

GUARDIAN DIRECTED EQUITY PATH FUND

Q4 2023 COMMENTARY

Performance Attribution

The Guardian Directed Equity Path Portfolio (the “Fund”) underperformed its benchmark¹ in Q4 2023. The stocks within the portfolio delivered a total return of 7.48%, underperforming the market given the underweight in the Information Technology and Industrials sectors as well as the security selection within the Consumer Discretionary and Communication Services sectors. Call option premiums earned from the covered calls were more than offset by the upside forfeited from the stock performance of various position, detracting 1.83% and the put options decreased in value by 2.25% as a result of the gains of the stock positions in the portfolio. After a soft start to Q4, global financial markets rallied aggressively through the final nine weeks of 2023 as indications of moderating underlying inflationary pressures suggested the desired rebalancing of supply and demand was taking place, allowing central banks to move to the sidelines and stoking expectations that policy would begin to move back toward “neutral” sooner than previously assumed. November and December marked the best two-month stretch for performance in stock markets in three years. The Fund primarily underperformed its benchmark due to the underweight in the Information Technology and Industrials sectors and the upside forfeited from the covered calls and the reduction of the value of the put options resulting from the explosive moves higher in the prices of some of the securities in the portfolio.

The Fund’s Manager continues to cautiously balance the premium collected with selling further out of the money call options to protect against a sharp reversal to the upside while still collecting a moderate level of option premium. The protective put options benefit from weaker stock performance and increases in implied volatility, which will continue to contain the downside if market conditions deteriorate. The Manager will continue to balance the trade-off between the premiums collected with the upside strike prices on the covered calls to provide a decent level of option premiums and upside participation.

Below is a summary of the key contributors to the stock performance within the Fund were:

MarketAxess (MKTX) shares rose 34.1% in the fourth quarter. MarketAxess’ share price rebounded in Q4 after weak year to date performance. Trading volumes picked up, with November seeing record trading on the platform as well as sequential market share improvement. The structural shift to electronic bond trading is expected to provide a huge growth opportunity for MarketAxess in the coming years.

Novo Nordisk (NOVOB)’s stocks ended 10.4% higher in 4Q. The company reported quarterly sales growth of 38%, ahead of expectations, driven by better-than-expected performance of its weight loss drug, Wegovy. As a result of this stronger-than-expected performance, Novo raised full year guidance for the third time this year. To address supply constraints, it announced significant investments in internal and external capacity.

EssilorLuxottica (EL) rose 11.9% in Q4. The strong stock performance in the quarter was driven by a combination of positive financial results, favorable market trends, and strategic developments. While there was some soft demand for sunglasses, the company do not see any evidence of consumer trading down.

¹ Benchmark : 40% FTSE Canada Universe Bond Index, 60% MSCI World Index (Net, C\$)

Microsoft's (MSFT) stock price ended 16.4% higher in Q4. Shares outperformed as Azure continued to gain market share, supported by AI integration and the rollout of its Copilot program. With a user base of 325 million active users on Teams and the integration of AI across its product suite, the company offers a best-in-class bundling proposition compared to its peers. This may benefit the company with first-mover advantages, strengthening its competitive positioning and opening new channels for growth.

The largest negative contributors to returns over the quarter were:

Yum China Holdings (YUMC) ended -25.2% lower in Q4. Yum China reported weaker-than-expected Q3 numbers and pointed to weak consumer demand into Q4. Q3 same-store-sales increased 4% led by transaction growth, while average ticket was negative. Despite the weak macroeconomic backdrop, the company added 500 new restaurants in the quarter; new unit payback for KFC restaurants remains at 2 years.

Automatic Data Processing (ADP) fell -5% in Q4. ADP reported mixed quarterly results, with continued strength and raised guidance for Employer Services, their larger segment, with strong retention rates and NPS scores. Weakness came from their PEO (fully outsourced HR) segment, with a continued slow-down in pace of employee additions at clients, which raised doubts about a return to their previously provided mid-term target for 10-12% growth.

Reckitt Benckiser Group (RKT) finished the quarter -4.7% lower. Q3 like-for-like sales growth of 3.4% was below consensus expectations (3.7%). Q3 volume growth (-4.1%) was only a slight improvement on Q2 (-4.3%) and behind consensus (-2.4%). The new CEO, Kris Licht, reiterated previous medium-term targets of mid-single digit net revenue growth and operating profit growth that exceeds net revenue growth.

Portfolio Activity and Positioning

During the quarter the Fund exited its position in FANUC, a leading Japanese company in the field of industrial automation and robotics. The company has been at the forefront of developing CNC (computer numerical control) systems that enable automation in manufacturing facilities. The impact of COVID-19 has exposed vulnerabilities in the global supply chains, significantly disrupting the company's ability to scale up production to meet demand. Furthermore, expected weakness in the global economy and higher interest rates have dampened CAPEX, combined with stronger Chinese competition present longer-term headwinds which can already be seen in disappointing financial results over the past two quarters. A weakening of FANUC's secular growth trend and weaker competitive moat has increased the impact of cyclicity, and the team has therefore exited its position.

Proceeds from the sale of FANUC were used to initiate a new position in Waters Corporation (NYSE: WAT). Established in 1958, Waters is one of the world's largest manufacturers and distributors of liquid chromatography (LC) and mass spectrometry (MS) instrument systems, chromatography columns, and other related consumable services. Waters integrates sophisticated analytical instruments with software platforms, offering simplified and comprehensive solutions in areas with high unmet demands in pharmaceutical development and manufacturing quality control, food, water, and environmental testing, and materials analysis, such as battery characterization and testing for electric vehicles. The company boasts a diverse global footprint with its revenues distributed across North America, Europe, and the Asia-Pacific regions, reaching customers in pharmaceutical, industrial, academic, and government sectors. One of Waters' competitive advantages is their cutting-edge technology and expertise in LC-MS instruments, along with their continuous R&D efforts (9% of revenue), which ensures a pipeline of innovative products and improvements to the existing portfolio. This positions Waters to capitalize on the

long-term tailwind from the expected continued growth of the global healthcare and life sciences sectors, driven by an aging population and an increased emphasis on healthcare, by offering essential analytical solutions to these industries. Strong recurring revenue and profitability for the business, marked by 46% recurring revenue and 30% operating margin in 2022, coupled with an outstanding capital return (35% ROIC 5yr avg) and steady cash flow generation (24% FCF yield 5yr avg) to fund future expansions and share repurchases, bodes well with the strategy's quality criteria.

Outlook

Guardian Directed Outcomes strategies offer investment choices designed to address different priorities of investor objectives for either growth with enhanced downside protection through Guardian Directed Equity Path, or for tax-efficient cash flow generation through Guardian Directed Premium Yield.

The guiding principles underlying the investment philosophy of both of the Guardian Directed Outcome strategies rests on the following key tenets:

1. Employing the security analysis and selection process of the high-conviction, concentrated equity portfolios within Guardian's UK, US and Canadian businesses
2. Identifying short- to intermediate-term catalyst and stock price behavior aligned with long-term quality growth intrinsic value estimates
3. Implementing varying option overlay strategies to tailor the return behaviour of the underlying positions to target the portfolio outcomes desired, as follows:

Guardian Directed Outcomes strategies

The premise of the Guardian approach to managing the Directed Outcomes strategies is to apply the bottom-up fundamental research from our concentrated equity teams in the United Kingdom, the United States and Canada. In effect, the Directed Outcomes portfolios will hold a concentrated portfolio of global high-quality growth securities (20 to 30 stocks) with a managed options overlay, taking into account intrinsic value estimates and catalysts derived from the research. This information will be complemented with a short- to intermediate-term technical and fundamental review to assess prevailing trend strength and stock price behavior to exploit shorter horizon trading opportunities.

Guardian Directed Premium Yield Portfolio

Risk Rating²: Medium

This Fund's portfolio is designed to deliver a high and consistent level of tax-efficient³ cash flow – 6%⁴ annually, distributed monthly – to investors, recognizing that securities within the portfolio may fluctuate according to prevailing market conditions.

Volatility levels have leveled out considerably with both implied and realized volatility normalizing. This strategy is expected to continue to collect attractive option premiums and participate in the upside in a more gradual manner.

² As disclosed in the Fund's most recent prospectus and Fund Facts. The Risk Classification of a fund has been determined in accordance with a standardized risk classification methodology in National Instrument 81-102, that is based on the fund's historical volatility as measured by the 10-year standard deviation of the fund's returns. Where a fund has offered securities to the public for less than 10 years, the standardized methodology requires that the standard deviation of a reference mutual fund or index that reasonably approximates the fund's standard deviation be used to determine the fund's risk rating. Please note that historical performance may not be indicative of future returns and a fund's historical volatility may not be indicative of future volatility.

³ Distributions are expected to be primarily return of capital or capital gains generated from option premiums and securities transactions, which are taxed more favourably than income.

⁴ As disclosed in the Fund's prospectus, the Fund intends to make monthly distributions based on a targeted annualized monthly distribution of 6% of the NAV per Unit at the end of the prior year. Distributions may consist of net income, dividends, net realized capital gains, and may also include return of capital.

Guardian Directed Equity Path Portfolio

Risk Rating²: Low to Medium

In the case of the anticipated Directed Equity Path outcome, the portfolio is engineered with the aim to manage volatility and provide downside protection, so that it is never exposed to the entire downside of any position held. As a result, returns are expected to lag in a rising market environment (the sharper the rise, the larger the lag) and to help preserve capital in a declining market environment (the more severe the drawdown, the better the protection).

Volatility levels have leveled out considerably, with both implied and realized volatility normalizing. This Fund's portfolio continues to be positioned defensively with a high level of put option protection implying that the portfolio will be well insulated on the downside if market conditions deteriorate in the near-term. The strategy is expected to continue to collect attractive option premiums and participate in the upside in a more gradual manner.

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