KAI BULLETIN

KAI ASSET MANAGEMENT

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MARKET UPDATE — U.S. TARIFFS

The situation surrounding U.S.-Canada trade tensions remains highly fluid, with developments unfolding daily. As we navigate escalating trade disputes, investors are confronted with uncertainty. The imposition of tariffs—25% on nearly all Canadian imports into the U.S. and Canada's retaliatory measures—threatens economic stability across industries such as manufacturing, agriculture, and energy. However, at KAI Asset Management, we remain steadfast in our disciplined, long-term investment approach, focusing on companies with durable competitive advantages that can weather shifting economic and political landscapes.

Historically, trade disputes have introduced short-term market volatility, but their long-term impact can be varied. While certain sectors may experience immediate disruptions, businesses, economies, and consumers adjust over time through various changes in behaviour, including diversifying trade partnerships and supply chains, as well as adapting purchase decisions at the household level. Importantly, our investment philosophy prioritizes resilience—owning high-quality companies with strong moats, sustainable profit margins, and strategic positioning that allows them to navigate such disruptions effectively. A key component of our strategy is identifying and owning businesses with pricing power—companies that are price setters due to sustainable competitive advantages such as network effects, switching costs, and strong brand loyalty. By contrast, industries that are price takers, with little control over pricing, tend to be more vulnerable to external pressures such as tariffs. Our focus on companies with pricing power enhances stability, long-term value creation, and the ability to withstand economic and geopolitical uncertainty, which in our view reinforces the durability of our investment approach.

More specifically, certain sectors will probably be most affected by tariffs, including energy, manufacturing, and agriculture, to name a few. However, the majority of our holdings do not fall within these sectors. Many of our holdings such as JPMorgan, Visa, BlackRock, and S&P Global operate in financial services, an industry less directly impacted by trade tariffs. Likewise, our technology holdings, including Microsoft, Adobe, and Oracle, derive significant revenue from enterprise software, SaaS, and other service-based businesses, which are unlikely to be subject to tariffs. Historically, tariffs have primarily targeted goods rather than services, with limited precedent for imposing tariffs on service-based industries.

Importantly, our diversified approach to asset allocation which includes private asset exposure can further enhance portfolio stability, reducing volatility and providing diversification beyond public equity markets. In our view the inclusion of private real estate, with a focus on high-quality multi-family properties provides stable profitability and serves as a hedge against inflation. Real estate has historically demonstrated strong inflation protection, as rental income and property values tend to rise with inflation, preserving value for investors.

Additionally, we invest in private healthcare businesses, which have exhibited economic resilience through periods of economic uncertainty. These businesses provide essential services that remain in demand regardless of economic cycles. These healthcare investments are another example of key portfolio holdings that are not directly impacted by tariffs. Unlike capital-intensive industries that require continuous reinvestment in infrastructure and equipment, our healthcare holdings are 'capital-light,' generating strong cash flows without significant ongoing capital expenditures that could be adversely affected by tariffs.

These private asset classes—real estate and healthcare—exhibit low correlation to publicly traded equities, which we believe enhances portfolio stability. Their inclusion has meaningfully contributed to the reduced volatility of our client portfolios, reinforcing our commitment to constructing resilient, high-quality investment strategies that can thrive through economic and market fluctuations.

From a macroeconomic perspective, tariffs may introduce inflationary pressures and slow GDP growth in both Canada and the U.S., but they do not alter our core belief: investing in high-quality companies for the long-term remains the most effective strategy for compounding capital over time. Attempting to predict and react to short-term political events is speculative and often counterproductive.

At KAI Asset Management, we continue to focus on businesses that demonstrate adaptability, strong market positioning, and sustainable profitability. By maintaining a disciplined approach, we ensure that our portfolios remain well-positioned to deliver enduring value despite passing economic disruptions. Our strategy is designed for long-term success, regardless of shifting trade policies or geopolitical developments.