



Dear Fellow Shareholder:

For the fiscal year ending November 30, 2024, the YCG Enhanced Fund achieved a total net return of 19.18%. During the same time period, the S&P 500 Index had a total return of 33.89%, and the S&P Global Broad Market Index had a total return of 26.26%. The Fund's top five equity winners and top five equity losers during this period were as follows:

TOP FIVE EQUITY WINNERS	TOP FIVE EQUITY LOSERS
Amazon.com, Inc.	The Estee Lauder Companies, Inc.
Moody's Corp.	L'Oreal SA
CBRE Group, Inc.	Nike, Inc.
Mastercard, Inc.	Adobe, Inc.
Copart, Inc.	LVMH Moet Hennessy Louis Vuitton SE

The top 5 equity winners and equity losers are determined based on a ranking of the dollar gains and losses of all the equity securities owned in the portfolio over the period specified above. This calculation excludes the portfolio's options positions, which may have experienced a gain or a loss during the period specified. Additionally, the Fund seeks to maximize long term capital appreciation with reasonable investment risk. We believe that one year is too short a period to accurately assess the soundness of our investment strategy, and, thus, we try not to draw too many conclusions from the chart above. Instead, we evaluate ourselves by the Fund's performance over a full economic cycle, which we define as a period that includes both a recession and an economic expansion.

During the last six months of the Fund's fiscal year, we continued the rebalancing discussed in our semi-annual letter. We trimmed three of the Fund's recent best performers, Alphabet, Progressive, and CBRE, and sold our least favorite consumer staple, Unilever, as investor fears about economic weakness drove up the price of recession-resistant stocks, giving us a good opportunity to exit. We used these proceeds to increase the Fund's positions in the Canadian railroads (Canadian Pacific Kansas City and Canadian National Railway), the waste management companies (Waste Management and Republic Services), the insurance brokers (Aon and Marsh McLennan), the payment processors (Mastercard and Visa), CME Group, Copart, Intuit, and FICO, all of which we believe have stronger long-term pricing power prospects than the companies we trimmed or exited. Additionally, we sold our least favorite consumer

discretionary companies, Estee Lauder and Nike, and some of the Fund's position in global cosmetics leader L'Oreal to buy more LVMH and Hermès. As we've continued to study luxury, we've gained more and more conviction that the most favorable long-term economics accrue to the brands that become the most desirable status symbols in their category through a combination of heritage, story-telling, and controlled supply.

Late 90s Tech and Telecom Bubble Redux?

Since the introduction of ChatGPT in November 2022,¹ stocks powering or utilizing artificial intelligence ("AI") have dominated best performer lists. 2024 was no exception. A disproportionate number of the top 10 best performing stocks of 2024 were the semiconductor, software, energy, and utility companies driving the massive datacenter buildout that is required to advance the capabilities of ChatGPT and its competitors.² While this dominance of the best performers by the hot new thing is not that unusual, what *is* unusual is that the top eight stocks in the S&P 500 as of December 31, 2024, accounting for over 35% of the index,³ are all perceived to be beneficiaries of the AI boom and thus have massively outperformed the market as well. They are, in order of market cap, Apple, Nvidia, Microsoft, Amazon, Alphabet, Meta, Tesla, and Broadcom. The last time we can remember seeing similar enthusiasm around a new capital-intensive technology was during the late 90s buildout of the internet. However, even then, the market was arguably much less concentrated into one thematic area, with Microsoft, Cisco, Intel, IBM, and Oracle accounting for only 5 of the top 10 companies and 13% of the S&P 500 Index.⁴

Given this analogy, the obvious question is, "Okay, if the AI boom reminds you of the dotcom bubble, does that mean it's also a bubble, and will it have a bust as painful as previous capital-investment-driven technology bubbles?" To answer this question, let's first look at some of the previous bubbles in more detail. The two most famous examples of these types of bubbles are the railroad bubble of the 1840s and the dotcom bubble of the late 1990s. Both these bubbles followed a similar script. Exciting new technologies were created that had tremendous potential to drive massive productivity improvements but that required tremendous capital investment. Investors and promoters told compelling, plausible stories about the revenue and profits that could be captured by funding these innovations, leading to a flood of capital investment across multiple industries. Over time, as the buildout continued, the incentives of the promoters and animal spirits of the investors resulted in more and more aggressive short- and medium-term predictions. Eventually, while demand continued to grow rapidly for both railroad networks and the internet, it ended up falling far short of the demand growth expected by the stock and bond markets. Simultaneously, the builders of the railroads discovered ways to ship far more goods per railroad track than they anticipated, and the builders of the internet created new technologies that allowed far more data to be transmitted on each fiber optic cable than expected. Furthermore, these supply-side innovations occurred after huge amounts of capital had already been invested in projects that were midway through completion and thus could not easily be reversed. As a

¹ See <https://en.wikipedia.org/wiki/ChatGPT>.

² See <https://markets.businessinsider.com/news/stocks/the-10-best-performing-s-and-p-500-stocks-in-2024-include-nvidia-tesla-2024-12#2-vistra-9>.

³ See <https://www.ssga.com/library-content/products/factsheets/etfs/us/factsheet-us-en-spy.pdf>.

⁴ See <https://www.finhacker.cz/top-20-sp-500-companies-by-market-cap/#1999>.

result, the supply of goods, services, and infrastructure built during the booms ended up being far greater than the short- and medium-term demand, crushing prices, revenues, and profits relative to expectations and causing huge stockholder losses. Even worse, a large proportion of these projects were funded with debt, further magnifying stockholder losses and creating dangerous distress in the debt markets as well.

As we look at the artificial intelligence boom today, there are obvious similarities. Just like in previous booms, investors and promoters are telling plausible stories about the ways in which artificial intelligence could drive huge productivity improvements. AI agents, robots, self-driving automobiles, and even artificial general intelligence all seem within reach, and it certainly seems reasonable that the companies that own or power these technologies could generate large and growing revenues and profits. As a result, trillions of dollars are being invested into manufacturers, energy producers, utilities, and technology companies to drive the technical solutions that will make these possibilities a reality. However, just like in previous booms, it's incredibly difficult to have confidence in the timing of the technical solutions, the investment required to develop these solutions, and, lastly, the monetizability of the solutions once they're developed. For instance, it's plausible that Tesla solves self-driving next year. It's also plausible it takes the company ten years or even much longer to solve it. In each of these scenarios, the amount of capital required to develop the solution and the present value of the profits resulting from the solution are likely to be wildly divergent. Furthermore, it's plausible that only Tesla solves self-driving, that Tesla and five other companies solve it at the same time, that another company solves it instead, or that one of the many other possible permutations occurs. Just like in the timing question, the revenue and profit outlook for Tesla in particular and the industry as a whole are likely to be dramatically different depending on which scenario occurs. In some of these scenarios, Tesla or a competitor could develop a networked monopoly, and, in others, self-driving could become completely commoditized and the consumer could capture all the benefit of the new technology.

Now that we've looked at the similarities, let's look at some of the differences. Perhaps the most important difference is that the boom today is largely being funded by equity and not debt. More specifically, it is being funded by four of the top ten companies in the S&P 500 (Microsoft, Amazon, Alphabet, and Meta) using their massive cash balances and prodigious cash flows as sources of funds. Another important difference is that we believe the eight technology businesses at the top of the S&P 500 are, as a group, much better businesses than their counterparts in both the railroad era and the dotcom bubble. Most of them are globally networked businesses with high margins, strong returns on invested capital, and/or significant untapped pricing power. Furthermore, as a group, they trade at significantly cheaper valuation multiples than their counterparts did in the tech and telecom bubble,⁵ though they will still turn out to be quite expensive if their hundreds of billions of dollars of AI investments ultimately end up generating poor returns.

⁵ As of January 22, 2025, according to Refinitiv data, the top eight technology stocks in the S&P 500 traded at a market cap weighted next-twelve-months earnings multiple of 36.9x and a simple average next-twelve-months earnings multiple of 42.2, both of which compare favorably to the 55.3x and 92.4x multiples of the top ten tech stocks in March 2000. See <https://x.com/GavinSBaker/status/1526615551480582145> for data from March 2000. See <https://x.com/GavinSBaker/status/1815421623941341303> and <https://x.com/lhamtil/status/1819093619539615989> for additional valuation comparisons between then and now.

Concluding Thoughts

We are currently in the middle of a historic capital-investment-driven technology boom that promises huge advancements in artificial intelligence and productivity. While there are some important business quality, valuation, and capital structure differences that somewhat mitigate the risk of the AI boom as compared to previous capital-investment-driven technology booms, the fundamental uncertainty created by the boom is the same. The speed of innovation combined with the huge amounts of capital being invested in multi-year projects make it especially difficult to predict how fast the demand and supply of useful services will grow, and, therefore, how profitable all this spending will turn out to be. Furthermore, relative to history, the market is uniquely concentrated, causing, in our view, a worrisome degree of exposure to this fast-changing and unpredictable boom. Given these facts, we prefer our index-agnostic approach where we first try and identify the most durable, predictable businesses in the world, and then, so long as we believe they are attractively priced, diversify among these businesses as much as possible so that the Fund isn't too reliant on a single investment theme, industry, macroeconomic factor, or geography. Our hope is that this process has resulted in a portfolio that can grow its purchasing power over the long term in a wide range of future scenarios by effectively operating as a diversified, recession-resistant toll collector on global GDP. See the below infographic for a visualization of this concept.⁶

Sectors and Corresponding Oligopolistic Toll Collectors

Global Payments



Global Wealth



Global IT Infrastructure



Global Industrial Production



Global Advertising &

E-Commerce



Global Insurance Activity



Global Capital Markets Activity



North American Consumption



Global Commercial Real Estate Activity



Global Productivity



Global Miles Driven



⁶ While they are great businesses with powerful competitive advantages that we believe will persist over time, our small holdings in Pepsi, Procter & Gamble, Colgate, and Progressive don't fit quite as neatly into our toll collector framework, so we've excluded them from the graphic.

As you look at the above portfolio, we'd like to highlight a few of its key characteristics. First, observe that it's full of dominant, oligopolistic global companies that have successfully grown for decades or even centuries despite the many economic and geopolitical challenges that have occurred over their lifespans. Second, note that it does include some of the mega-cap tech companies (Microsoft, Amazon, Apple, and Alphabet) that are involved in the AI boom. Our reason for owning these companies despite the significant uncertainty created by the AI boom is that we believe they, as well as all the other companies in the portfolio, continue to possess the six characteristics that we've found make businesses durable and predictable. In our view, they 1) own dominant networks; 2) possess other checks on competing supply such as not-in-my-backyard (NIMBY) zoning restrictions, institutional risk aversion, and switching costs; 3) possess significant untapped pricing power; 4) operate in categories that we believe will grow at least as fast as GDP; 5) have conservative balance sheets; and 6) are run by ownership-minded management teams. Lastly, observe that, while the portfolio does have some exposure to the AI theme, it also has large weightings in industries and companies with, at most, a tangential relationship to the AI boom. Specifically, we believe the long-term business prospects of the Fund's holdings in payments, luxury, railroads, insurance brokerage, capital markets, waste management, and commercial real estate are unlikely to be significantly impacted by artificial intelligence. As a result, no matter what path the AI boom takes, we believe our portfolio is prepared.

As always, thank you so much for your trust, know that we continue to be invested right alongside you, and please always reach out to us if you have any questions or concerns. We're here to help!

Sincerely,

The YCG Team

Past performance does not guarantee future results.

Mutual fund investing involves risk. Principal loss is possible. The Fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Therefore, the Fund is more exposed to individual stock volatility than a diversified fund. The Fund invests primarily in equity securities without regard to market capitalization, thus investments will be made in mid and smaller capitalization companies, which involve additional risks such as limited liquidity and greater volatility. The Fund may also write put options and covered call options on a substantial portion of the Fund's long equity portfolio, which have the risks of early option contract assignment forcing the Fund to purchase the underlying stock at the exercise price which may be the cause of significant losses due to the failure of correctly predicting the direction of securities prices, interest rates and currency exchange rates. The investment in options is not suitable for all investors. Covered call writing may limit the upside of an underlying security. The Fund may also invest in foreign securities which involve political, economic and currency risks, greater volatility, and differences in accounting methods. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investment in lower-rated, non-rated and distressed securities presents a greater risk of loss to principal and interest than higher-rated securities.

Diversification does not guarantee a profit or protect from loss in a declining market.

Fund holdings and sector allocations are subject to change at any time and should not be considered recommendations to buy or sell any security. For a complete list of Fund holdings, please see the Schedule of Investments in the Annual Tailored Shareholder Report and the Annual Core Financial Statements which can be accessed at <https://ycgfunds.com/how-to-invest/>.

The S&P 500 or Standard & Poor's 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. The index is widely regarded as the best gauge of large-cap U.S. equities.

The S&P Global Broad Market Index is a market capitalization-weighted index that provides a broad measure of the global equities markets and includes approximately 11,000 companies in more than 52 countries covering both developed and emerging markets.