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February 27, 2025

# 2024 Annual Letter

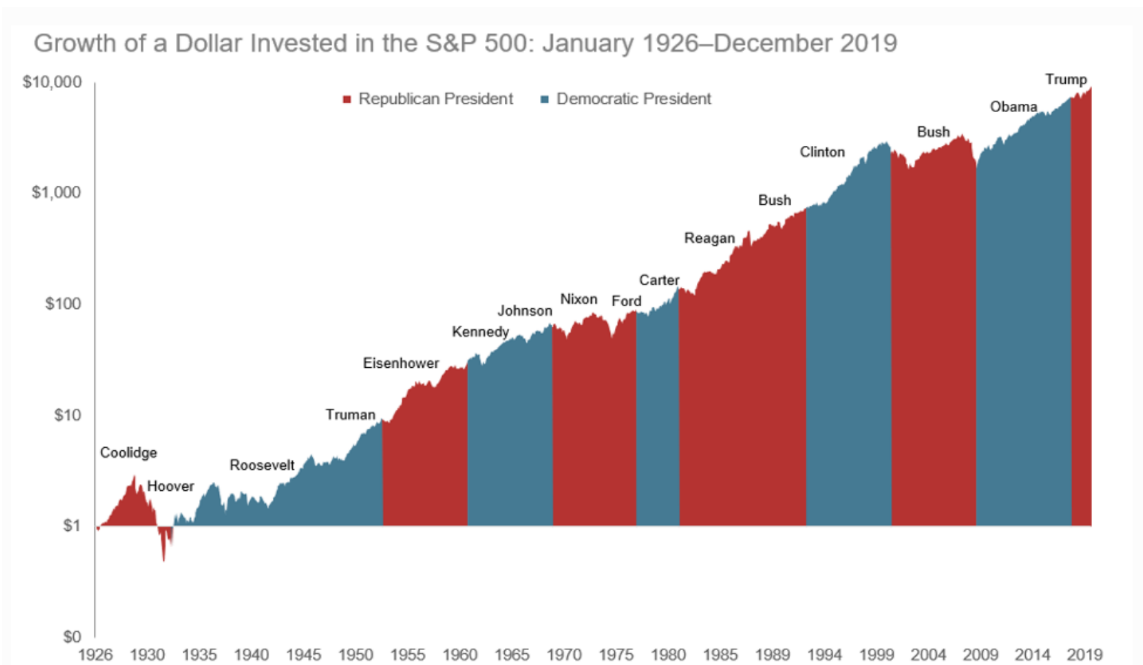
# Barrage Fund

## Management report

For the period of January 1st to December 31st 2024, the S&P/TSX index posted a return of 21.55% (including dividends) while the S&P 500 generated a return of 36.35% (in Canadian dollars and including dividends). The return of the Barrage Fund for the same period was 59.63% before fees and 45.58% after fees.

## Commentary on the markets

On November 5, the long-awaited American elections took place. There was anxiety in the air, specifically about the possibility of Donald Trump being elected for a second term. As is the case before every election, the uncertainty raised certain questions among investors. The graph below shows the stock market performance of the S&P 500 during the various US presidential terms, from 1926 to 2019.




*Source: https://www.forbes.com/sites/kristinmckenna/2020/08/18/heres-how-the-stock-market-has-performed-before-during-and-after-presidential-elections/*



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In the majority of cases, stock market declines or increases are justified more by economic conditions (recessions and rebounds) than the elected president. However, the recent change in leadership is causing investors more concern than usual, and the big concern of the moment is tariffs. What impacts do we anticipate for the portfolio? Are our businesses at risk?

On February 1, the Americans introduced 25% tariffs on all Canadian goods, with the exception of oil which was set at 10%. Two days later, these rates were temporarily suspended for 30 days. On February 10, Trump announced tariffs of 25% on aluminum imports, including those from Canada, starting March 4. Are we concerned about the portfolio?

Fortunately for our stocks, they are very minimally affected by tariffs. Whether it is Meta, Alphabet (Google) or Netflix, these companies are established on American soil and do not depend on import-export. Having a digital business model has its advantages! As for our real estate securities in Canada, we also anticipate few consequences.

However, we remain on the lookout for this type of risk, since for certain companies, the impacts will prove considerable.  For example, approximately half of the production of the Australian mining company Rio Tinto is in Canada. Canadian auto parts manufacturer Magna International would also find itself affected by the tariffs. Other political risks must also be considered. For example, Palantir Technologies, an American software company with a strong presence in the defence sector, must deal with the government's desire to gradually reduce the defence budget.

Political risks are part of all the elements we evaluate to determine the value of a company. Therefore, if one of our companies were targeted by these new measures, we would try to evaluate the possible scenarios. Our estimated price would take these new elements into account, and thus we would be able to know whether we should sell, reduce, or maintain our position. In some cases, the fear generated by these risks will contribute to pronounced stock price declines, and if it is exaggerated (which is often the case), we may decide to buy rather than sell.

In other words, no matter the risks we face, we remain true to our philosophy. Giving in to panic would lead us to make mistakes. Whenever possible, we prefer to benefit from other peoples' mistakes rather than make them. This brings us back to the very essence of value investing: when we are sold a stock at a discount, it is because some investors make the mistake of selling us shares that they should hold or buy more of. This is why it is imperative to keep a cool head whatever the situation. Less difficult to do these days given the severe cold we have experienced recently in Quebec!



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Even if tariffs do not seem to be a major issue for our portfolio, do our companies face any political risks? Just look at one of our companies, Meta, and all the lawsuits it has had to face in the past. The U.S. Federal Trade Commission is constantly on the company's back, such as trying to invalidate good acquisitions made in the past (Instagram and WhatsApp). The DOJ (Department of Justice) sued Meta in 2022 for discrimination. A large number of American states have also sued in connection with the mental health of adolescents. We witnessed the great Cambridge Analytica scandal, which led to successful prosecutions in several countries.

Last August, founder Mark Zuckerberg admitted to having deleted certain content on the Facebook platform, following pressure from the Biden administration during Covid. The company had to deal with this pressure on one side, and now from the other side! When Donald Trump learned of his confession, he publicly threatened to send Zuckerberg to prison for life! Other commentators have suggested that the company should have sued the government back then instead of buckling under pressure. We think the company probably would have won the battle, but not necessarily the war. Acting without considering political repercussions can have harmful consequences for shareholders. This is particularly the case for large companies which are under the constant scrutiny of regulators, who in turn are answerable to the government.

With the change in leadership, Meta readjusted its policies. Last month, Trump applauded changes to the platform. He even suggested that this may have been a response to his threats made earlier! In such an environment, can a large company like Meta afford the luxury of acting independently of any political influence?

Most large companies must take care to protect their interests (read here: indirectly the interests of shareholders). The CEO of Rio Tinto recently travelled to Washington to try to favourably influence the Trump administration, to cite just one example. Government decisions sometimes have serious consequences and unfortunately, they must be taken seriously.

We understand the astonishment of many people who reacted to the presence of several leaders at Donald Trump's inauguration in January! When Jeff Bezos (Amazon), Mark Zuckerberg (Meta), Sundar Pichai (Google), Tim Cook (Apple) and Bernard Arnault (LVMH) showed up at the inauguration, it was in the interest of their respective companies to do so. As for Satya Nadella (Microsoft), we cannot attest to his presence at this event, but note that he went to meet Donald Trump and Elon Musk at Mar-a-Lago on January 16th. As for Jensen Huang (Nvidia), he did not participate in the inauguration, but he went to the White House on January 31, to meet Trump for the first time.

We are somewhat reassured by the proactivity of the managers of our companies. Several of them had expressed disagreement with Trump in the past, creating tension between them. The leaders of our companies do not have to face heavy tariffs like in other industries, but they know well that resolving the various disagreements, or at least preventing them, could avert inconveniences for their company in the future.

## Results of our companies

### Starbucks sale

In our previous letter, we discussed the restaurant chain. We still see the arrival of Brian Niccol as CEO as a positive development in the company's turnaround. However, in light of the recent good results of certain competitors in the United States, we lack conviction as to the speed and scale of their strategic recovery. We preferred to sell the small position we had taken.

### Allied Properties

The Bank of Canada continues to lower its rates, totalling a 1.5% reduction since our last letter. A lower interest rate means better borrowing rates in the future for companies, on the one hand. On the other hand, fixed income securities are becoming more attractive to investors. Allied Properties pays a monthly dividend with an annualized yield exceeding 10%. Each time the Bank of Canada lowers its rate, the difference between the yield of our security and that of Canadian bonds increases. For example, the delta between the yield on 5-year Canada bonds and Allied now exceeds 7%.

The return-to-office trend in Canada continues. Some companies, such as Amazon and Blackrock, are requiring a full-time return to workplaces, while others, such as Apple, Deloitte and Google, have adopted the hybrid model. The trend remains clearly positive since Covid, which bodes well for Allied's occupancy rate in the medium and long term.

### Amazon, Alphabet, Microsoft et Meta

The famous historian Yuval Noah Harari, author of the book *Sapiens: A Brief History of Humankind,* said last October that "we are at a turning point in history," referring to artificial intelligence. He describes it as follows:

*"And now we have on the planet something which is not human, which is not even organic, it functions according to a completely alien logic in this sense and is able to generate such things at scale in many cases better than most humans, maybe soon better even than the best humans."*

This intelligence raises many questions, such as the automation of human tasks, ethical codes to respect and national security. As investors, our job is not to answer these



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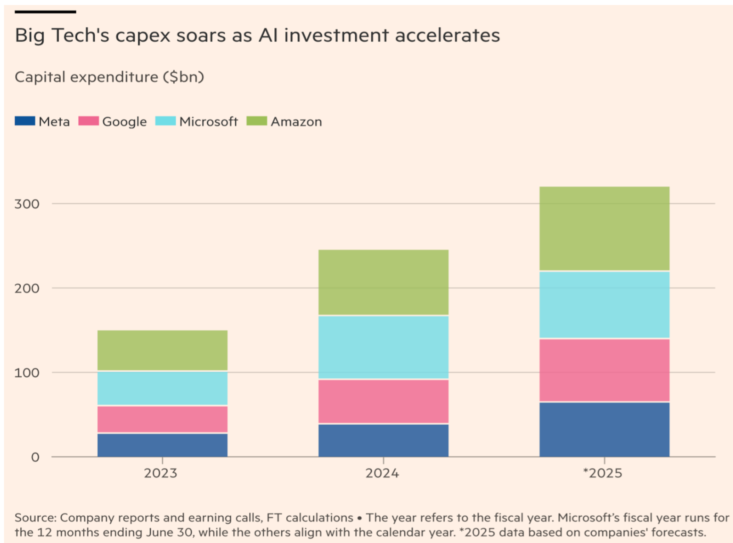
questions, but rather to study the companies that are developing these new technologies.

Over the past few years, we have seen capital spending grow rapidly among our companies as they attempt to seize the opportunities of artificial intelligence. Forecasts indicate that the total investments of Meta, Google, Microsoft and Amazon will exceed US$320 billion in 2025, while the total was US$151 billion in 2023.



*Source: https://www.ft.com/content/634b7ec5-10c3-44d3-ae49-2a5b9ad566fa*

Among these companies, Amazon is the one that plans to invest the most money in 2025, particularly in the development of AWS infrastructure and AI capabilities.

Along the same lines as Harari, Amazon CEO Andy Jassy said during the last earnings call that AI represents "the biggest opportunity since cloud and probably the biggest technological shift and opportunity in business since the internet." He also believes that their "customers and shareholders will be happy, medium and long term, that we are pursuing the capital opportunity and the business opportunity in AI."

In 2024, AWS revenues grew by 18.5% and the division achieved an operating margin of 37%. These results are impressive, but according to Andy Jassy, the growth would have been higher if they were not constrained by their suppliers:

*"We're still growing at a pretty reasonable clip, as I mentioned earlier, but I do think we could be growing faster if we were unconstrained. I predict those constraints really start to relax in the second half of '25."*



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## DeepSeek

We cannot talk about AI without mentioning DeepSeek, a Chinese AI model which recently appeared. According to information provided by the company, the model cost only US$6 million to develop, much less than the hundreds of millions of dollars used to develop the models of American competitors.

However, several uncertainties remain. The precise costs have not been fully disclosed by the company, which raises questions. According to American investor Brad Gerstner, the $6 million announced only covers the training of the model, and not the total cost of the system. To properly compare, we must only use the cost of this step at OpenAI (developer of ChatGPT), which would have been less than $20 million for one of their recent models, according to Gerstner.

Furthermore, the CEO of the American AI company Anthropic, Dario Amodei, affirmed that "The historical trend of the cost curve decrease is approximately 4x per year." It is therefore normal that new models cost less and less to train for each year that goes by.

"I don't consider DeepSeek as adversaries" - Dario Amodei

The same doubts were raised at Alphabet. Google head of AI, Demis Hassabis, reportedly mentioned that some of DeepSeek's claims are "exaggerated." He believes that Google's models remain "more efficient and more performant than DeepSeek" and adds:

"So we're very calm and confident in our strategy, and we have all the ingredients to maintain our leadership into this year."

Google Cloud's operating margins increased significantly, from 5.2% for 2023 to 14.1% for 2024. As with Amazon, Google experienced great demand for its products:

"We do see and have been seeing very strong demand for our AI products in the fourth quarter of 2024. And we exited the year with more demand than we had available capacity. [...] As I mentioned, we've increased investment in CapEx in 2024, continuing to increase in 2025. And we'll bring more capacity throughout the year."- Anat Ashkenazi, Alphabet CFO.

During their latest earnings call, Satya Nadella, CEO of Microsoft, indicated that he is optimistic about the new threat from China. According to him, innovations will reduce costs, causing an increase in the use of these new technologies and he considers this to be good news:



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“And so therefore, for a hyperscaler like us, a PC platform provider like us, this is all good news as far as I'm concerned.” -Satya Nadella

He even made a comparison between AI and the move from physical servers to cloud computing:

“If you think about it, right, what was the big lesson learned from client server to cloud? More people bought servers, except it was called cloud.”

In the latest results, Microsoft continued to demonstrate good performance, particularly in cloud computing, their most successful segment. Azure revenue grew 31% year-over-year and the company's total revenue grew 12%.

We also heard positive things from Mark Zuckerberg, CEO of Meta Platforms. The company open sources its models, such as *Llama*, which encourages transparency and innovation, unlike closed source models like those used in ChatGPT and Gemini, which are only accessible by their own developers and which allow greater control over security and monetization.

For Zuckerberg, DeepSeek is a sort of confirmation “there's going to be an open source standard globally.” He adds: "So we take that seriously, and we want to build the AI system that people around the world are using. And I think that if anything, some of the recent news has only strengthened our conviction that this is the right thing for us to be focused on.”

It was another good year for Meta. They now have over 3.35 billion daily active users and compared to the previous year, earnings per share increased by 60% and revenue grew by 22% (23% in constant currency).

Sincerely,

Patrick Thénière

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