cap upside for export-heavy sectors

Reinforces the shift toward fiscal-driven growth, complementing ECB easing

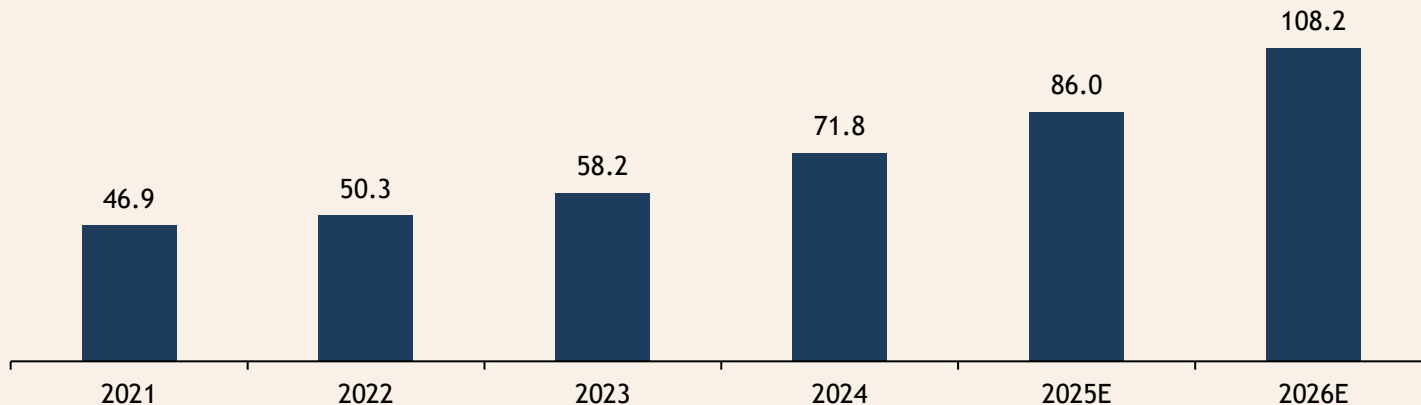
## Investment Takeaway

- Favor domestically exposed, policy-supported sectors (defense, infrastructure, select industrials)
- Be selective on exporters, as trade fragmentation and FX remain asymmetric risks
- Macro upside driven by fiscal impulse and stability, not global demand re-acceleration
- EU and US relationship will never be the same: EU will now favor domestically anchored, policy-supported European sectors

# Germany's Defense Fiscal Reawakening

€500B Fund and Record Defense Spending to Reshape Europe's Growth Engine

Germany Defense Budget Trajectory (€B)



▲ **130%**

**Budget growth since 2021**

Germany's defense budget has more than doubled from €46.9B in 2021 to €108.2B in 2026E – a 130% increase in just five years.

€**22.2B**

**Year-on-year jump 2025→2026**

The single largest annual increase on record, driven by the new coalition's special fund and lifted NATO spending commitments.

**2% → 3%+**

**NATO target to GDP target**

Germany will surpass the NATO 2% GDP threshold in 2025E and is on track toward Chancellor Merz's stated 5% of GDP goal.

## Comments

1

### Structural Shift

Germany is undergoing a structural shift in fiscal policy, with defense spending more than doubling and a €400 billion borrowing program

2

### GDP Uplift

This expansion is showing into a measurable impact, with upward revisions to GDP growth and defense spending expected to add close to one percentage point to output over the medium term.

3

### Geopolitical Catalyst

Merz targets 5% GDP for defense. E6 format for coordination. Europe now 21% of global defense spend (up from 17%).

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# ECB, Inflation & Investment Outlook

Monetary Easing Supports Growth; Selective Positioning for Structural Themes

## Inflation & ECB Policy

- Inflation near target: 1.9% in 2026, 2% in 2027
- ECB on hold with dovish bias
- Strong EUR (\$1.25) could trigger additional rate cuts
- BoE rate cuts expected in 2026; UK inflation at 2% target by spring

## Trade & External Risks

- External trade weak: US tariff pressures + declining China exports
- Mercosur & India trade deals to offset decline
- Intra-EU trade deepening the single market
- FX and trade fragmentation remain asymmetric risks for exporters

## 2026 European Outlook: Key Investment Themes

### Defense

€500B German fund, 21% global share rising. Structural multi-year capex cycle benefiting EU defense primes.

### Decarbonization

RRF €86B disbursed. Green transition & energy re-shoring driving industrial output and clean-tech investment.

### Resource Security

Raw materials independence via new trade corridors. Critical minerals access essential for tech sovereignty.

## Overall Outlook

- Greater resilience and strategic clarity supported by labor markets and fiscal investment
- Upside limited by weak external trade and uneven fiscal capacity across countries
- **Positioning:** Favor domestically exposed, policy-supported sectors (defense, infrastructure, industrials). Selective on exporters.

## Comments

1

### 1 ECB Dovish Hold

Inflation near target. Dovish bias supports equities. Strong EUR could trigger further easing.

2

### 2 Domestic Over Export

Macro upside from fiscal impulse, not global demand. Be selective on exporters given tariff and FX headwinds.

3

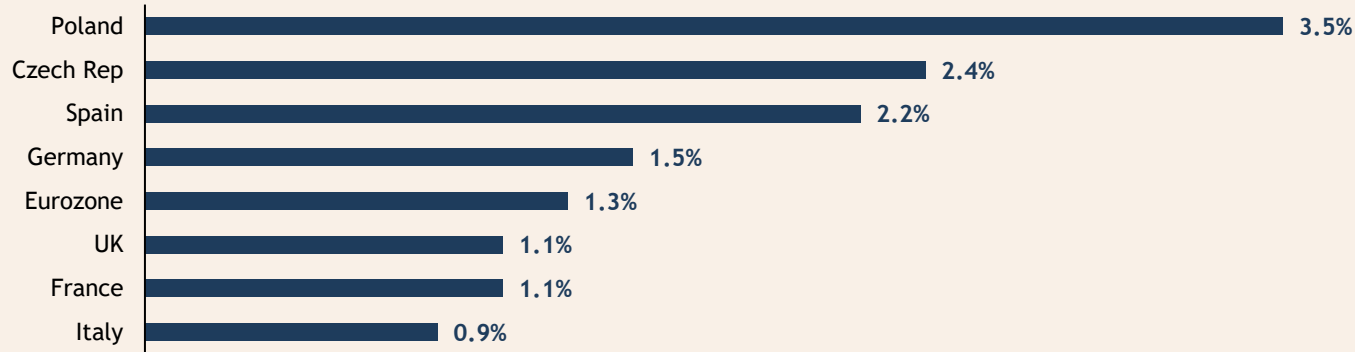
### 3 EU ≠ US Relationship

Transatlantic dynamic permanently shifted. EU pivoting to strategic autonomy across defense, trade, and energy.

# EU Growth, Fiscal Dynamics & Strategic Priorities

Defense, Decarbonization and Resource Resilience are Reshaping Regional Growth

## 2026 GDP Growth Forecasts (%)



## Regional Drivers & Fiscal Divergence

- **Germany (1.5%):** Manufacturing orders surging 10% QoQ; strong fiscal space from consolidation fueling defense + infrastructure
- **Spain & Portugal (>2%):** Strongest performers; dynamic labor markets, effective EU fund use, improving fiscal positions
- **France (1.1%), Italy (0.9%):** Rising deficits (110-132% debt/GDP by 2027); limited fiscal room constrains growth relative to peers
- **Poland (3.5%), Czech Rep (2.4%):** Strong wages + EU recovery fund investment driving CEE convergence
- **Fiscal tailwind:** RRF disbursed record €86B in 2025; re-shoring defense & energy strengthening industrial output

## Comments

1

### 1 Fiscal Divergence

Germany/NL have room to spend; France/Italy constrained. Selective country exposure is key.

2

### 2 Periphery Strength

Iberia & CEE outperforming core. EU fund deployment + labor dynamism driving convergence play.

3

### 3 Domestic Over Export

Growth driven by fiscal impulse, not global demand. Favor domestically exposed sectors over exporters.

# HGR's Economic Take

1

## Energy Price Shock Dampens Future Prospects

The ECB warned in March that soaring prices would have a material impact on inflation in the short-term, raising its 2026 inflation forecast to 2.6% from a previous 1.9%. The resilience of the region is highly dependent on the duration of the conflict in the Middle East.

2

## Germany Acts as the Primary Growth Driver for Broader Recovery

The primary growth driver for Europe's growth remains Germany's substantial fiscal expansion. The budget deficit is set to widen from 3.1% of GDP in 2025 to 4% in 2026 with the country heavily investing in infrastructure and defense. Europe faces ongoing competition from China, further potential U.S. trade tensions and will rely on the effectiveness of Germany's fiscal expansion to generate broader momentum.

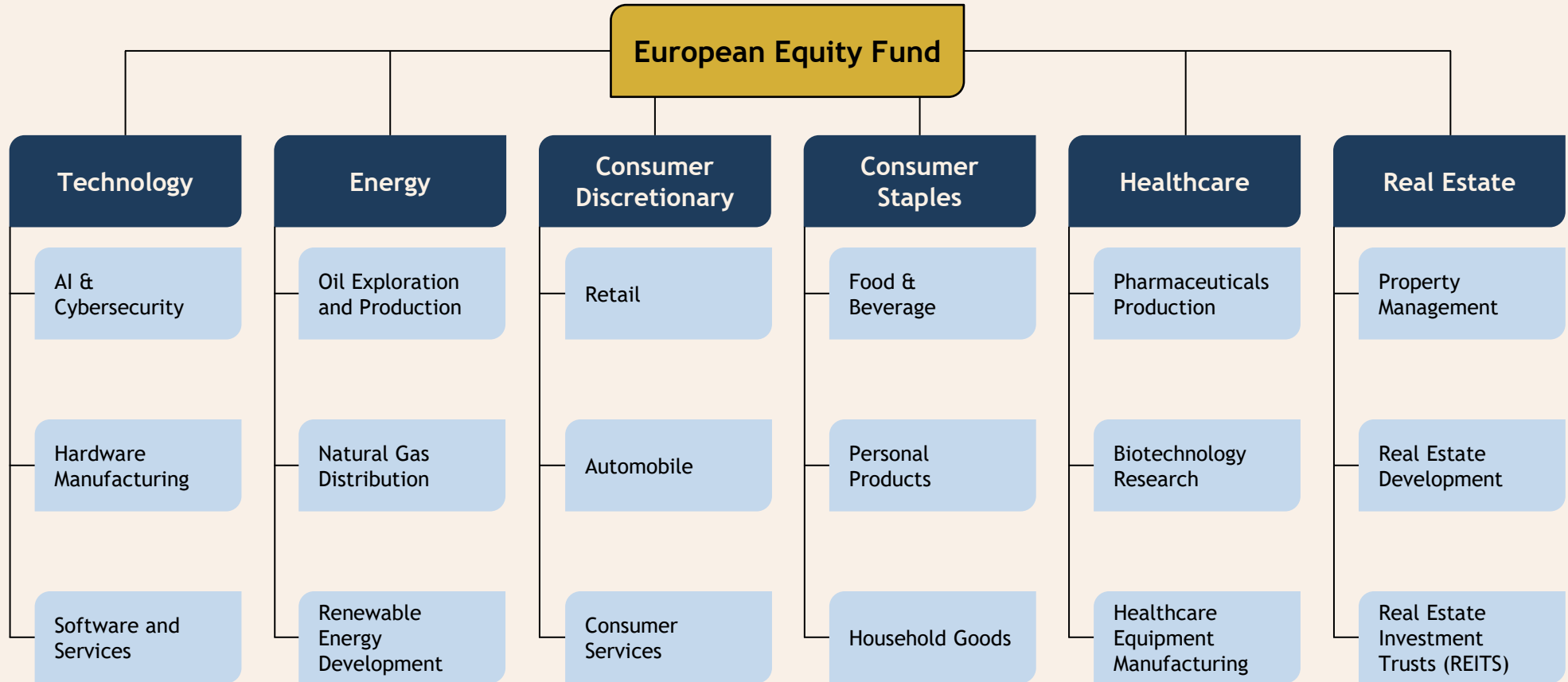
3

## Mixed but Generally Improving Labor Market Picture

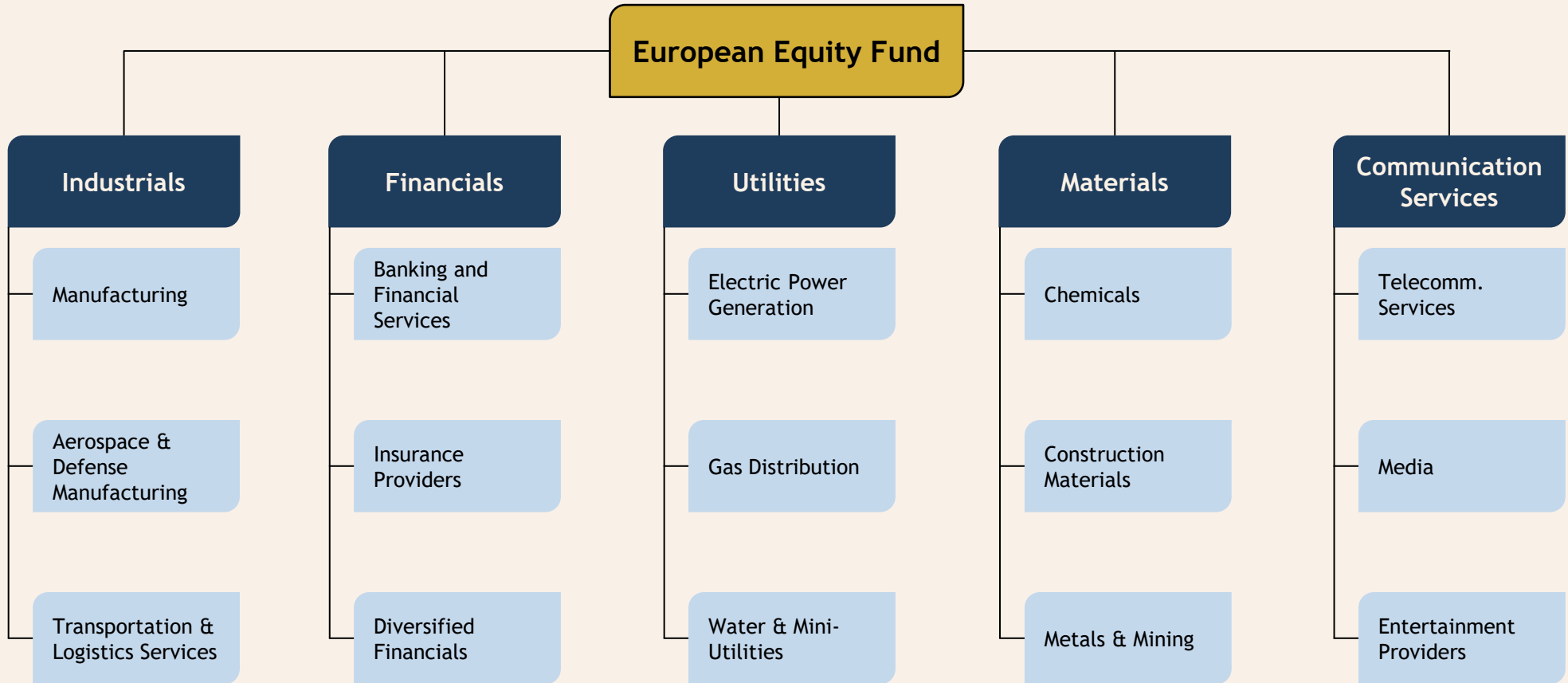
The Eurozone achieved a record low unemployment rate of 6.1% in January 2026, indicating broad improvement across the region. This represents continued progress from the economic recovery that has been underway since the Eurozone debt crisis. However, challenges remain from the Iran war's impact on energy prices and inflation.

Neutral Growth Outlook

# Overview of EE's Sectors and Industries

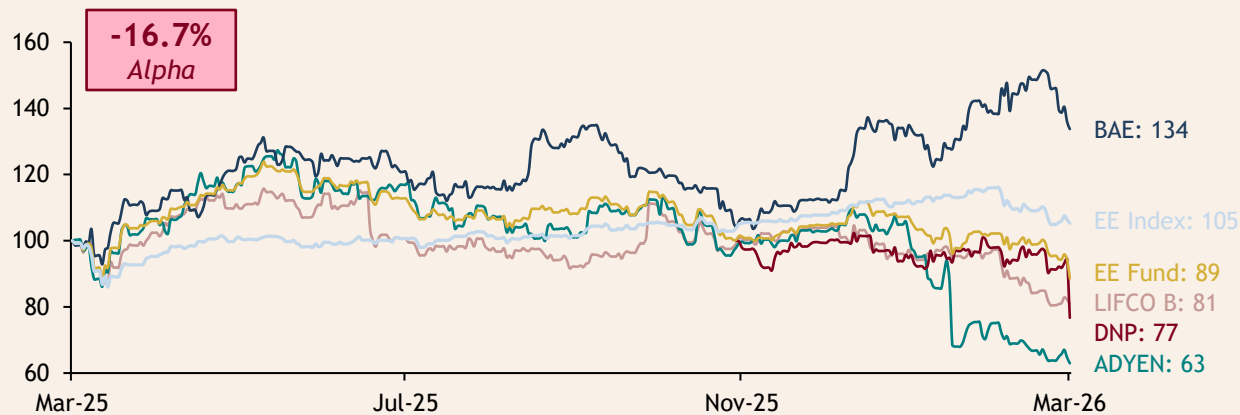


# Overview of EE's Sectors and Industries

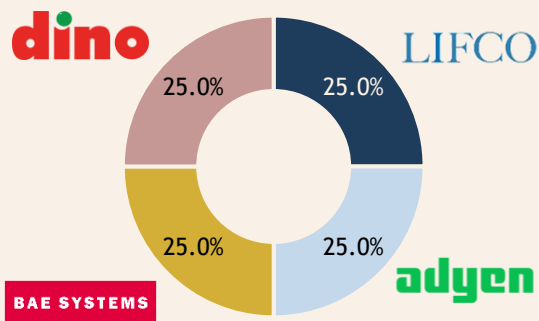


# EE Fund Overview

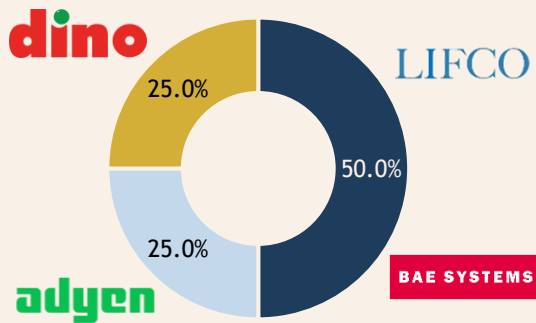
## LTM Fund Relative Performance (Unrealized Returns)



## Portfolio Composition



## Sectorial Exposure



■ Industrials ■ Financials ■ Consumer Staples

## Commentary

1

The EE Fund underperformed compared to its benchmark, the STOXX Europe 600, over the last twelve months.

2

Top performer is BAE while LIFCO, DNP and ADYEN have underperformed relative to the index.

3

The portfolio consists of 4 equally weighted stocks, with 60% of capital remaining for deployment in EE.



4

HGR's EE current sector allocations are in industrials, financials and consumer staples.

# Sector Level Perspectives

## Industry Themes

### HGR Sectorial Pulse

Technology	<ul style="list-style-type: none"> <li>Weakness in EU “tech champions”, but Chips Act, AI clusters, and digital infra support future upside.</li> </ul>	
Energy	<ul style="list-style-type: none"> <li>Renewables, electrification, and efficiency tech gain policy tailwinds; fossil-heavy firms face decline.</li> </ul>	
Consumer Discretionary	<ul style="list-style-type: none"> <li>Weak growth caps discretionary spending (autos, retail, luxury). However, EU trade deals (Mercosur, Japan, Korea) open markets for cars and luxury exports.</li> </ul>	
Consumer Staples	<ul style="list-style-type: none"> <li>Staples remain resilient, even in stagnation. EU trade deals boost exports of agrifood (wine, cheese, chocolates). Rising populism may encourage price controls or VAT cuts, affecting margins. Safe haven sector in volatile cycles.</li> </ul>	
Healthcare	<ul style="list-style-type: none"> <li>Challenging, marked by investment flight, lower relative R&amp;D innovation, regulatory pressures and growing concerns about EU’s competitiveness in pharma &amp; life sciences.</li> <li>Requires policy adjustments to retain competitiveness.</li> </ul>	
Real Estate	<ul style="list-style-type: none"> <li>Stabilizing with ECB pause; residential affordability weak, but showing signs of recovery.</li> </ul>	
Industrials	<ul style="list-style-type: none"> <li>Big upside for aerospace, defense contractors, and engineering firms tied to infrastructure/energy transition. Supply-chain re-shoring also favors EU industrials, though high energy costs remain a competitive drag vs. US/Asia.</li> </ul>	
Financials	<ul style="list-style-type: none"> <li>Margins pressured by rate cuts; upside if Capital Markets Union advances and credit quality holds.</li> <li>Further consolidation trends to bolster growth.</li> </ul>	
Utilities	<ul style="list-style-type: none"> <li>Long-term winners if renewable-aligned; fossil-heavy lag, regulation and populism add volatility.</li> <li>Faces significant challenges from energy security concerns &amp; disruption from geopolitical tensions.</li> </ul>	
Materials	<ul style="list-style-type: none"> <li>Energy transition lifts demand for miners/chemicals, but reliance on China and energy costs weigh.</li> </ul>	
Communication Services	<ul style="list-style-type: none"> <li>Telecoms under margin strain from 5G/fiber capex; digital platforms stand to lose with EU policy.</li> </ul>	

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# HGR's Allocation Rationale

1

## Diversification Away from Concentrated U.S. Stock Market

The primary catalyst is to provide diversification away from U.S. markets by offering a less tech-driven exposure (~5% of market). European markets are benefiting from the rotation away from AI giants, with their heavy weighting to old economy sectors such as banks and natural resources.

2

## Germany's Reawakening to Growth Acts as a Powerful Tailwind

Germany, Europe's powerhouse finally grew for the first time last year since 2022 and recent data shows German factory orders jumping as historic defense spending announced in March 2025 is starting to feed through the industry. This concurs with a sudden bounce back in flows in EU stocks in the past month driven by domestic stimulus delivery and could further push up the market.

3

## EU Strategic Autonomy & RRF Deployment

Europe is aligning around defence, competitiveness, and resource independence, with fiscal support and re-shoring efforts sustaining modest but resilient growth in 2026. However, weak external trade and uneven fiscal positions across countries continue to limit the upside despite inflation stabilizing and a broadly accommodative ECB stance.

Equal Weight

# E. Emerging Markets Equity Fund

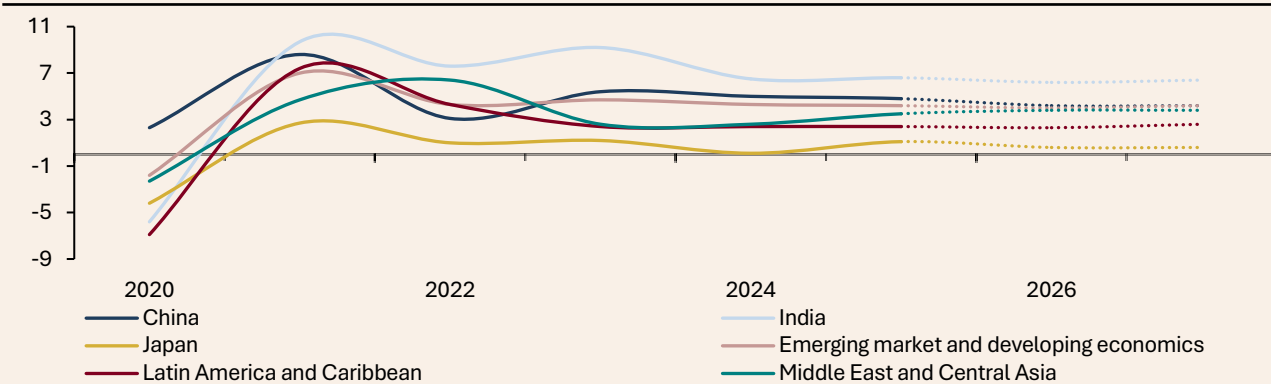
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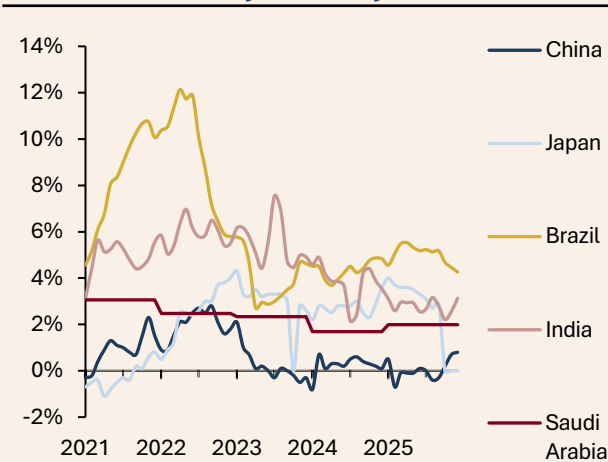
# Rates and Disinflation

Investors' Interest into EM Has Spiked amid Unpredictable American Policy and the AI Boom

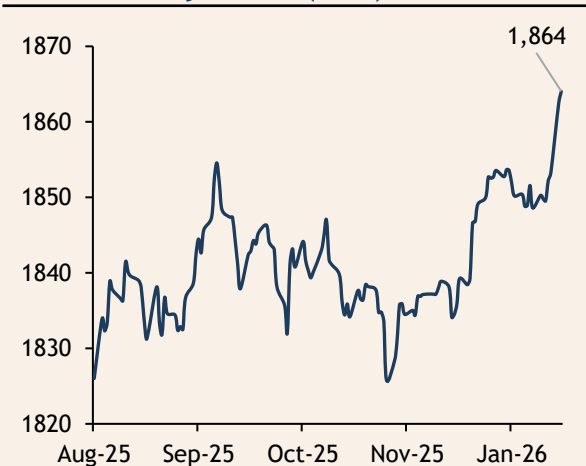
## GDP Growth Rate per Country (%)



## Inflation Rate by Country



## EM Currency Index (USD)



## Commentary

1

GDP is rising, supported by rapid AI and microchip advancements in Asia, while Middle Eastern and Latin economies contribute to strong movement in the energy sector, particularly oil.

2

Investors increasingly shift capital toward Asia, motivated by the region's AI-driven expansion and uncertainty in U.S. policy. Technology and materials sectors remain especially attractive due to strong fundamentals and long-term demand.

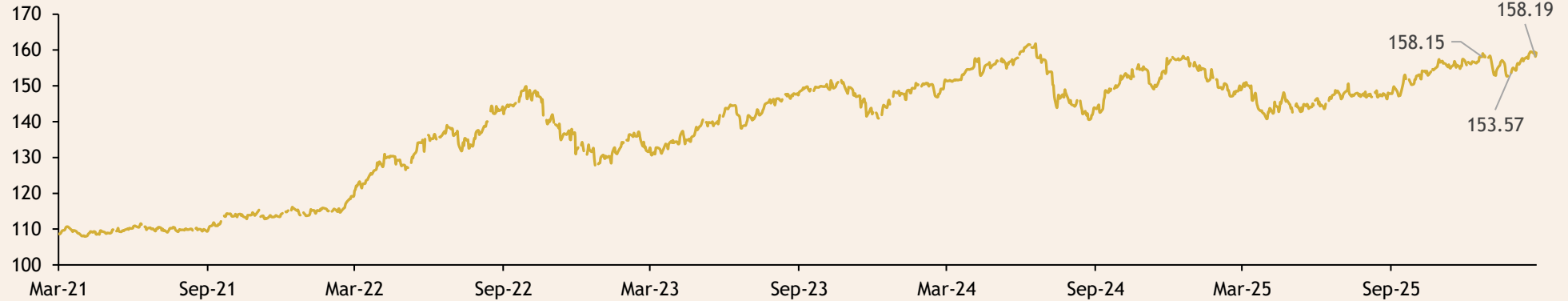
3

Growing geopolitical tensions across Latin America and the Middle East are increasingly threatening global economic stability. These conflicts risk disrupting key sectors, undermining investor confidence, and creating broader uncertainty that could slow growth and weaken market performance.

# Japan

## Yen Experiences Temporary Volatility Triggered by Weakening USD and Japanese Elections

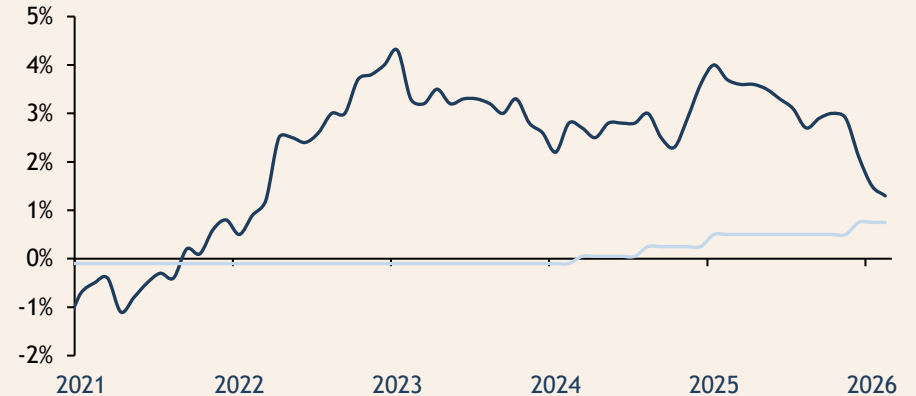
### USD-JPY Exchange Rate



### Key Drivers

- **Weakening American Dollar:** Unpredictable policies under the Trump administration as well as underperforming American assets has encouraged investors to seek international alternative assets. As investors follow a trend of “selling America” and buying elsewhere, the USD has been steadily weakening, boosting currencies like the JPY. Speculations over a joint intervention of the JPY by the Japanese and American government had caused a sudden currency spike at the end of January.
- **New Policy Plans:** Takaichi’s administration has solidified as the majority party following the February elections. The government now promises to stimulate domestic growth through aggressive fiscal stimulus and heavy government spending. On the medium to long term, this leads however to an even weaker yen and further national debt.

### Inflation Rate vs. Overnight Target Rate of Central Bank



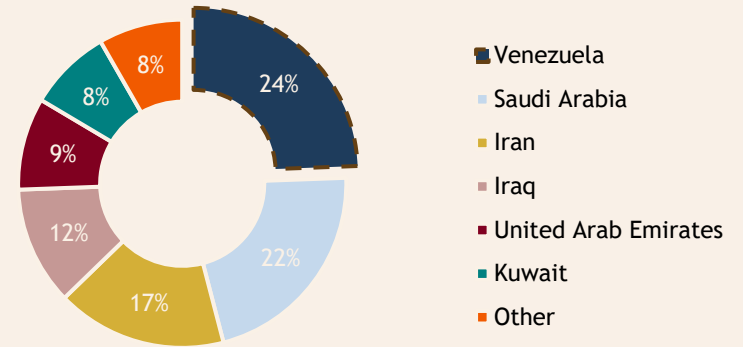
# Venezuela

*A New Opportunity for Economic Growth Opens as its Crude Oil Industry Faces Strong American Pressure.*

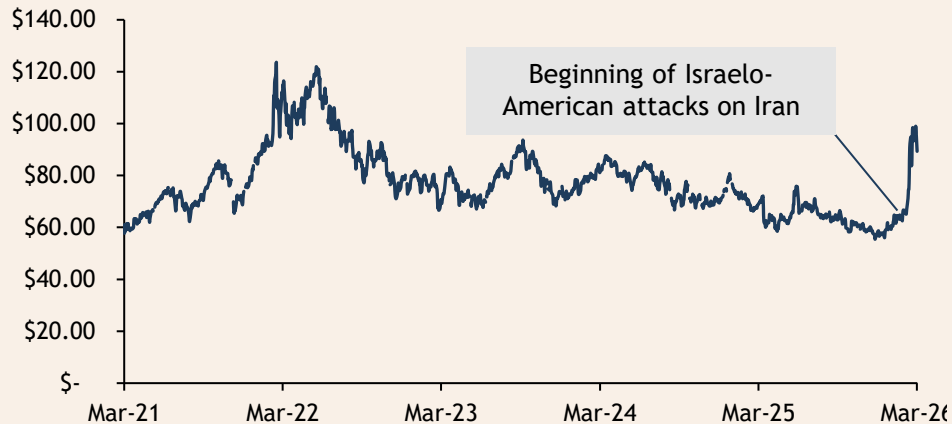
## Macro Shock

- **US control:** Venezuela is under U.S. control since its president's capture under claims of involvement in drug trafficking. The country faces continuous US-imposed oil blockades and seizure of multiple tankers; preventing it from continuing to export its oil independently. Venezuela permits American oil companies to settle once more on its soil as the latter aims to be its main client.
- Despite the country currently holding the greatest reserve worldwide, Venezuela produces less a tenth of Saudi Arabia's production a day. This is mainly due to sanctions imposed by the US on the nationalized resource since 2019, declining oil infrastructure and a lack of investment by the government. Venezuela may shift exports from China to the U.S., gaining access to that market but losing diversification.

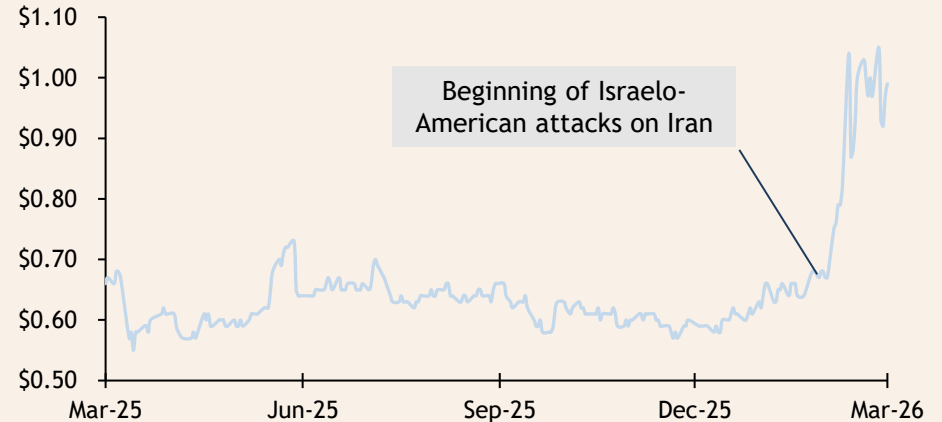
## Venezuela, the Greatest Reserve of Crude Oil (Billions Barrels)



## WTI Crude Oil Price (USD per Barrel)



## Global X S&P Crude Oil ETF (USD)



# Saudi Arabia

## Political Reforms Targeting Deficit Reduction and Economic Resilience Opens a New Market for Investors

### Policy Changes

#### Stock Market Liberation

Saudi Arabia opened its \$2.6T stock market to all foreign investors, ending the \$500M minimum requirement, aiming to boost FDI. Foreigners already hold nearly half of listed equity.

#### Foreign Property Ownership

Saudi Arabia now allows foreign ownership of more real estate, including Mecca and Madinah, to attract investment; detailed zones arrive next quarter.

#### Rent Freeze

Saudi Arabia froze Riyadh rents for five years to curb price surges, stabilize the market, strengthen tenant protections; ultimately to boost attractiveness.

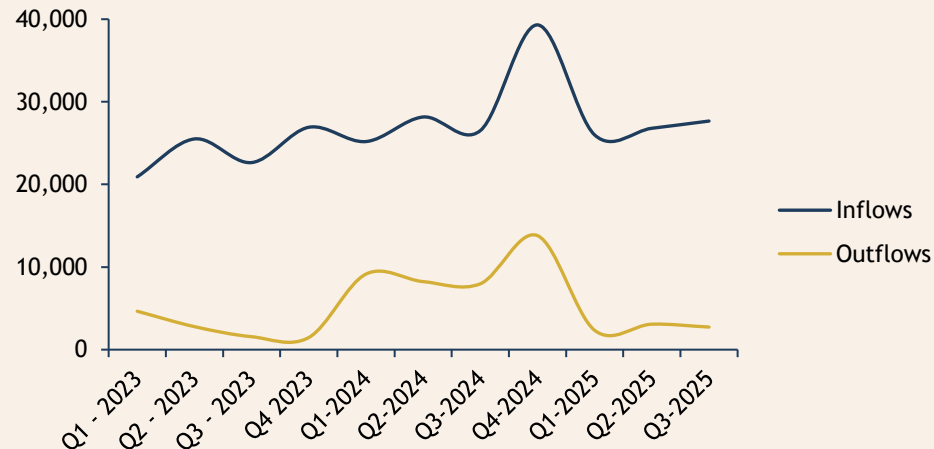
### Saudi Arabia Tadawul All Share Index (SAR)



### Impacts

- **Decrease in Deficit:** Saudi Arabia has been increasingly relying on borrowing, with its plan being at around \$57.86B USD in 2026 and its budget deficit being at around \$44B USD. This new policy aims to increase FDI to diversify sources of funding for the kingdom.
- **Increase in Economic Resilience:** Amid conflicts between US and both Iran and Venezuela, which has had an impact on the price of oil, Saudi Arabia aims to diversify sources of revenue to build economic resilience.
- **Increase Consumer Spending:** Freezing rents eases economic pressure on citizens, encouraging them to spend on other fronts and stimulate the economy, encouraging economic diversification.

### Saudi Arabia Inflows and Outflows FDI (Million SAR)

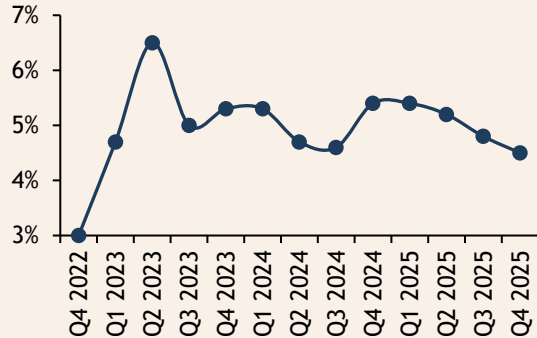


# China's Economic Balancing Act

Strong External Stimulus and Weak Domestic Activity Lead to Shyer Economic Growth

## GDP Remains Steady and in Slight Decline in Coming Year

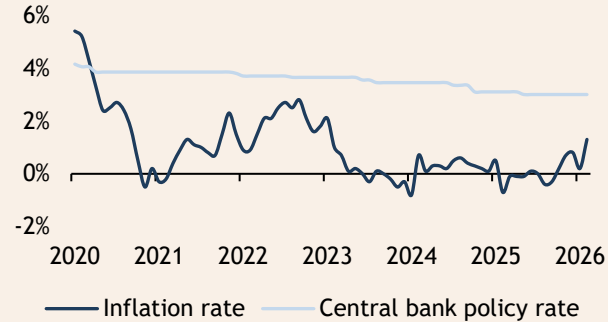
GDP quarterly, compared to the same quarter of the previous year (2022-2025)



GDP growth slowed to 4.5% in the last quarter in 2025. This growth is expected to continue in 2026 partly due to “anti-involution” policies and decreasing returns from domestic consumer stimulus. China increases its spending by 10% in AI and tech, aiming to achieve long-term growth in the sectors. The country continues to use exports as leverage to increase its GDP.

## China Narrowly Escapes Deflation

Inflation and Overnight Central Bank Interest Rate (2020A-2026A)



China narrowly escapes deflation, with a rate at 0.2% in January, while interest rates remain steady after constant decline. Lower global inflation, combined with AI-driven productivity gains, could give the Federal Reserve and other central banks room to continue easing policy, supporting stable global growth.

## Increasing Push to Develop AI Sector by Businesses

### Push Towards Profit

Companies in the AI and cloud service technology including Tencent, Baidu and Alibaba have recently increased their prices for cloud-related services and computing chips, demonstrating a focus on profitability rather than market-expansion.

### AI Investments & Development

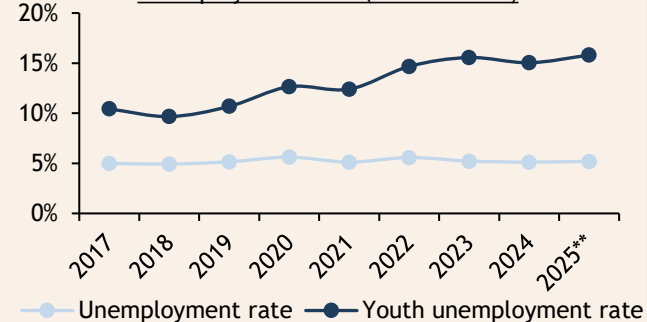
Alibaba, for instance, has committed to investing \$53B for AI infrastructure and data centers. Additionally, it is developing new models that integrate AI into their services such as Slack and WeChat, aiming to capitalize on the movement.

### Investment Gap

Alibaba, for example, currently trades at an about 17x forward P/E compared to about 29x for Amazon, despite having a projected 45% EBITDA growth in 2026. Investors will look to profit from this current gap.

## Consumer Spending remains weak

Youth Unemployment Rate and Regular Unemployment Rate (2017A-2025A)

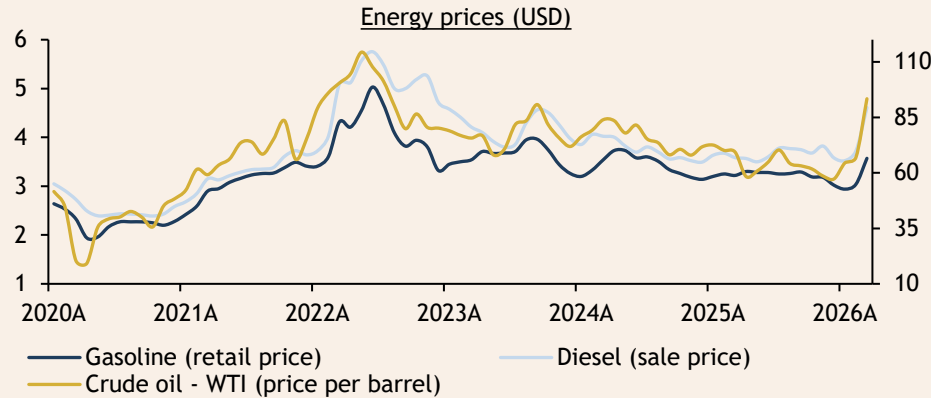


Youth unemployment in 2025 was above 15%, due to a widening gap between skills and needs on the job market. Low consumer spending is fueled by a weak recovery in the property sector, high youth unemployment, and weak consumer spending, stunting GDP as domestic consumption contribute to 57% of the indicator.

# The Iran War

## The Blockade of the Strait of Hormuz Raises Global Energy Supply Risks

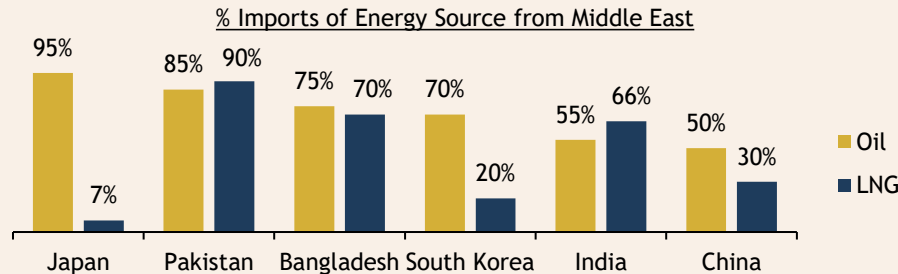
### Prices for energy on the rise, leading to concerning impacts on operations



**Financial de-risking:** Global investors pulled \$20.3 billion from equity funds—the largest selloff in three months—driven by inflation fears and the U.S.-Israeli conflict with Iran. While U.S. funds experienced heavy outflows, Asian funds surprisingly escaped the trend with \$5.45 billion in inflows. Seeking safety, investors poured \$32.57 billion into money market funds. In Emerging Markets, bond funds suffered \$2.83 billion in sales despite stabilizing equity flows. This shift underscores market anxiety as central banks signal tighter policies amid spiking energy prices caused by the war.

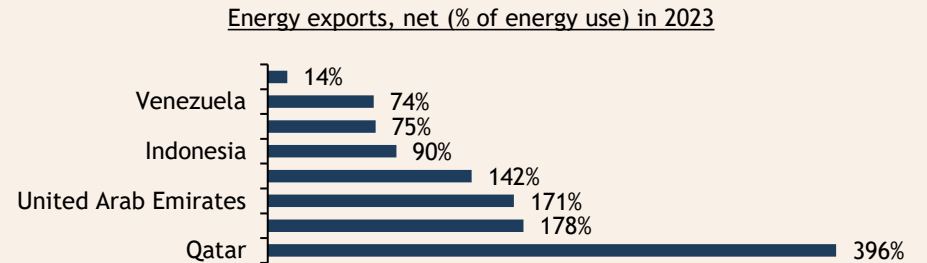
**Tech and semi-conductors:** The conflict has pushed Brent crude prices above \$100 per barrel, leading to spikes in global energy and gas prices. For instance, because natural gas accounts for 25-30% of South Korea's power mix, the cost of running energy-intensive semiconductor plants has risen sharply, impacting profit margins. Consequently, there has been concern about the availability and cost of energy for demand related the AI supply chain.

### Countries Most at Risk Concentrated in Asia



Japan, China, India, and South Korea account for ~75% of Gulf oil and ~59% of LNG imports. While they are seeking alternatives, constraints such as refinery configurations, cost advantages, and long-term contracts limit flexibility—heightening energy security and inflation risks.

### Latin America as the Greatest Benefactor



Brazil, Venezuela, Russia, Indonesia and Columbia have an opportunity to cash in on the blocked Strait of Hormuz; replacing the current greatest providers. These countries are to benefit from increase in oil prices and increasing demand in commodities.

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# HGR's Economic Take

1

## Strong Stimulation in the AI and Tech Sectors

Intensification of business investment and investor interest in AI paired with the strong involvement of Asian countries in the tech and AI industries fuel economic growth in Asian countries.

2

## Restricted Access to Energy Amid Regional Political Uncertainty

Blockade in the Strait of Hormuz as well as political uncertainty in the Middle East in particular, but also in Latin America, leads to difficult access to commodities necessary to power global economies, especially for energy-intensive industries such as the semi-conductor and overall tech industries, particularly in Asia. Though there are opportunities for alternative energy producers, particularly in Latin America, it remains a more expensive and logistically complex one.

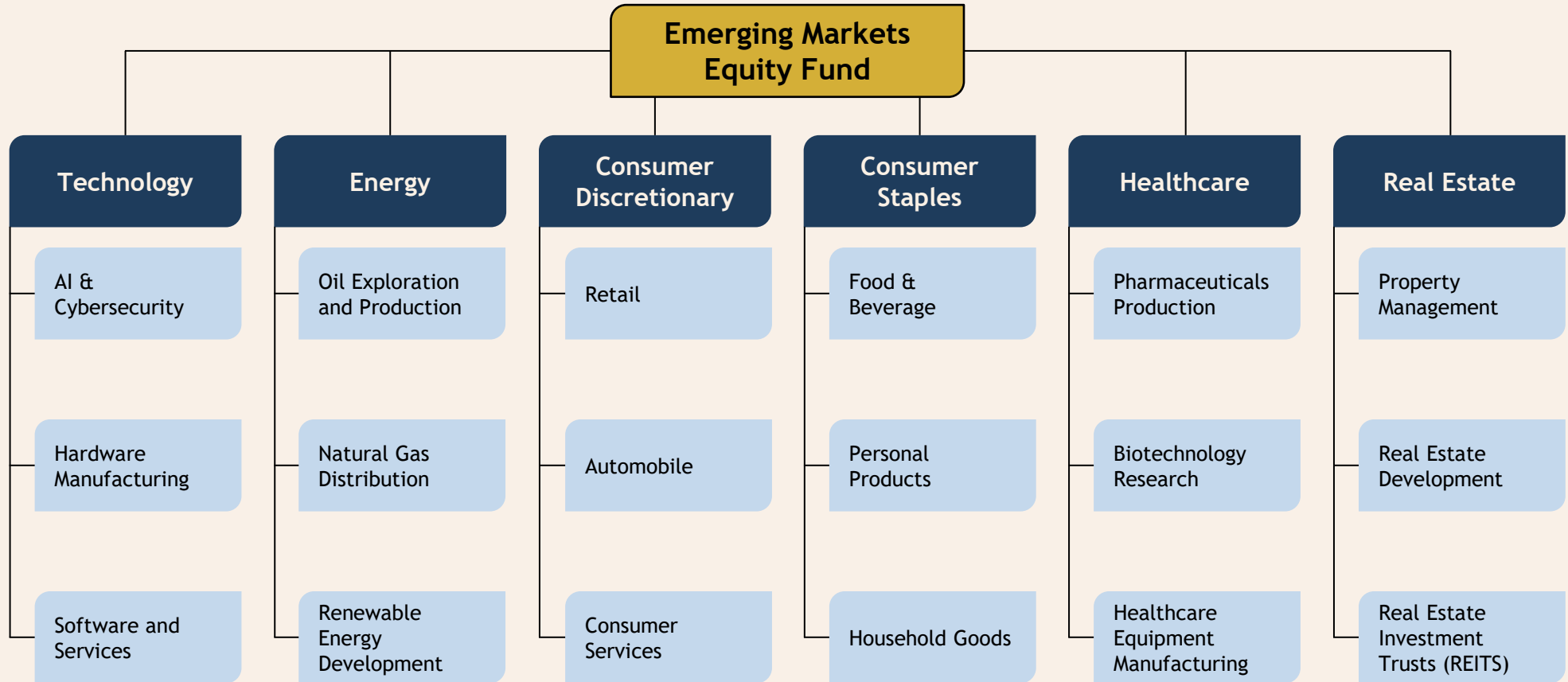
3

## American Monetary Weakening and Policy Unpredictability as Leverage for Economic Stimulus

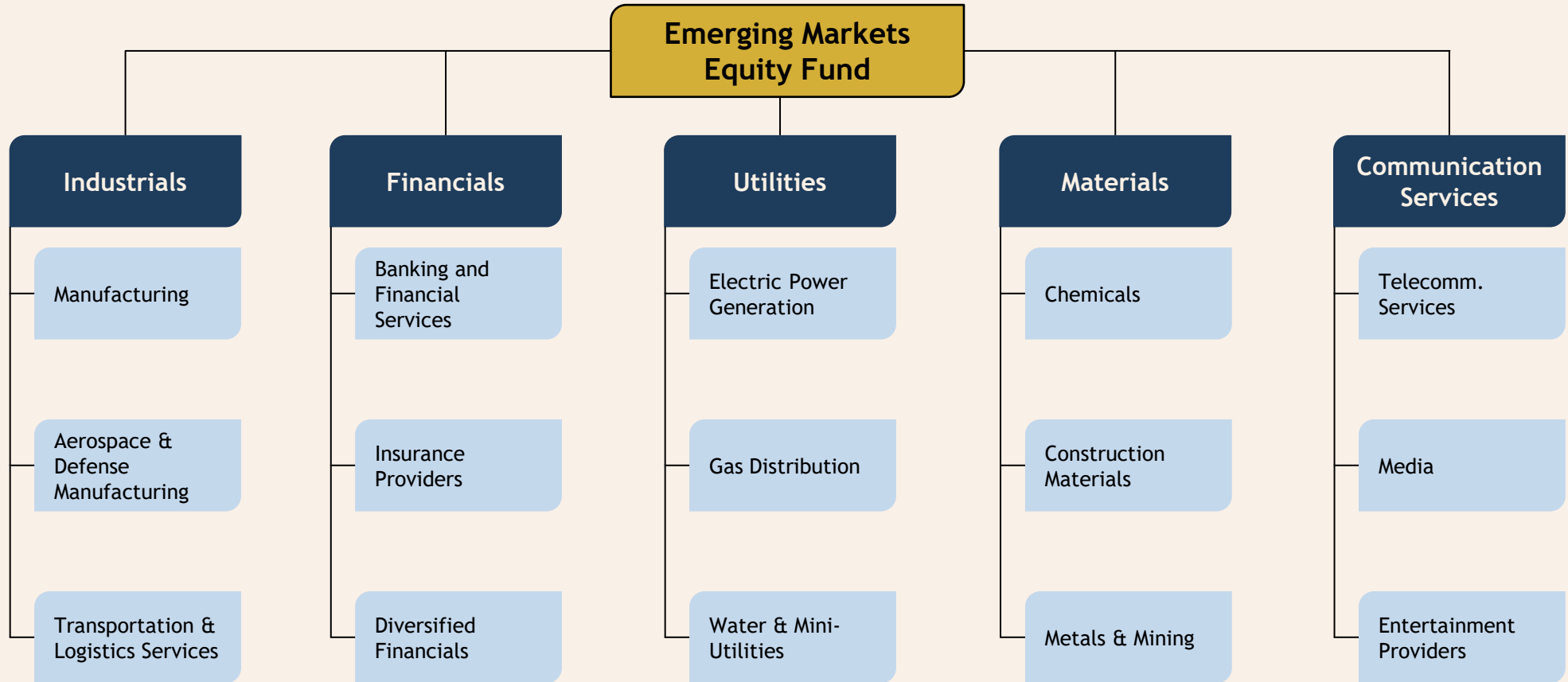
Uncertainty surrounding the intentions and policy direction of the Trump administration has reduced the attractiveness and perceived security of the United States as an investment destination. As investors scale back their exposure to U.S. assets, foreign currencies, including the Japanese yen, tend to strengthen. This shift supports external stimulus measures and facilitates increased financing flows toward emerging economies.

Positive Growth Outlook

# Overview of EM's Sectors and Industries

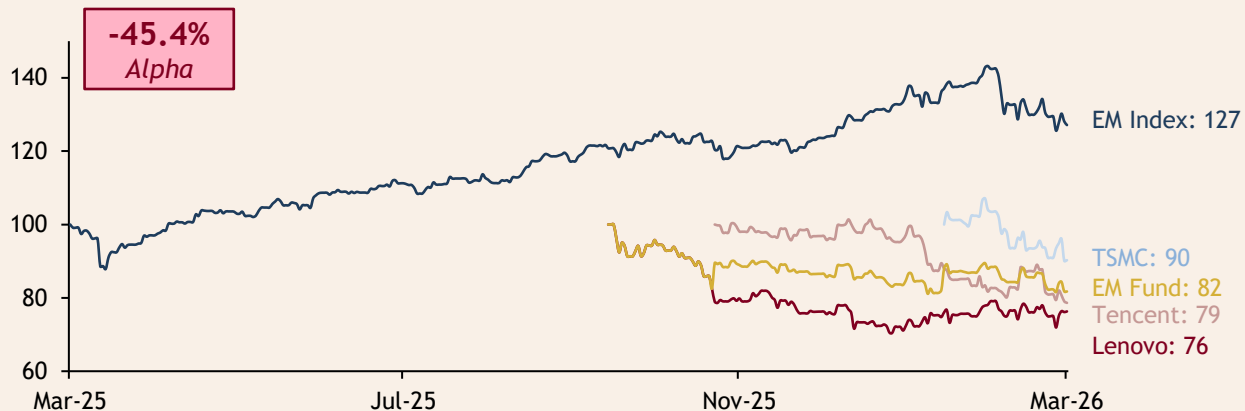


# Overview of EM's Sectors and Industries

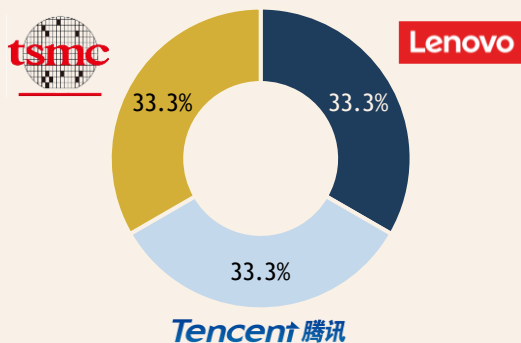


# EM Fund Overview

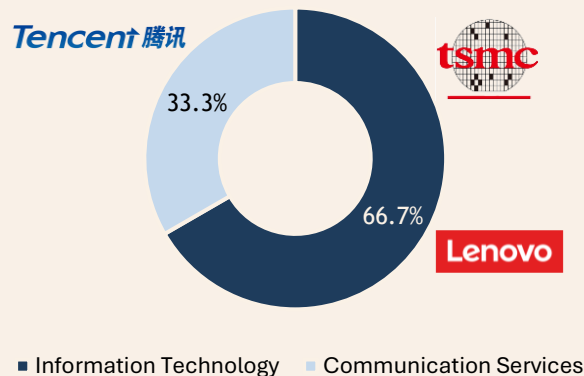
## LTM Fund Relative Performance (Unrealized Returns)



## Portfolio Composition



## Sectorial Exposure



## Commentary

1

The EM Fund underperformed compared to its benchmark, the MSCI EM, over the last twelve months.

2

Top performer is TSMC while Tencent and Lenovo have underperformed relative to the index.

3

The portfolio consists of 3 equally weighted stocks, with 70% of capital remaining for deployment in EM.

4






HGR's EM current sector allocations are in information technology and communication services.

# Sector Level Perspectives

## Industry Themes

### HGR Geographic Pulse

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<b>Emerging Markets</b>	<ul style="list-style-type: none"><li>Emerging market equities have been supported by a weaker U.S. dollar (historically a key driver of EM performance) and renewed investor flows despite temporary volatility following tariff announcements by Donald Trump. Diversification away from the highly concentrated U.S. market, which now represents roughly two-thirds of the MSCI All Country World Index, has further strengthened the case for EM exposure. At the same time, the global AI investment cycle is reinforcing EM growth prospects, as countries such as Taiwan and South Korea play a critical role in semiconductor supply chains, while easing inflation and potential rate cuts by the Federal Reserve System could further support valuations and capital inflows.</li></ul>	
<b>China</b>	<ul style="list-style-type: none"><li>China's economic outlook for 2026 remains challenging, with Beijing setting a modest GDP growth target of 4.5-5%, its lowest in decades, as structural headwinds, weak domestic demand, and ongoing property-sector weakness weigh on activity. Premier Li Qiang has warned of rising geopolitical risks and sluggish global growth. While exports have surged (particularly to Southeast Asia and Europe) helping offset trade tensions with the West, domestic consumption remains subdued and property investment continues to decline. China's strong manufacturing position in electric vehicles, batteries, and solar technology, alongside infrastructure spending and targeted fiscal support, is helping stabilize growth.</li></ul>	
<b>India</b>	<ul style="list-style-type: none"><li>India's market lagged in 2025 as high valuations, modest earnings growth, trade tensions with the U.S., and limited AI exposure weighed on performance. Yet India's structural story remains compelling. The country's ongoing infrastructure buildout continues to drive growth, supported by sustained public investment and pro-manufacturing initiatives, such as the Make in India and Production Linked Incentive programs. Telecom and railways investments enhance connectivity and logistics, while defense spending fosters domestic manufacturing and technology. We believe these industries are likely to benefit the most, as transfers to states accelerate regional infrastructure execution and amplify multiplier effects.</li></ul>	
<b>South America</b>	<ul style="list-style-type: none"><li>Latin American equities are shaped by global flows amid mixed fundamentals. Energy, Materials, and Real Estate remain attractive due to their resilience to slower growth and exposure to structural demand, while Financials and Concessions in Brazil benefit from potential rate cuts and stable cash flows. Consumer, Healthcare, and Telecom are underweight, reflecting sensitivity to weak consumption and policy uncertainty.</li></ul>	
<b>Middle East</b>	<ul style="list-style-type: none"><li>Investing in the Middle East today offers opportunities amid ongoing economic diversification and infrastructure growth. GCC countries, led by Saudi Arabia and the UAE, are driving investments in technology, logistics, real estate, and renewable energy, supported by strategic initiatives like Vision 2030. Energy remains a strong sector, but persistent regional instability and conflicts, including tensions in Yemen, Gaza &amp; around Iran and broader geopolitical rivalries, continue to pose material threat to continued foreign flows into this region of the world.</li></ul>	

# HGR's Allocation Rationale

1

## Oil Conflict Creates Heightened Downside Risk

The Iran conflict has exposed vulnerabilities of many EM countries. Higher oil prices, if sustained, could significantly change the game plan for central banks in developing nations, particularly affecting net oil importers. The USD's very recent strength poses a headwind, given that EM equity performance is typically inversely correlated with the USD.

2

## Crowded Positioning Creates Risk

Data shows that hedge funds allocations to EM stocks are hovering near 5-year highs, creating vulnerability if the conflict in the Middle East extends. There is a lot of leverage in the system betting on gains in EM equities. There is a high degree of oil imports in the emerging Asian economies, which could lead to a long-lasting sell-off in the asset-class if the conflict were to be prolonged significantly. Important to note that they however benefit from heavy inflows into chipmakers.

3

## Fundamental Support Remains

Despite near-term volatility, structural improvements provide support. Countries have spent years reducing their reliance on imports and foreign capital flows. Valuation remain attractive, with EM stocks trading at a ~50% discount to the S&P 500 on a forward earnings basis. A dollar strengthening should therefore less impact EM businesses than in the past.

Equal Weight

# F. Global Private Equity Fund

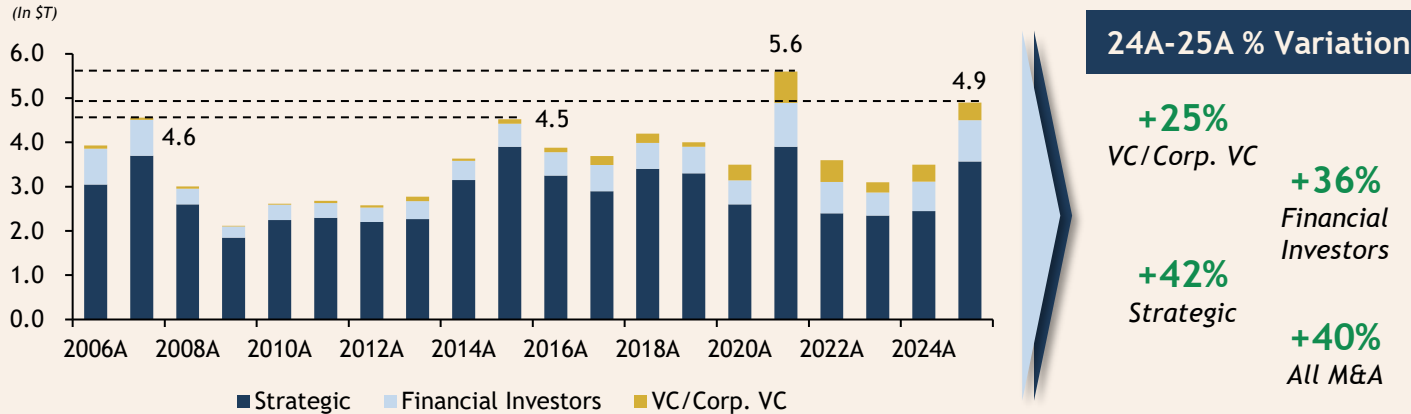
**HECONOMIE**  
Global Research



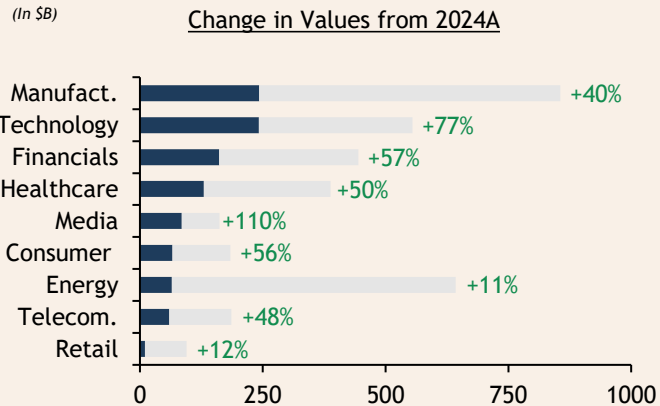
# Deal Making Overview

Global M&A in 2025 Marked the 2<sup>nd</sup> Highest Total Deal Value on Record at \$4.8T

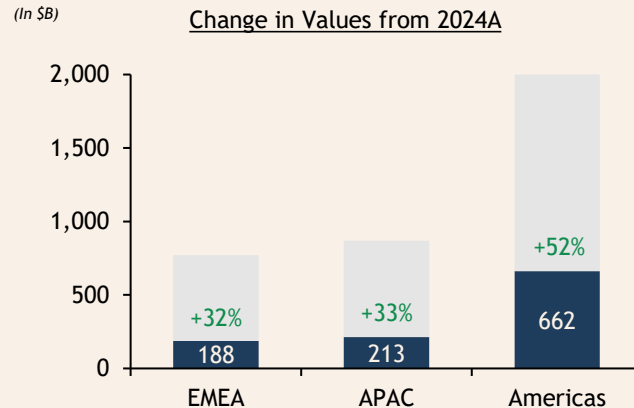
## M&A Deal Value Strongly Rebounds



## Rebound Led by Tech. and Manufacturing



## The Rebound is Global



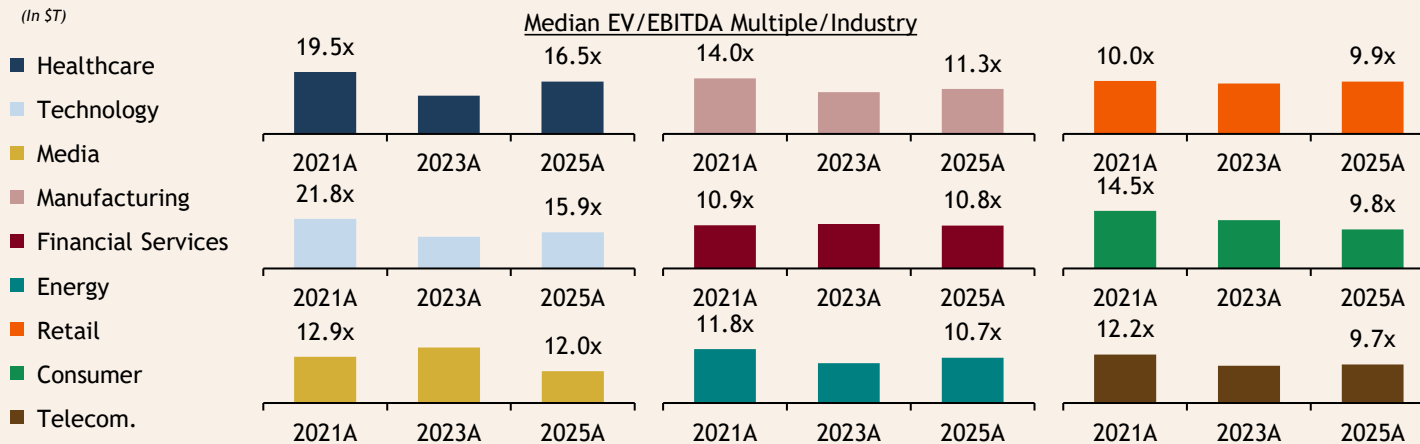
## Comments

- With AI accelerating, trade rules shifting, and global volumes stagnating, firms across industries reassessed their priorities. Many returned to M&A as a growth and resilience lever. 2025 marked the second-largest year on record for deal value, with gains spread across all major acquirers.
- The rebound is broad-based across industries: >10% growth for all industries. Tech led the charge, up 77% from 2024, fueled by AI-related acquisitions and minority investments. Advanced manufacturing also contributed with headliner mergers in the US and Europe.
- Stabilizing conditions reignited dealmaking in 2025. Post-pandemic pressures eased, regulations loosened, and capital became cheaper. Valuation gaps narrowed as sellers moved beyond 2021 peaks. With AI's disruption making inaction riskier than action, executives globally decided to move.

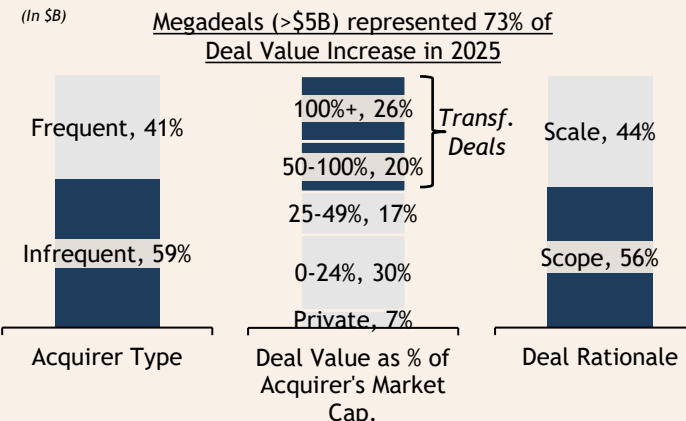
# Deal Making Overview

A Changed M&A Landscape Fueled the Activity Bounce Back

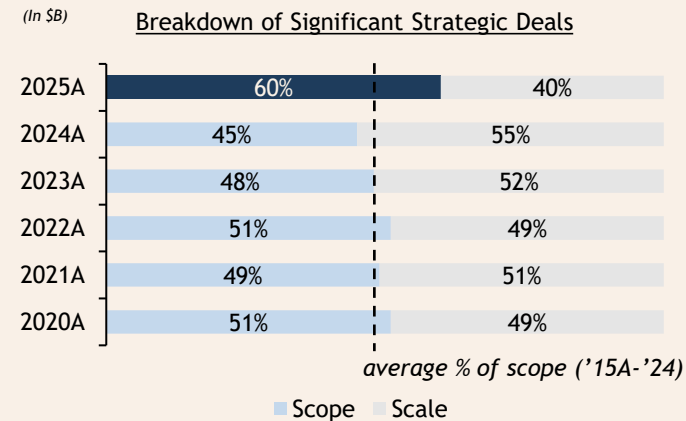
## The Buyer-Seller Gap is Narrowing: Increased Willingness to Transact



## Megadeals Aimed at Business Transformation



## A Sway Toward Scope Deals



## Comments

1 When markets turned in 2022, sellers held to peak valuations while buyers adjusted downward, stalling deals. Since then, strong earnings in resilient companies have closed much of that gap. Higher profits have brought values closer to seller expectations, resulting in sellers more willing to transact.

2 The last time global M&A topped \$4 trillion, some megadeals became breakout successes while others collapsed spectacularly. Large acquisitions anchored in a clear strategic thesis can redefine a company's growth path, whereas deals driven by weaker rationale often end up destroying value.

3 2024's tilt toward scale deals reflected high-fixed-cost companies chasing near-term cost synergies amid macro uncertainty. The rapid swing back to scope - visible in rebounding tech deal volume and strategic shifts across sectors - signals renewed confidence in top-line growth.

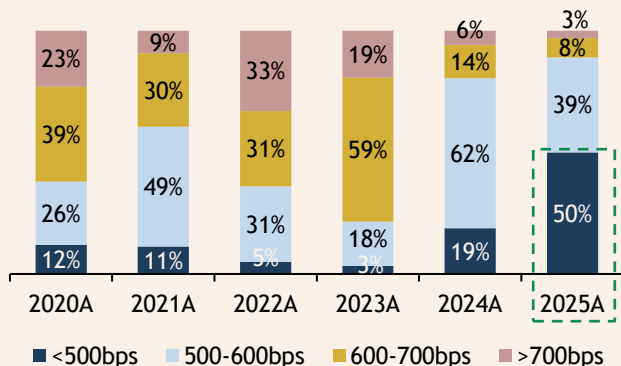
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# Deal Making Overview

A Boost Supporting an Easier Private Equity Runway

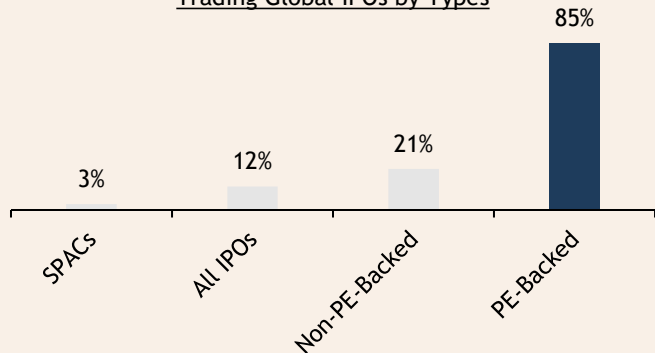
## Credit Markets Catalyzing Deal Flow

New-Issue Spread Distribution for LBOs



## PE-Backed Outperformed this Year

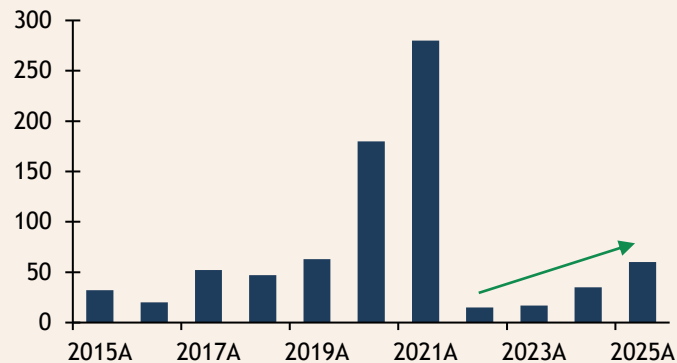
Median Offer-to-Date Performance of Trading Global IPOs by Types



## IPO Rebound Helps Lift Off PE

(In \$B)

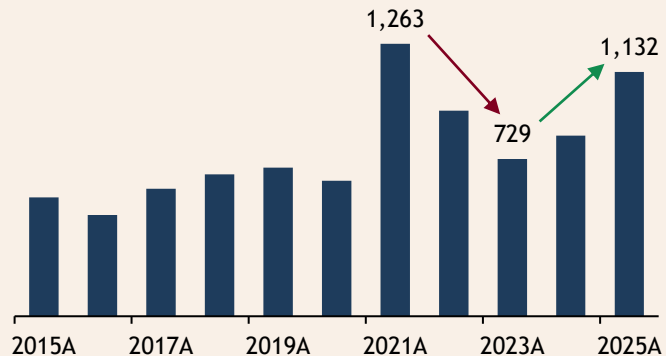
U.S. IPO Activity



## Private Equity's Robust Rebound

(In \$B)

U.S. Private Equity Transaction Volumes



## Comments

**1** When private credit markets tightened, the resulting lack of available leverage widened the bid-ask spread. The pendulum has swung back. Spreads have narrowed sharply, with half of deals pricing below SOFR + 500 bps. More borrower-friendly structures are helping transactions clear.

**2** Distributions to LPs have fallen with muted exits. A stronger exit environment will return much-needed liquidity to LPs, reinforcing the fund and company investment cycle. If reinvested into new vintages, it could have a positive impact on fundraising activity.

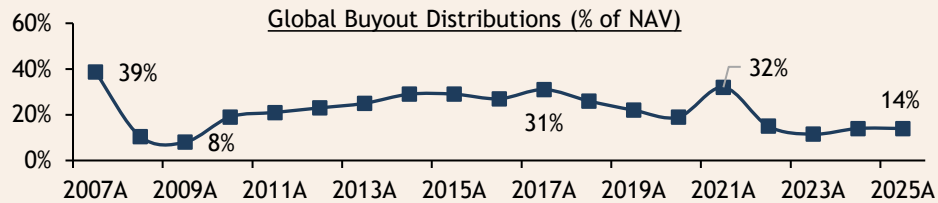
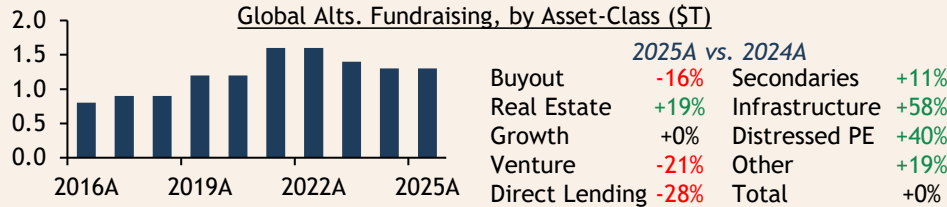
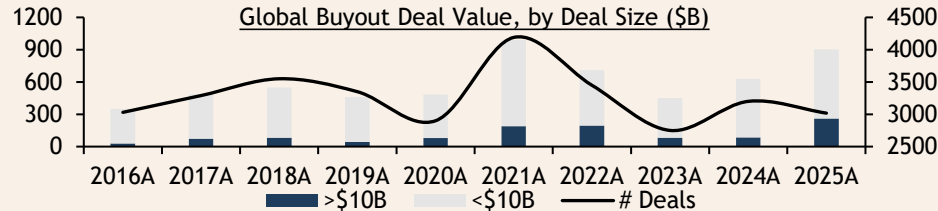
**3** Private equity heads into 2026 with the fundamentals for dealmaking back in place: pricing has stabilized, credit markets have reopened, and investor sentiment is improving. With those tailwinds, the pickup in activity seen in 2025 is set to accelerate.

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# Private Markets Overview

Despite the Sights of a Recovery, Champagne Bottles Aren't Popping Yet as Plenty of Work Remains to be Done

## Momentum Caused by a High Concentration of Megadeals



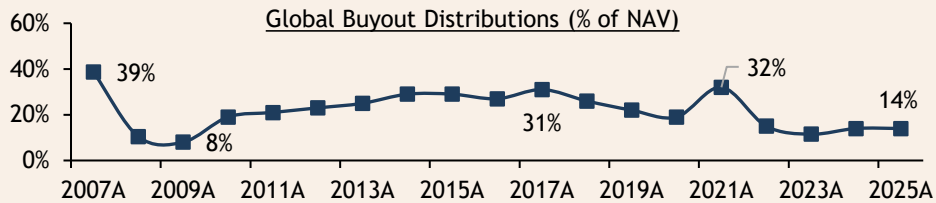
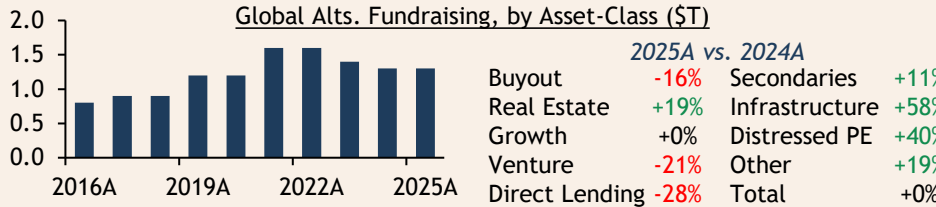
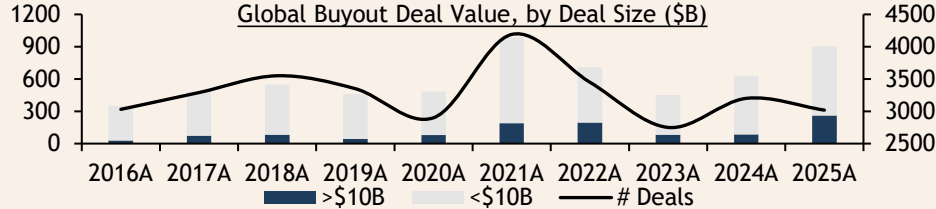
PE regained some momentum in 2025, but deal value growth was highly concentrated in megadeals (69%) and did little to ease the industry's liquidity constraints. Exit values rebounded, but distributions to LPs remain slow, with payouts below 15% of NAV for 4 consecutive years, a record low. These pressures are most evident in fundraising, which plateaued in 2025 after 3 of decline. Growth was concentrated in infra., distressed PE, and secondaries, as investors shifted away from the recently stagnant PE, VC, and direct lending segments. Looking ahead to 2026, momentum remains fragile, but conditions are gradually improving: interest rates are trending down after the post-pandemic tightening cycle, the IPO market is reopening and corporate M&A activity strengthens amid elevated equity valuations.

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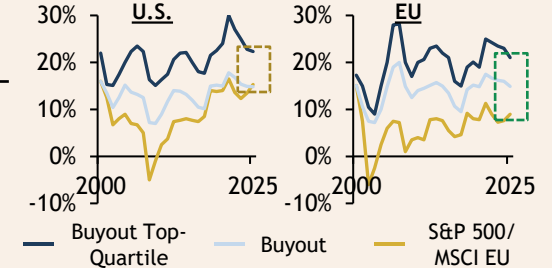
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## How is the Future Market Opportunity Shaping Up?

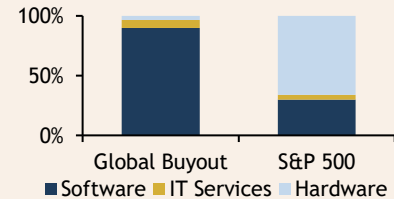
	Buyout Funds	S&P 500	Buyout Funds	MSCI Europe
5 Yrs	14%	17%	14%	12%
10 Yrs	15%	16%	15%	9%
20 Yrs	13%	10%	14%	6%



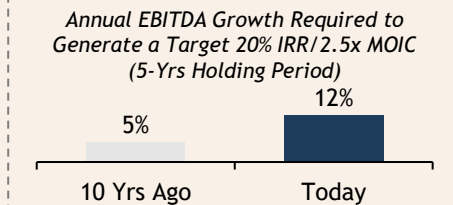
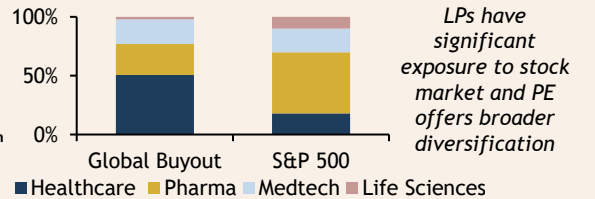
The run-up in the public markets over the past several years has erased the historical gap in 10-yr returns between public & PE at least in the US and for now. PE in the Western Europe still outperforms over all time horizons, although the gap has narrowed recently.

But LPs recognize that these public market gains are likely anomalous and most critically, PE offers the choice of investments with a higher return ceiling. Top-quartile buyout funds outperform the public averages by significant amounts over all time horizons.

### % of Investment by Sector, Tech.



### % of Investment by Sector, Healthcare



Despite more recent difficulties, LPs continue to see major value in the asset-class. However, as we go forward funds will need to ever be diligent and disciplined and put in place strong value creation plan to be able to beat the competition to earn to right to attract new capital and grow their asset base.

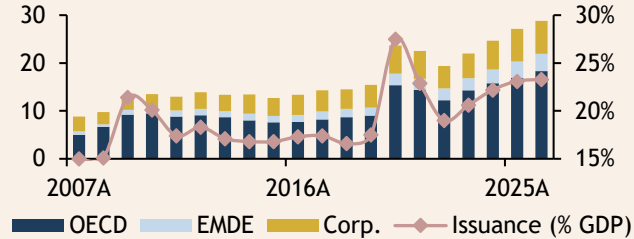
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# The Possible Private Credit Stress Test to Come

Investors are on Edge for Any Signs of a Market Downturn with Equity Markets Highs, AI Fears & Global Uncertainty

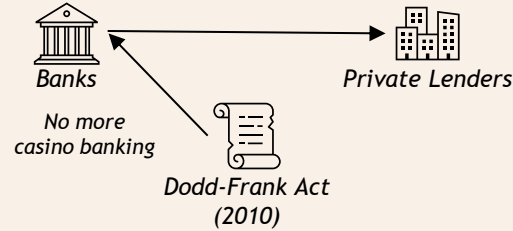
## 17-Year Bull Run for Credit Market Since GFC

Global Sovereign & Corporate Bond Issuance (\$T)



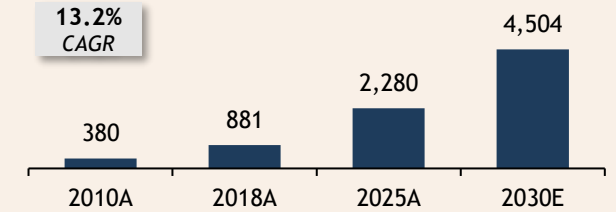
The global annual debt issuance is now 2x higher than post-GFC and ~9% higher as a % of GDP. However, the growth rate of credit/GDP ratio is not in “red zone”. The coming maturity wall highlights higher refinancing risk.

Post-GFC Banks Deleveraging



The Dodd-Frank Act forced banks to hold more capital, limit risky lending, and exit certain speculative activities. This created a significant middle-market credit vacuum, paving the way for private credit to step in, unconstrained by the same regulatory burden.

Private Credit Revolution (\$B)



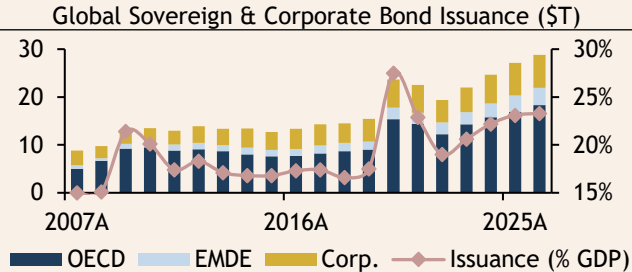
The post-GFC regulatory backdrop fueled the subsequent rise of private credit globally. It enabled higher yield than public bonds to pension funds & insurers in a low environment, a faster execution & tailored terms vs. banks and long-term financing.

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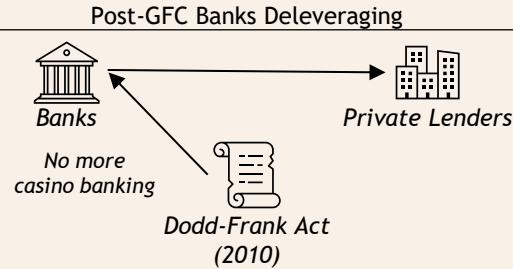
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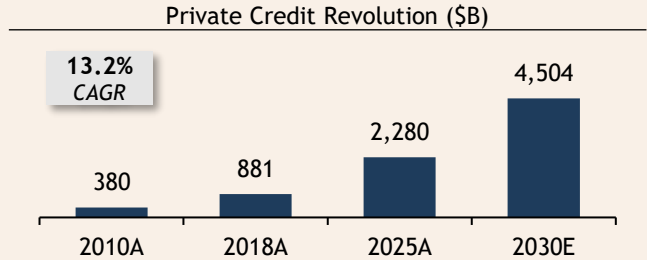
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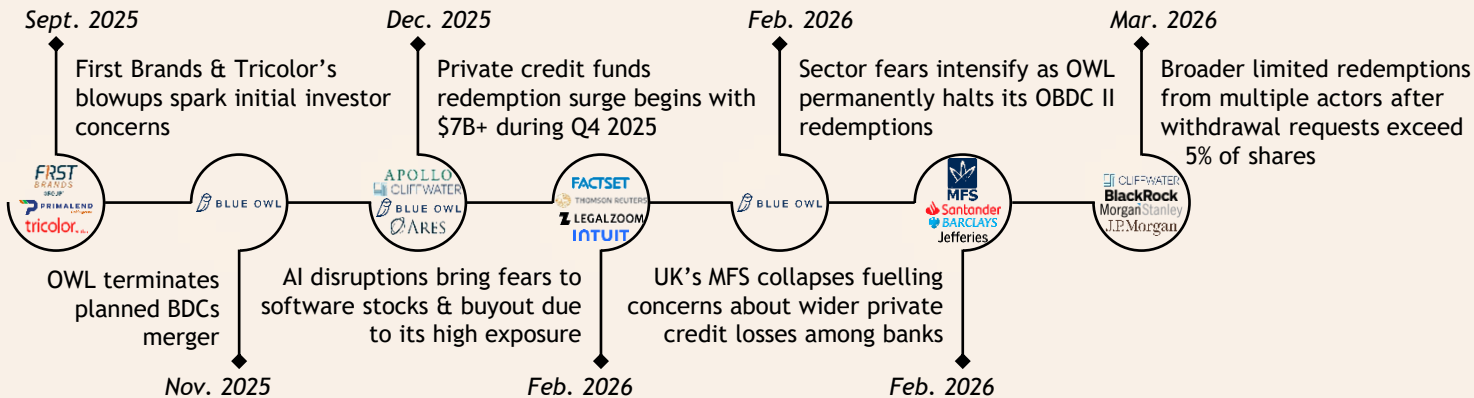


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## Recent Private Credit Headlines Spreading Fear & Concerns in the Retail Channels

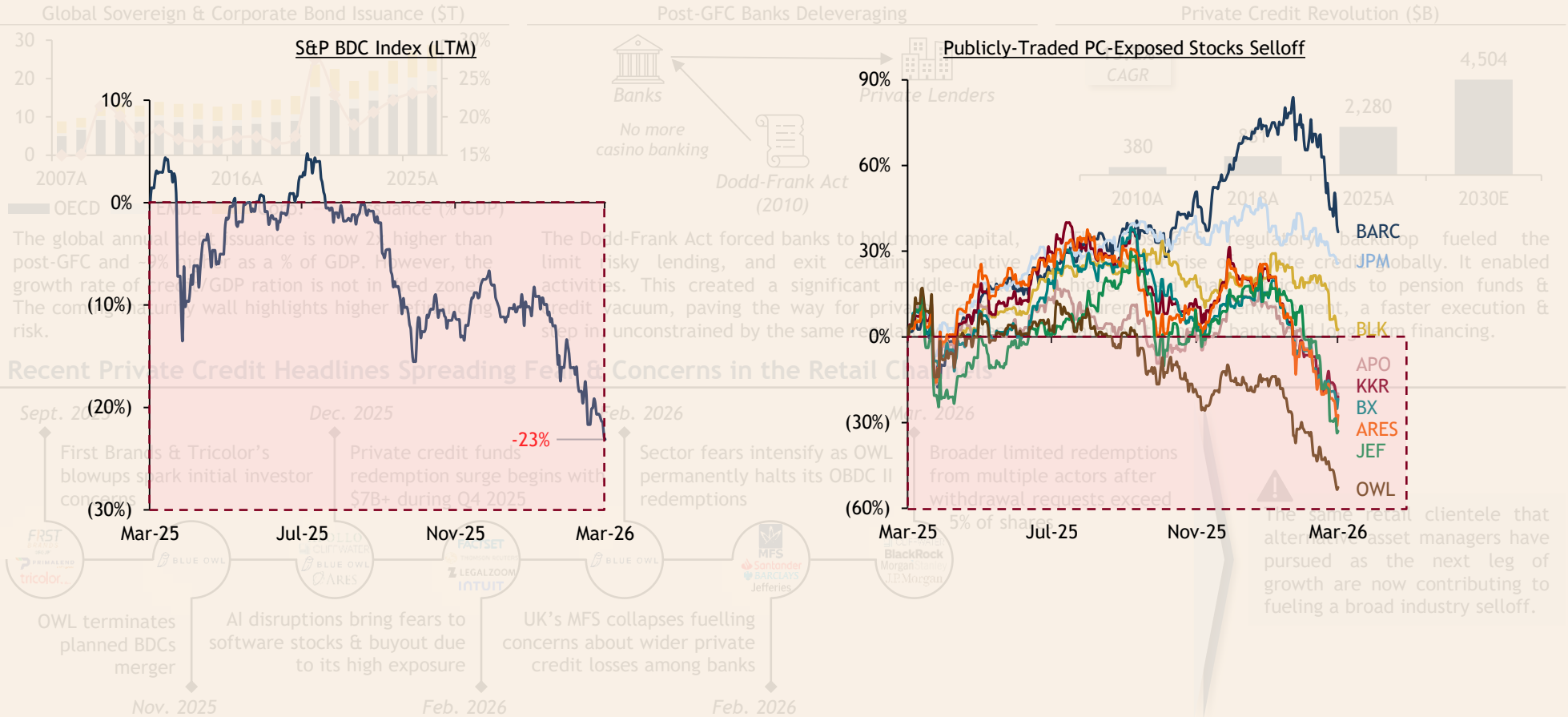


**!** The same retail clientele that alternative asset managers have pursued as the next leg of growth are now contributing to fueling a broad industry selloff.

# The Possible Private Credit Stress Test to Come

Investors are on Edge for Any Signs of a Market Downturn with Equity Markets Highs, AI Fears & Global Uncertainty

## 17-Year Bull Run for Credit Market Since GFC



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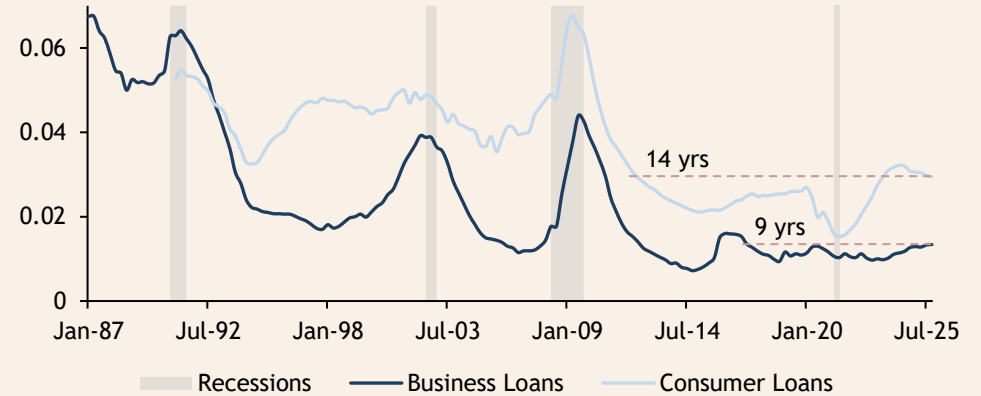
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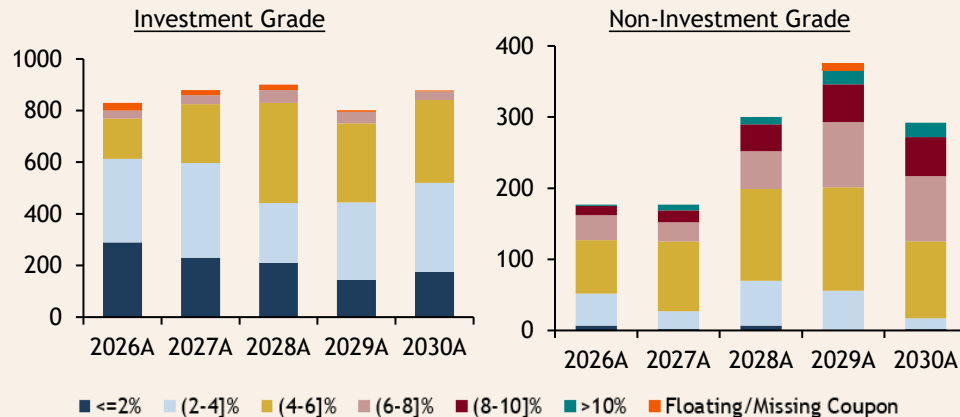
## Credit OAS Stand at Decades Lows (Pre-GFC Levels)



## Loan Delinquency Rates Stand at Decade Highs



## Refinancing Risks Climb Higher for Non-IG Outstanding Debt



## Key Takeaways

A persistent supply shortage partly explains decade-low spreads, but evidence suggests that in the next recession, excess sellers, not scarcity, could drive spreads far beyond fair value (-1,000+ bps), harming credit investors.

Delinquency rates are near decade highs. Some indicators show that the consumer is starting to be on the edge with “invisible costs” mounting up since 2020 and creating stress which can impact in turn the business sector to a certain extent.

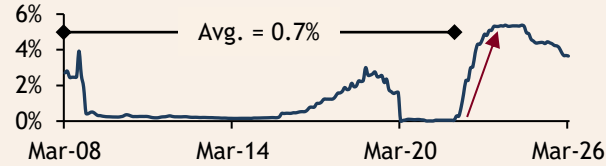
Large amounts of debt were contracted in 2020-2021 when rates were near/at 0% which poses a refinancing risk for many borrowers who will now have to refinance in a much more difficult rate environment.

# The Possible Private Credit Stress Test to Come

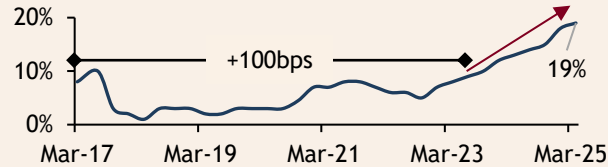
Investors are on Edge for Any Signs of a Market Downturn with Equity Markets Highs, AI Fears & Global Uncertainty

## The Big PIK-Ture: the Rapid Normalization of Interest Rates Driving the Rise in “Bad PIK” Loans

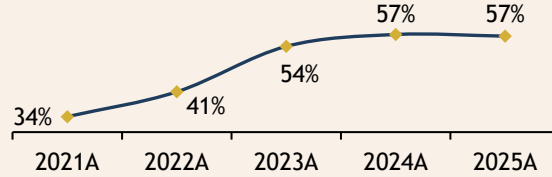
SOFR/LIBOR (1-Mth) Rates Since GFC



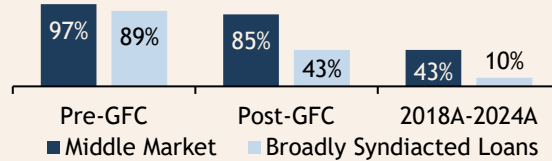
% of Outstanding Loans w/ PIK Feature



“Bad PIK” as a % of Total Loans w/ PIK Feature



Covenant-Lite Loans Suppress Formal Defaults



“Bad PIK”: PIK interest can be benign when used at loan origination to stay competitive, rather than signaling borrower weakness. However, switching from cash interest to PIK mid-loan (“bad PIK”) is more concerning. Its recent increase, driven by a sudden interest rate increase, may indicate hidden stress, where lenders allow PIK to ease borrowers’ cash burdens and avoid triggering defaults (“shadow defaults”).

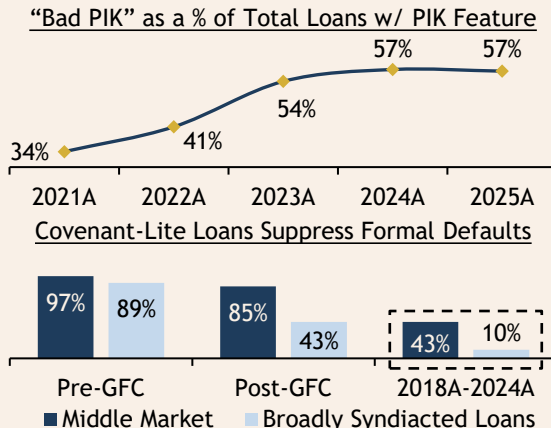
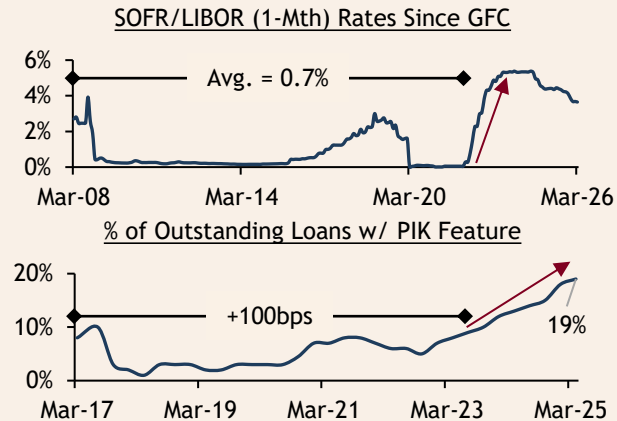
**PIK’s Natural Upper Limit:** Rising PIK interest creates a liquidity mismatch for BDCs: although some income is non-cash, regulations require them to distribute at least 90% of total taxable income (including PIK) as cash dividends. As a result, if PIK income becomes too large relative to cash income, BDCs may struggle to fund these payouts. This creates a natural constraint, when PIK exceeds roughly 10% of total income, liquidity pressure can emerge.

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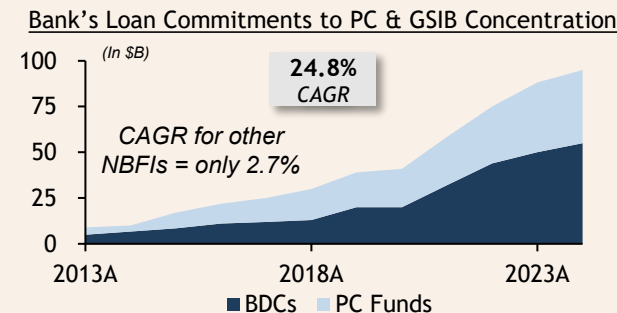
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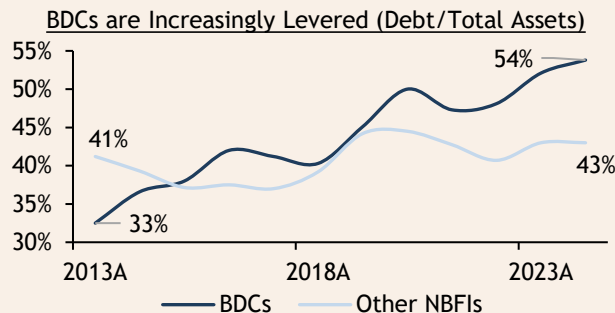
“Bad PIK”: PIK interest can be benign when used at loan origination to stay competitive, rather than signaling borrower weakness. However, switching from cash interest to PIK mid-loan (“bad PIK”) is more concerning. Its recent increase, driven by a sudden interest rate increase, may indicate hidden stress, where lenders allow PIK to ease borrowers’ cash burdens and avoid triggering defaults (“shadow defaults”).

**PIK’s Natural Upper Limit:** Rising PIK interest creates a liquidity mismatch for BDCs: although some income is non-cash, regulations require them to distribute at least 90% of total taxable income (including PIK) as cash dividends. As a result, if PIK income becomes too large relative to cash income, BDCs may struggle to fund these payouts. This creates a natural constraint, when PIK exceeds roughly 10% of total income, liquidity pressure can emerge.

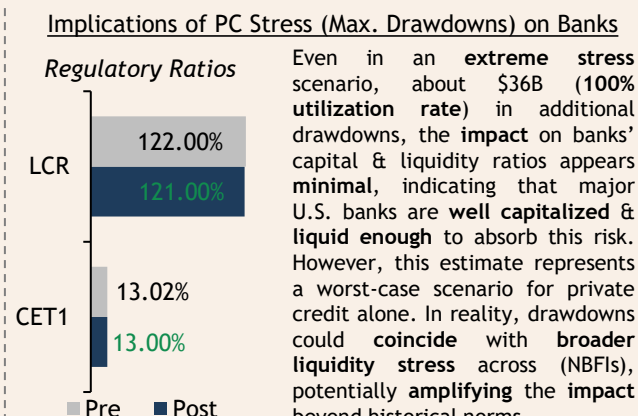
## As the Interconnectedness of Banks and Private Credit Grows, Banks Appear on the Surface to be Well Capitalized



Banks’ loans to PC has strongly increased, but remains on avg. ~7% of regulatory capital. Notably, 60% of loan commitments is concentrated among 5 U.S. GSIBs.



BDCs’ leverage has increased from 38% to 54%, suggesting that compared to other NBFIs, they are increasingly financing PC deals with debt.

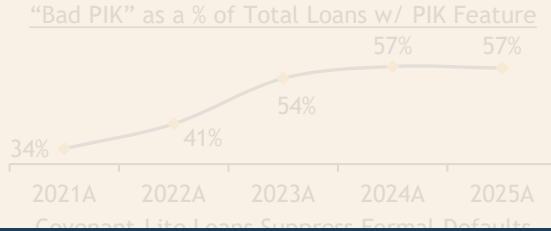
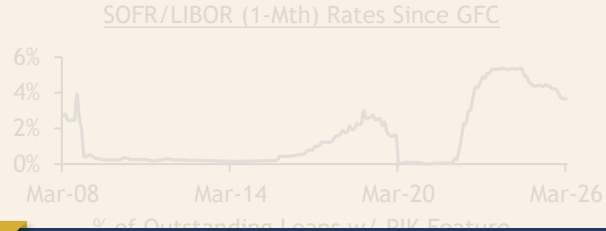


Even in an extreme stress scenario, about \$36B (100% utilization rate) in additional drawdowns, the impact on banks’ capital & liquidity ratios appears minimal, indicating that major U.S. banks are well capitalized & liquid enough to absorb this risk. However, this estimate represents a worst-case scenario for private credit alone. In reality, drawdowns could coincide with broader liquidity stress across (NBFIs), potentially amplifying the impact beyond historical norms.

# The Private Credit Stress Test to Come

Investors are on Edge for Any Signs of a Market Downturn with Equity Markets Highs, AI Fears & Global Uncertainty

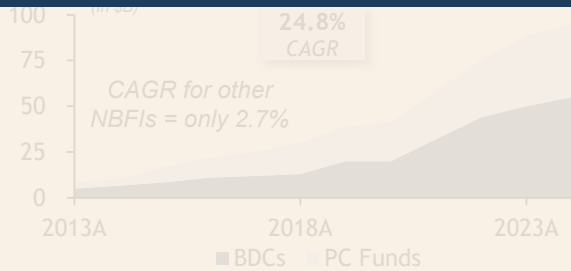
## The Big PIK-Ture: the Rapid Normalization of Interest Rates Driving the Rise in “Bad” PIK Loans



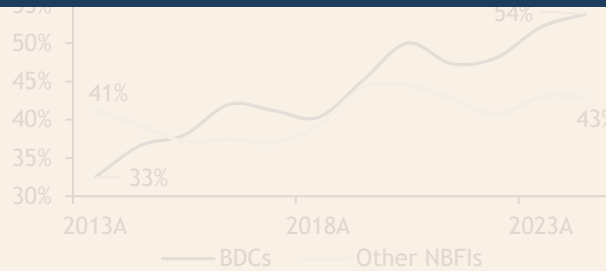
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## HGR’s Take

The private credit industry appears to be exhibiting increasingly short-term oriented behavior that could pose longer-term risks, particularly in the event of a credit downturn. As banks deepen their ties to this fast-growing sector, they appear, on the surface, to be well capitalized to withstand related stress. However, their expanding strategic partnerships (attempts at synthetic risk transfers) with private credit often extend beyond the regulatory perimeter, leaving incomplete data to fully assess the implications of growing interconnectedness. We thus recommend a more cautious stance toward the industry and its related parties going forward.

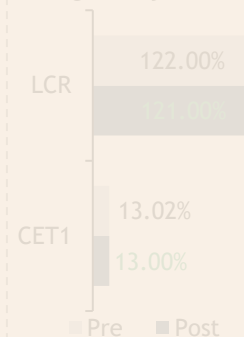


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### Regulatory Ratios



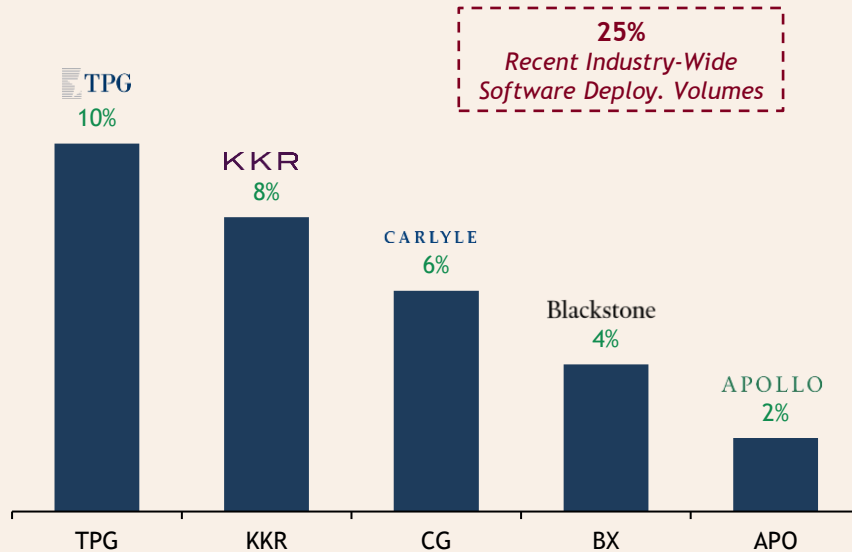
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# Are Alternative Asset Managers Overly Exposed to AI/Software?

Exposure Seems to be Relatively Modest, but Retail Sentiment Runs Outside of Fundamental Judgment

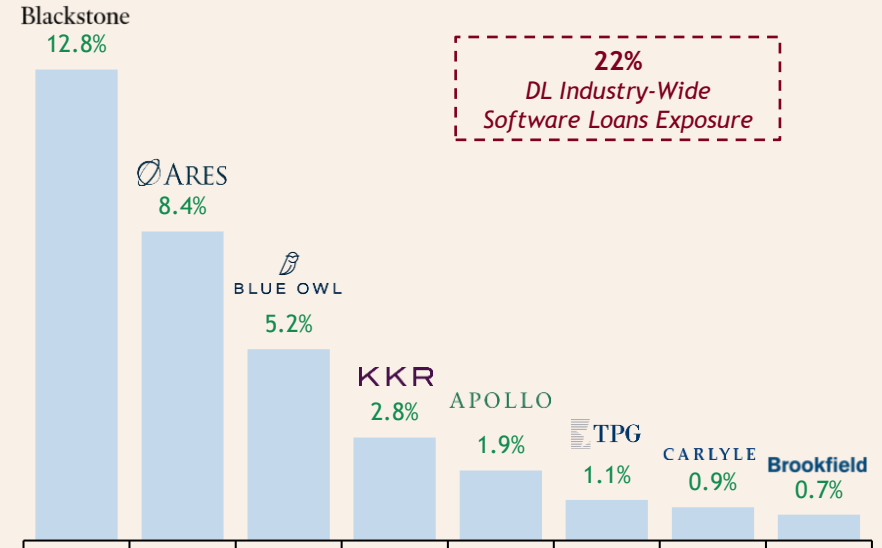
## The Big PIK-Ture: the Rapid Normalization of Interest Rates Driving the Rise in “Bad” PIK Loans

Estimated Firmwide Management Fees from Info. Tech. Investments



The overall alternative asset managers' exposure to software investments seems to be manageable. Estimates could even prove to be more conservative as actual net exposure could be lower after managers monetized many investments in prior years.

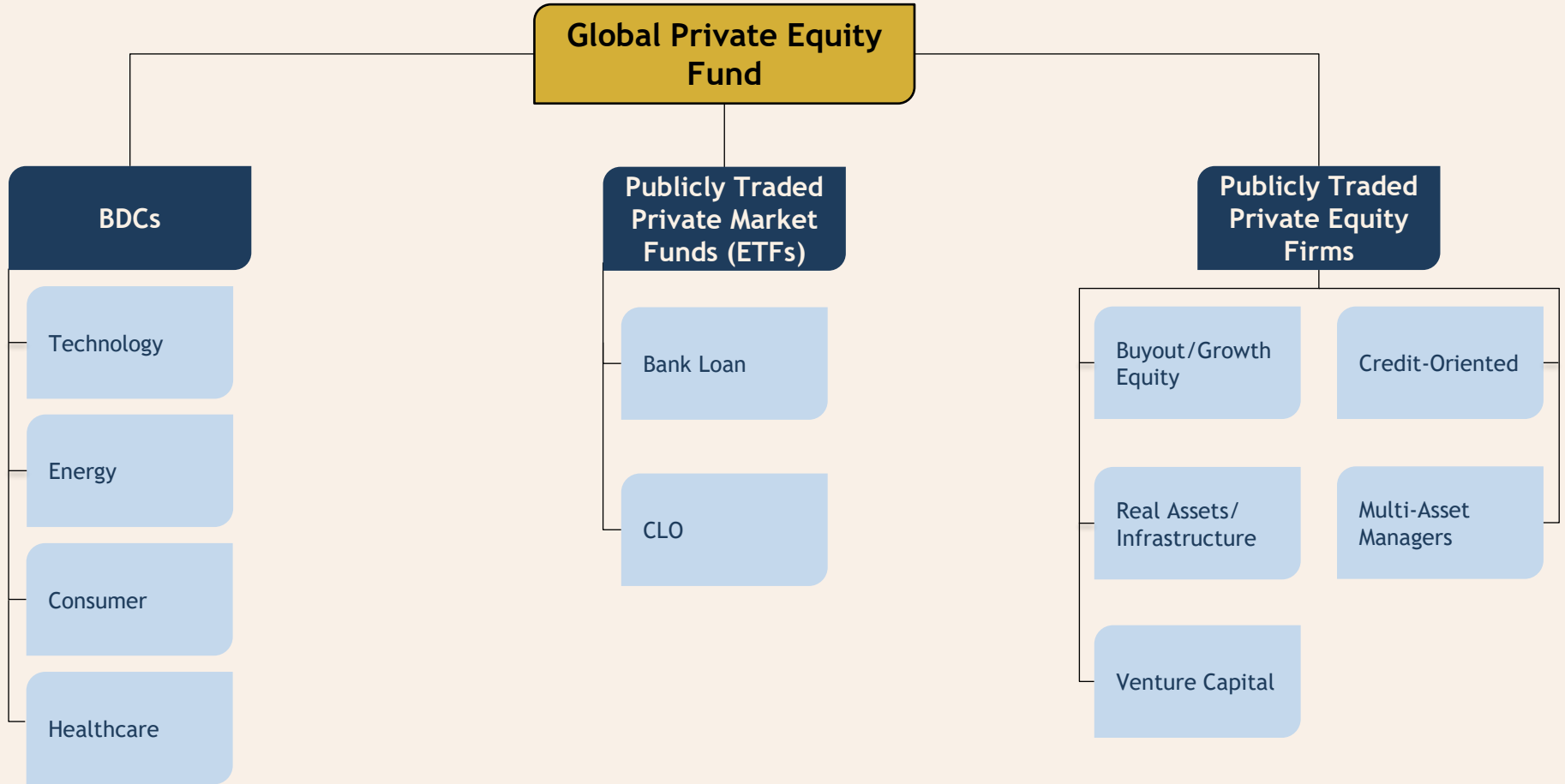
Estimated Software Direct Lending Firmwide Base Fees



Software lending accounts for a relatively small share of firmwide management fees across Alts. asset classes. Even in a severe markdown scenario, Goldman's stress analysis suggests the impact would remain in the single-digits.

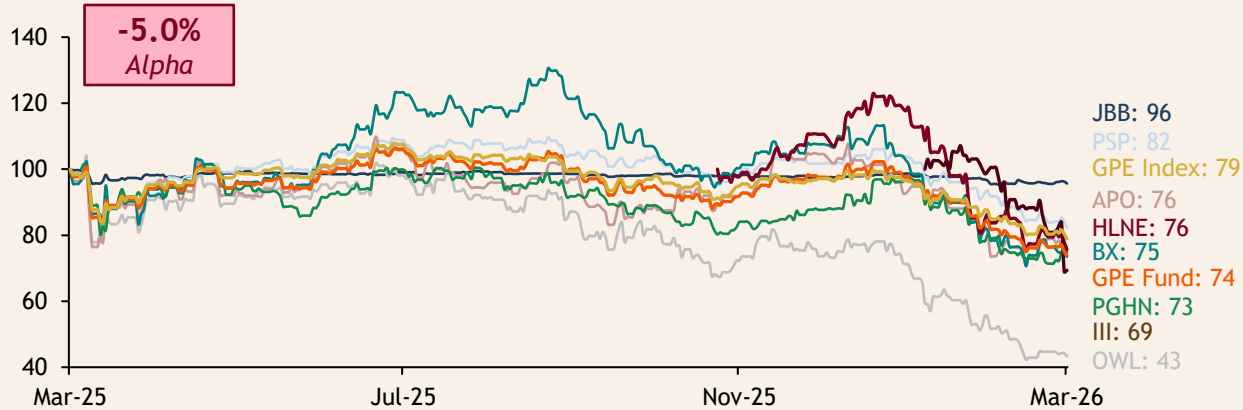
Contrary to what current headlines would suggest, private market managers' exposure to AI/software at the firmwide level is relatively modest. The group's earnings base and management fee growth are therefore probably more durable than current valuations suggest. However, we do believe sentiment could further endure retail asset flows.

# Overview of EM's Sectors and Industries

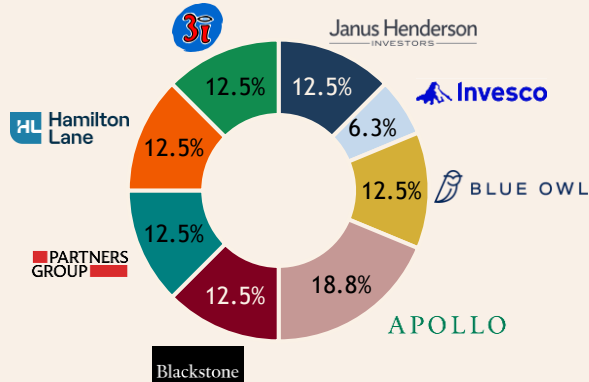


# GPE Fund Overview

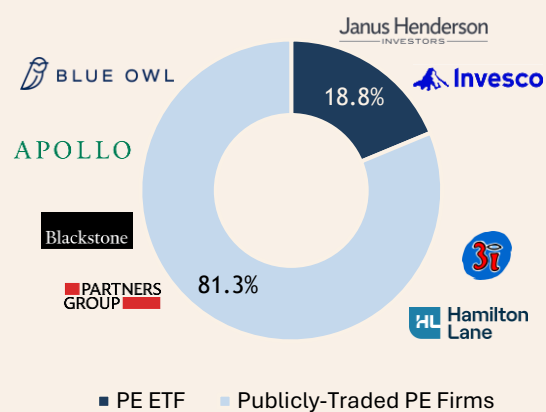
## LTM Fund Relative Performance (Unrealized Returns)



## Portfolio Composition



## Sectorial Exposure



## Commentary

1

The GPE Fund underperformed compared to its benchmark, the GPE Index (S&P BDC Index + S&P Listed PE Index), over the last twelve months.

2

Top performers include JBBB and PSP while III and OWL have strongly underperformed relative to the index.

3

The portfolio consists of 8 stocks, with 20% of capital remaining for deployment in GPE.

4

HGR's GPE current sector allocations are in PE ETFs and Publicly-Traded PE Firms.

# HGR's Allocation Rationale

1

## Despite Recent Difficulties, LPs Continue to See Important Value in PE Allocations

PE regained some momentum in 2025, but deal value growth was highly concentrated in megadeals and did little to ease the industry's liquidity constraints. Momentum remains fragile, but market conditions are gradually improving. Despite more recent difficulties, LPs continue to see major value in the asset-class. Funds will need to ever be diligent and disciplined to earn to right to attract new capital and grow their asset base.

2

## Increasing Short-Term Loan Structuring and Banks Interconnectedness Could Poise Increased Risk

The private credit industry appears to be exhibiting increasingly short-term oriented behavior in loan structuring. Expanding strategic partnerships (attempts at synthetic risk transfers) with private credit often extend beyond the regulatory perimeter, leaving incomplete data to fully assess the implications of growing interconnectedness.

3

## Software Exp. Seems to be Relatively Modest, but Retail Sentiment Runs Outside of Fundamental Judgment

Contrary to what current headlines would suggest, private market managers' exposure to AI/software at the firmwide level is relatively modest. The group's earnings base and management fee growth are therefore probably more durable than current valuations suggest. However, we do believe sentiment could further endure retail asset flows.

Underweight

# VI. Appendix

**HECONOMIE**  
Global Research



# Appendix I: Risk Analysis

## Risks & Mitigations Related to our Tactical Allocation

Executive Summary  
Global Macro Review  
Funds' Review  
Appendix

	Details	Mitigation
Currency Risk	<ul style="list-style-type: none"><li>Foreign investments are exposed to changes in exchange rates, which can erode returns or amplify losses. WE are exposed to EUR, USD, JPY, and other foreign currencies that need to be managed during performance evaluation.</li></ul>	<ul style="list-style-type: none"><li>Currency Hedging: use forward contracts, currency futures, or options to hedge exposure. (less applicable here).</li><li>Natural Hedging: match liabilities and revenues in the same currency.</li><li>Diversification: invest in a mix of currencies to reduce concentration risk. (preferred solution).</li></ul>
Geopolitical and Regulatory Risks	<ul style="list-style-type: none"><li>Political instability, sanctions, capital controls, or abrupt regulatory changes can impact asset values and capital flows. Especially true in current environment with companies with worldwide supply chain exposure.</li></ul>	<ul style="list-style-type: none"><li>Research &amp; Due Diligence: process operated by research teams in the preparation of investment recommendations' presentations.</li><li>Diversification: invest in a mix of countries within the EE &amp; EM funds to reduce concentration risk linked to geopolitical &amp; regulatory factors.</li></ul>
Liquidity Risk	<ul style="list-style-type: none"><li>Difficulty in selling assets without significant price impact, especially in emerging or less regulated markets like SCA or EE. Virtual fund, but a risk that needs to be simulated for.</li></ul>	<ul style="list-style-type: none"><li>Liquidity Screening: include minimum daily volume or bid-ask spread criteria in portfolio construction.</li><li>Maintain Cash Buffers: keep a portion of the portfolio in highly liquid assets for redemptions or tactical adjustments.</li><li>Tiered Allocation: separate core (liquid) and satellite (less liquid, opportunistic) allocations.</li></ul>