GUARDIAN CAPITAL

GUARDIAN DIRECTED EQUITY PATH PORTFOLIO QUARTERLY COMMENTARY

DECEMBER 2022

Performance Attribution

The Guardian Directed Equity Path Portfolio has underperformed its benchmark[1] in Q4 2022. The stocks within the portfolio delivered a total return of 8.8%, outperforming the market given the rebound in quality growth stocks during the quarter. Option premiums earned from the covered calls were more than offset by the upside forfeited from the stock performance of various stocks, detracting approximately 0.89%, and the put options decreased in value by 3.74% from the reversal of the intrinsic value in the options. Stocks markets ended a challenging year with gains in the fourth quarter. Signs of inflation peaking, a US Federal Reserve (the "FED") pivot and hints of China moving away from their zero Covid policy reinvigorated global equity markets around the world, while bonds were relatively muted in the quarter.

Option premiums remained reasonably elevated during the quarter, but implied volatility levels began to subside with more optimism on the horizon. We took advantage of the higher implied volatility to sell 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. With the sharp rise of many quality growth stocks during the quarter, some upside was forfeited in the Fund's portfolio and the put options lost some of their intrinsic value, which detracted from the performance. We 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. Furthermore, the floor offered on the put options ended the year near the prevailing market prices (on a total portfolio basis) and should provide strong protection in the event we get another sharp move down in 2023.

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

Novo Nordisk (NOVOB)'s quarterly numbers exceeded market expectations for the third time in 2022. Full year guidance was raised for the third time. The company is benefiting from structural growth in the GLP-1 class of diabetes medicine driven by Ozempic and Rybelsus, and the revival of the obesity market.

EssilorLuxottica (EL) finished the period 29.5% higher. Despite a tough comparison, the company reported a sequential acceleration in sales growth. Highlights included resilience in North American sales, continued strong performance in Europe and a strong recovery in Asia. Management does not see any material signs of consumers trading down.

Nike (NKE) rose 39.2% in Q4. Nike reported strong revenue growth in its most recent fiscal quarter. The business grew in all regions, including China, where it continued to face headwinds from COVID related store closures. Despite discounts to liquidate excess inventory, Nike brand ASPs increased and management indicated that inventory levels have peaked.

Booking Holdings (BKNG)'s stocks ended 20.9% higher in Q4. The company reported another set of strong quarterly numbers with no signs of a slowdown in travel demand. The travel market is beginning to exceed 2019 levels, faster than expected.

The largest negative contributors to returns over the quarter were:

General weakness in technology shares coupled with expectations of slower economic growth would dampen demand for advertising weighed on **Alphabet Inc. (GOOGL)**. We believe investments in cloud computing and AI will be future growth drivers for the company.

Meta Platforms, Inc. (META) continues to devote significant resources to its metaverse concept, despite investor concerns and a weakening economic environment. We exited our position this quarter due to our frustration with management and the long time horizon until any return on the metaverse investment.

Investor concerns at **Apple Inc (AAPL)** about a slowdown in demand for consumer electronics, coupled with manufacturing challenges in China and general weakness in technology shares, weighed on the stock this quarter. We view these issues as largely short-term in nature, and our thesis for long-term growth and continued leadership in consumer technology remains unchanged.

Portfolio Activity and Positioning

Buys:

None.

Sells:

Meta Platforms, Inc. (META)
A weaker advertising market hurt Meta's quarterly earnings. A bigger concern for investors has been the company's decision to continue large investment in the metaverse (a still unproven concept) at a time when technology peers are reining in spending and laying off their workforce. Our growing concerns about slowing growth of the core social networking business and management's unwillingness to address cost concerns led to our exit in the quarter.

Outlook

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

The guiding principles underlying the investment philosophy of 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 portfolio managers 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:

The premise of the 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/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.

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). This Fund will target a tax-efficient[1] annual distribution of 4%[2], paid monthly.

Volatility levels have leveled out considerably, with both implied and realized volatility normalizing. The 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.

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

[2] As disclosed in the Fund's prospectus, the Fund intends to make monthly distributions based on a targeted annualized monthly distribution of 4% 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.

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