GUARDIAN DIRECTED EQUITY PATH PORTFOLIO
Q2 2024 COMMENTARY

Performance Attribution

The Guardian Directed Equity Path Portfolio (the "Fund") underperformed its benchmark[1] in Q2 2024. The stocks within the portfolio delivered a total return of 0.07%, lagging the market given the Fund's underweight in the Information Technology sector, as well as the security selection within the Consumer Discretionary, Financials and Information Technology sectors. Call option premiums earned from the covered calls were slightly accretive, after offsetting the upside forfeited from the stock performance of various position, adding 0.30% and the put options increased in value by 0.28% from a blend of the gains and losses of the stock positions in the portfolio. The Fund incurred operating expenses of 0.05%. The positive economic momentum that began to broaden out at the start of the year carried into the second quarter, while concerns about a reacceleration of inflationary pressures abated, allowing policymakers to again the turn their focus toward moving away from current highly restrictive policy stances to more "neutral" levels for rates. The Tech and Media stock rally continued as enthusiasm towards the AI investment theme remained unabated.

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:

Alphabet (GOOGL) climbed 22.2% in Q2. Alphabet reported strong Q1 results with 13% growth in advertising revenue and 28% in Cloud. Expected 50% growth in CAPEX for FY24 reflects confidence in the opportunities offered by AI.

Novo Nordisk (NOVOB)'s stocks ended 14.5% higher in 2Q. Novo Nordisk continues to benefit from a strong uptake of its diabetes and obesity drugs. Q1 sales growth of 24% led to a small upgrade in 2024 sales growth guidance from 18-26% to 19-27% and operating profit growth from 21-29% to 22-30%. Supply chain constraints are expected to ease.

Booking Holdings (BKNG) finished the period 10.7% higher. Booking's Q1 results positively surprised with 10%, 17% and 28% growth in gross bookings, revenue and operating profit. Higher levels of direct bookings allowed a reduced level of paid marketing channels and boosted margins.

Colgate-Palmolive (CL)'s stock price ended 9.6% higher in Q2. Colgate reported continued strong organic growth, almost 10% in Q1, margin expansion and improving global market share in toothpaste and toothbrushes. The company raised its FY24 forecast organic revenue growth by 2% to +5-7%.

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

Microsoft (MSFT) shares rose 7.6% in the second quarter. Shares of Microsoft have outperformed during the quarter as the continued 'AI boom' has maintained momentum. The company posted strong quarterly earnings, with both sales and profit exceeding projections. Furthermore, Microsoft's cloud segment, Azure, saw revenue gains of 31%, benefiting from increased demand for AI services.

The largest negative contributors to returns over the quarter were:

Yum China (YUMC) ended -21.3% lower in Q2. Yum China reported good traffic growth despite weak consumer spending and increasing competition after a strong rebound in industry growth last year. The company sees a strong runway of growth for new store openings (supported by low penetration of KFC/Pizza Hut compared to other countries) and has the digital capabilities and customer data to quickly adjust its menus, store formats and marketing campaigns.

Nike (NKE) ended -18.6% lower in Q2. Nike's most recent update disappointed the market. It does not expect to grow in the coming fiscal year. Inventory levels have improved significantly, and the product portfolio will go through a transition in the next couple of quarters as older products are phased out and newer products are introduced.

Accenture (ACN) fell -11.1% in Q2. Accenture reduced its full year guidance as clients prioritize large scale transformations which convert to revenue more slowly. In its third fiscal quarter new bookings grew 26% in local currency, including $900m of generative AI deals, a sequential improvement from $600m and $500m in Q1 and Q2. The company has now trained 55,000 skilled data and AI practitioners against its goal of 80,000 by the end of FY26.

CME Group (CME) finished the quarter -7.1% lower. CME tends to perform well in choppy market environments, and it came under modest pressure in a low volatility period for interest rates and equities in Q2. News of the impending launch of a competing futures exchange added uncertainty.

Illumina (ILMN) fell -21.2% in Q2. Illumina continues to work through the disruption of transitioning its customers to the NovaSeq X technology and competitive pressures in the mid-throughput segment and China. Q1 revenue dropped 1% but EPS rose 12% on lower expenses. It also completed the spin-off of Grail at the end of the quarter and will now re-focus on its core sequencing business.

Portfolio Activity and Positioning

Buys: None

Sells: None

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 the Guardian Directed Outcomes strategies rests on the following key tenets:

1. Employing the security analysis and selection process of the high-conviction, concentrated equity portfolios within Guardian Capital's UK, US and Canadian asset management 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 Guardian Capital's approach to managing the Guardian Directed Outcomes strategies is to apply its bottom-up fundamental research from our concentrated equity teams in the United Kingdom, the United States and Canada. In effect, the Guardian Directed Outcomes portfolios will hold a concentrated portfolio of global high-quality growth securities (20 to 30 stocks/indices) 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 Equity Path Portfolio
Risk Rating[2]: Low-Medium

The Guardian Directed Equity Path 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 is focused on being well insulated on the downside if market conditions deteriorate in the near-term. This strategy is expected to continue to collect option premiums and participate in the upside in a more gradual manner.

Guardian Directed Premium Yield Portfolio
Risk Rating[2]: Medium

Guardian Directed Premium Yield Portfolio is designed to deliver a high and consistent level of tax-efficient[3] 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 option premiums and participate in the upside in a more gradual manner.

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[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 and volatility may not be indicative of future returns or 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.

Returns are presented in CAD, unless otherwise stated.

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There can be no assurance that the Fund's portfolio will continue to hold the same position in companies referenced here, and the portfolio may change any position at any time. The securities discussed may not represent the Fund's entire portfolio and in the aggregate may represent only a small percentage of portfolio holdings. It should not be assumed that any of the securities discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable, or will equal the investment performance of the securities discussed.

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