



## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

# GUARDIAN i<sup>3</sup> US QUALITY GROWTH ETF

DECEMBER 31, 2020



This annual management report of fund performance contains financial highlights, but does not contain either the annual financial report or annual financial statements of the investment fund. You can obtain a copy of the annual financial report or annual financial statements at your request, and at no cost, by calling 1-866-718-6517, by writing to us at Guardian Capital LP, Commerce Court West, 199 Bay Street, Suite 3100, P.O. Box 201, Toronto, Ontario, M5L 1E8, or by visiting our website at [www.guardiancapitallp.com](http://www.guardiancapitallp.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### Investment Objective and Strategies

Guardian i<sup>3</sup> US Quality Growth ETF (the "Fund") seeks to achieve long-term capital appreciation by primarily investing in a portfolio of equity or equity-related securities of issuers based in the U.S., with business operations potentially located throughout the world. The Fund may also achieve its investment objectives by investing in other investment funds or exchange-traded funds. The Manager employs a system-driven bottom-up research approach to assess relative value and capital growth potential within a broad stock-selection universe. The Manager uses a quantitative approach, including in particular machine learning techniques, to analyze multiple fundamental factors and incorporate financial and alternative data. The Fund maintains a mid-large capitalization bias and is broadly diversified by issuer, sector and geographic region, normally holding securities of 30 to 60 issuers. The Fund may use derivatives to hedge against potential loss and to reduce the impact of currency fluctuations on the Fund.

### Risk

The risks associated with investing in the Fund remain as discussed in the prospectus. The Fund may be suitable for investors with a medium tolerance for risk, particularly those who seek exposure to equity securities of issuers with business primarily in the United States.

### Results of Operations

*(This Fund's first prospectus was dated July 21, 2020, and the ETF Units were first listed for trading on the TSX on August 11, 2020. In accordance with regulatory requirements, investment performance for a fund that has been in existence for less than one year cannot be shown.)*

The Fund's net asset value was \$4.3 million at December 31, 2020, of which a \$0.3 million increase was provided by investment performance and an increase of \$4.0 million came from net subscriptions.

The Hedged Units of the Fund outperformed its

benchmark, the S&P 500 Total Return (C\$), while the Unhedged Units underperformed, from the Fund's inception to the end of the year. The difference in performance between the Hedged and Unhedged Units of the Fund is attributable to foreign currency exposure and the exchange rate.

The first quarter of 2020 witnessed one of the most volatile periods in history, as the onset of the COVID-19 virus caused severe economic disruption around the world. This was followed by a significant 'V-shaped' rebound in the second quarter, supported by the aggressive efforts from the major central banks to inject liquidity into the market. A "K-shaped" dispersion extended into the third quarter, which happened between the secular Growth stocks positively impacted by lifestyle transformations and cyclical Value stocks negatively impacted by COVID. The fourth quarter was dominated by factor reversion, as the deep-Value stocks finally rebounded on positive vaccine news, narrowing the gap between the Quality and Growth stocks.

The S&P 500 Total Return Index ended the year with a 6.3% (net C\$) return. Information Technology, Consumer Discretionary and Communication Services were the top-performing sectors, while Energy, Real Estate and Financials, the bottom-performers in the Index, ended the year in the red. Crude oil was weak in the first four months, as weaker oil consumption forecasts and the risk of deflation due to the pandemic hit the market. But as lockdowns eased and hopes of a vaccine increased, oil prices finished the year strong, trading on either side of USD\$50/Bbl before year-end. The year also saw significant movement in currencies, as the USD weakened following the trough in equity markets, boosting the relative returns of Asian and European stocks on a currency-adjusted basis.

At inception of the Fund it was, and remains, focused on owning high-quality US companies with strong fundamentals, visible cash flows and sustainable growing earnings.

In the third quarter, as volatility started to subside, the Fund reduced its weightings in some of the defensive sectors and increased weights in Information Technology and Health Care, purchasing stocks with strong long-term dividend and earnings growth

profiles. In the fourth quarter, the Fund added to its Industrials sector holdings, as global growth prospects began to improve for 2021 and the Portfolio Manager believed earnings growth and dividend growth were positive for the stocks purchased.

The Fund underperformed due to both sector allocation and security selection. Consumer Discretionary and Financials led the detraction, followed by Energy, while Consumer Staples was the notable positive contributor. Consumer Discretionary's detraction was primarily due to negative stock selection and positions in Darden Restaurants, TJX, Ross Stores, McDonald's, Domino's Pizza, etc. Three of these holdings, Darden Restaurants, TJX and Ross Stores, were sold during the period. Financials detracted primarily from underweight allocation, while Progressive Corp. and MarketAxess had positive stock selection effect. The Fund not having exposure to Energy also detracted from an allocation decision.

Contribution was driven by Consumer Staples, where allocation and security selection was positive. Security selection was also positive in Industrials, but this was partially offset by negative underweight allocation effect. Holdings included Raytheon, Exponent, Republic Services, Waste Management and Northrop Grumman.

## Recent Developments

Following a year that reflected a remarkable recovery for stocks and one of the fastest bear markets in history due to the threat of the pandemic, equities and other risk assets continue to benefit from high liquidity and record low interest rates in the foreseeable future. Aggressive efforts by the Federal Reserve and other major central banks to support the global economy in the wake of potential economic collapse caused by the coronavirus pandemic, coupled with positive vaccine news, fueled fourth-quarter rallies in riskier corners of the financial markets, as well as in certain sectors that had suffered the most earlier in the year.

That said, the recent rotation in broader markets toward low-Quality, high-Beta stocks is, in the Portfolio Manager's opinion, unsustainable. Further multiple expansion, particularly in stocks already trading at expensive levels, will need to be driven by

earnings results and operational performance in the coming year.

We are now seeing US and foreign growth rates start to moderate, as reflected in many Purchasing Managers Indexes (PMIs) around the world stabilizing, albeit at healthy levels.

## Related Party Transactions

Guardian Capital LP, the Manager of the Fund, is considered to be a "related party" of the Fund. The Manager is responsible for the day-to-day operations of the Fund and also acts as the portfolio manager, managing the investment portfolio of the Fund. These services are in the normal course of operations and the Fund pays a management fee to the Manager for these services, based on the average Net Asset Value of the Fund. The Manager also incurs operating expenses on behalf of the Fund and is then reimbursed by the Fund for such expenses. The Manager is a wholly-owned subsidiary of Guardian Capital Group Limited, a publicly traded firm listed on the Toronto Stock Exchange.

## Management Fees

Hedged and Unhedged units are subject to management fees which are based on a percentage of the average Series NAV during each month, calculated and accrued daily, and payable monthly. The management fee is 0.55% per annum. The services received in consideration of the management fee include investment management and other general administration services. In the event that the Fund invests in another investment fund to obtain exposure to the constituent securities, the Fund may pay the management fee on the portion of the Fund's assets invested in the other fund, regardless of whether the fund is managed by the Manager or an affiliate of the Manager. As a result, the actual Management Fee may be higher than that shown.

## Past Performance

In accordance with regulatory requirements, investment performance for a fund that has been in existence for less than one year cannot be shown.

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the periods indicated. The information is derived from the Fund's audited annual financial statements.

### The Fund's Net Assets per Unit (Unhedged Units)

	For the period from inception, Aug. 7, 2020, to Dec. 31, 2020
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**Net Assets per unit, Beginning of Period <sup>[1]</sup>** \$20.00

**Increase (decrease) from operations per unit: <sup>[1]</sup>**

Total revenue	0.05
Total expenses	(0.08)
Realized gains (losses)	(0.03)
Unrealized gains (losses)	1.69

**Total increase (decrease) from operations per unit** **1.63**

**Distributions per unit from:** <sup>[1]</sup> <sup>[2]</sup> <sup>[3]</sup>

Income (excluding dividends)	-
Canadian dividends	-
Foreign dividends	-
Capital gains	-
Return of capital	-

**Total Distributions per unit** **0.00**

**Net Assets per unit, End of Period <sup>[1]</sup>** **\$21.33**

[1] Net assets per Unit and distributions per Unit are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations per Unit is based on the weighted average number of units outstanding over the financial period.

[2] Distributions were paid in cash or certain distributions were reinvested in additional units of the Fund. Immediately following such reinvestment, the number of units outstanding was consolidated so that the net assets per unit following the distribution and reinvestment is the same as it would have been if the distribution had not been paid.

[3] The tax characteristics of distributions are reported annually by the Fund to CDS Clearing and Depository Services Inc. ("CDS"). CDS makes this information available to brokers who provide it to unitholders through standard tax reporting.

### Ratios and Supplemental Data (Unhedged Units)

	For the period from inception, Aug. 7, 2020, to Dec. 31, 2020
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**Total net asset value (000's) <sup>[1]</sup>** **\$2,133**

Number of units outstanding <sup>[1]</sup> 100,000

Management expense ratio <sup>[2]</sup> 0.90%

Management expense ratio before  
waivers and absorptions 4.73%

Trading expense ratio <sup>[3]</sup> 0.00%

Portfolio turnover rate <sup>[4]</sup> 18.29%

Net asset value per unit <sup>[1]</sup> \$21.33

Closing market price \$21.18

[1] This information is provided as at the end of the period indicated.

[2] The management expense ratio ("MER") is based on total expenses (excluding commissions, other portfolio transaction costs and withholding taxes) of the Fund and its proportionate share of the total expenses of the Underlying Funds, where applicable, for the stated period, and is expressed as an annualized percentage of daily average net asset value during the year. For new series launched, the MER is annualized from the date of the first external purchase. The Manager absorbed some of the Fund's expenses, if it had not done so the MER would have been higher.

[3] The trading expense ratio represents total commissions and other portfolio transaction costs of the Fund and its proportionate share of the Underlying Funds' portfolio transaction costs, where applicable, expressed as an annualized percentage of daily average net asset value for the period.

[4] The Fund's portfolio turnover rate indicates how actively its portfolio advisor trades portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in the portfolio once in the course of a year. The higher a Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of an Fund.

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the periods indicated. The information is derived from the Fund's audited annual financial statements.

### The Fund's Net Assets per Unit (Hedged Units)

	For the period from inception, Aug. 7, 2020, to Dec. 31, 2020
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**Net Assets per unit, Beginning of Period <sup>[1]</sup>** \$20.00

#### Increase (decrease) from operations per unit: <sup>[1]</sup>

Total revenue	0.06
Total expenses	(0.08)
Realized gains (losses)	0.73
Unrealized gains (losses)	1.59

**Total increase (decrease) from operations per unit** 2.30

#### Distributions per unit from: <sup>[1] [2] [3]</sup>

Income (excluding dividends)	-
Canadian dividends	-
Foreign dividends	-
Capital gains	0.53
Return of capital	-
<b>Total Distributions per unit</b>	<b>0.53</b>

**Net Assets per unit, End of Period <sup>[1]</sup>** \$22.17

[1] Net assets per Unit and distributions per Unit are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations per Unit is based on the weighted average number of units outstanding over the financial period.

[2] Distributions were paid in cash or certain distributions were reinvested in additional units of the Fund. Immediately following such reinvestment, the number of units outstanding was consolidated so that the net assets per unit following the distribution and reinvestment is the same as it would have been if the distribution had not been paid.

[3] The tax characteristics of distributions are reported annually by the Fund to CDS Clearing and Depository Services Inc. ("CDS"). CDS makes this information available to brokers who provide it to unitholders through standard tax reporting.

### Ratios and Supplemental Data (Hedged Units)

	For the period from inception, Aug. 7, 2020, to Dec. 31, 2020
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**Total net asset value (000's) <sup>[1]</sup>** \$2,217

Number of units outstanding <sup>[1]</sup>	100,000
Management expense ratio <sup>[2]</sup>	0.90%
Management expense ratio before waivers and absorptions	4.73%
Trading expense ratio <sup>[3]</sup>	0.00%
Portfolio turnover rate <sup>[4]</sup>	18.29%
Net asset value per unit <sup>[1]</sup>	\$22.17
Closing market price	\$21.99

[1] This information is provided as at the end of the period indicated.

[2] The management expense ratio ("MER") is based on total expenses (excluding commissions, other portfolio transaction costs and withholding taxes) of the Fund and its proportionate share of the total expenses of the Underlying Funds, where applicable, for the stated period, and is expressed as an annualized percentage of daily average net asset value during the year. For new series launched, the MER is annualized from the date of the first external purchase. The Manager absorbed some of the Fund's expenses, if it had not done so the MER would have been higher.

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[4] The Fund's portfolio turnover rate indicates how actively its portfolio advisor trades portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in the portfolio once in the course of a year. The higher a Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of an Fund.

## SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2020

Portfolio Allocation	% of Net Asset Value	Top 25 Holdings	% of Net Asset Value
Communication services	12.3%	Apple Inc.	5.8%
Consumer discretionary	12.3%	Microsoft Corporation	5.2%
Consumer staples	3.1%	Alphabet Inc., Class 'C'	4.8%
Financials	3.4%	ServiceNow Inc.	4.7%
Health care	16.8%	Amazon.com Inc.	4.7%
Industrials	6.1%	Zoetis Inc.	3.5%
Information technology	42.0%	Adobe Inc.	3.5%
Materials	1.7%	MarketAxess Holdings Inc.	3.4%
Real estate	1.9%	Bio-Rad Laboratories Inc., Class 'A'	3.2%
Forward currency contracts, net	0.2%	The Estee Lauder Companies Inc., Class 'A'	3.1%
Other Net Assets	0.2%	Cadence Design Systems Inc.	3.1%
		Accenture PLC, Class 'A'	3.1%
		Lam Research Corporation	3.0%
		IDEXX Laboratories Inc.	2.5%
		Booz Allen Hamilton Holding Corporation, Class 'A'	2.3%
		Fidelity National Information Services Inc.	2.2%
		Veeva Systems Inc., Class 'A'	2.2%
		NIKE Inc., Class 'B'	2.1%
		Masimo Corporation	2.1%
		Generac Holdings Inc.	2.0%
		Broadcom Inc.	2.0%
		Dollar General Corporation	2.0%
		Lowe's Companies Inc.	1.9%
		Netflix Inc.	1.9%
		Crown Castle International Corporation	1.9%
<b>Total Net Asset Value</b>		<b>76.2%</b>	<b>\$4,349,859</b>

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly update is available. If the Fund has invested in other investment funds, the prospectus and other information about the underlying investment funds are available on the internet via [www.sedar.com](http://www.sedar.com).



**GUARDIAN CAPITAL**

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