GUARDIAN CAPITAL™

GUARDIAN i³ GLOBAL QUALITY GROWTH FUND MANAGER COMMENTARY Q4 2024

Market Review

Global equity markets finished the year with mixed results during the fourth quarter, with elevated volatility as investors dealt with uncertainties in central bank policies, a potential slowing of interest rate cuts, geopolitical issues, currency fluctuations, and regional growth disparities. Although equity markets delivered strong annual returns, the current quarter indicated a more cautious and uncertain market environment.

US equities outperformed their global counterparts, largely driven by a rebound in growth stocks following underperformance in the third quarter. The growth bias came in the form of continued strength in mega-cap technology stocks, highlighted by resilient corporate profits and enthusiasm for Artificial Intelligence (AI). Mid and small-cap stocks, which had initially benefited from a broad market rally post-presidential election, and the subsequent Republican take-over of the Congress—highlighted the optimism for Trump's growth-enhancing policy agenda—ultimately retreated amid inflation uncertainties with moderated expectations for rate cuts. The US Federal Reserve (Fed) reduced rates by 25 basis points in both November and December. However, the Fed initiated a stock market sell-off in December by revising down expectations for future rate cuts in 2025 due to persistent inflation concerns and a strong US economy bolstered by a strong labor market, strong consumer spending, and an uptick in manufacturing activity. Additionally, the Fed appears to be in a wait-and-see mode regarding the potential tariffs Trump has promised on imports, which, if implemented aggressively, could further drive-up price pressures and reverse the current trend of slowing inflation. The 10-year Treasury yield experienced a significant rise, reflecting market uncertainty regarding the Fed's actions amidst this backdrop.

European equities faced challenges during the quarter due to weak economic growth, political instability, and trade uncertainties - all of which weighed on sentiment. The European Central Bank (ECB) has been easing monetary policy to support growth, but inflation risks remain due to higher energy and services costs as well as political uncertainties and fiscal burdens that are driving bond yields higher. Trump's tariff policies posed challenges for Europe and emerging market equities, with China in particular focus. In addition to its ongoing trade tensions with the US, China is grappling with weak consumer confidence, property market struggles, and sluggish credit growth. A strong US dollar also negatively impacted non-US equity returns. Japan, on the other hand, benefited from controlled inflation and economic reforms.

The MSCI World Index rose by 6.29% in CAD during the quarter. Sector performance was mixed, with positive returns from Consumer Discretionary, Communication Services, Information Technology, and Financials. Sectors underperformance came from Materials, Health Care, Real Estate, Utilities, Consumer Staples, Industrials, and Energy.

Performance Attribution

The Guardian i³ Global Quality Growth Fund (the "Fund") outperformed its benchmark, the MSCI World Index (Net).

The Information Technology sector was the Fund's largest contributor to relative performance, thanks to an overweight allocation and a strong stock selection from Broadcom and ServiceNow, which more than offset the negative selection from Arm Holdings and ASML. Underweight in the Health Care sector along with a strong stock selection from Intuitive Surgical contributed to relative performance. Costco, the only position in the Consumer Staples sector, added to the Fund's relative performance on strong stock selection. Consumer Discretionary added to relative returns on strong stock selection from Amazon. The Communication Services sector added to relative performance on strong stock selection from Alphabet.

The Industrial sector was the largest detractor to relative returns due to its overweight allocation and negative stock selection from Atlas Copco. The Financials sector detracted from relative performance due to its underweight allocation, which was partially offset by positive stock selection from Visa.

Transactions

There were some minor adjustments to the portfolio during the quarter, addressing sector allocation and declining conviction in one Information Technology name.

The portfolio added a position in Moody's corporation to reduce the large underweight to Financials. This was funded by the sale of Adobe in the Information Technology sector, which was also sold due to declining confidence in their ability to monetize product execution.

Portfolio Outlook and Positioning

The Manager's i³ Investments™ team* has a core belief that successful asset management is focused on three pillars of investment: Growth, Payout and Sustainability (or GPS) of earnings and cash flows. For outlook and positioning, the i³ Investments™ team will address each of these core beliefs.

Growth —
The Manager has a positive outlook heading into 2025, driven by AI innovation, strong economy and post-election optimism. According to the Manager's proprietary AI model* forecast for earnings growth, it appears that Earnings-per-share (EPS) growth rates in the US are strong for most sectors, led by Communication Services, Information Technology, Consumer Staples, Real Estate, Consumer Discretionary, Health Care, Financials, Materials, and Industrials. Earnings growth for Energy also improved. In Europe, we also see signs of bottoming and recovering of earnings growth, in particular led by Information Technology, and Materials. Earnings growth for Industrials appears to remain stable and increasing. In Asia, Information Technology is forecasted as the clear leader, followed by Real Estate and Health Care, while Utilities had the worst forecast. In Canada, earnings growth forecasts are led by

Communication Services, Materials and Real Estate sectors, with the AI model forecasted earnings growth predicting improvement overall.

Payout —
Global central banks are less hawkish. However, with the US election outcome and potential inflationary policies, the pace of rate cuts is slowing down. The manager believes continued higher price appreciation potential comes from thematically driven “quality growth” companies in the Information Technology, and Industrials sectors, as their earnings forecasts are showing a steady recovery. The competitiveness around GLP-1 diabetes drug development starts to shift the market dynamics of Health Care sector, but Intuitive Surgical, with its focus on robotics and automation, continues to maintain its leadership position. The break-out of AI adoption broadly has provided better secular growth opportunities, a clear driver of the market in 2024, Which the Manager expects to continue into 2025, with earnings growth and capital appreciation still being realized (itself a form of payout) in the Fund’s secular growth holdings.

Sustainability (of earnings and cash flow) —
The systemic market up-trend, as a reaction to the AI productivity and demand revolution are still in play. The Manager believes that a focus on secular earnings duration within the growth asset class is still the primary means of realizing long-term earnings growth and price appreciation. The Manager believes their AI-powered GPS framework offers insights for a total return approach through identifying and owning companies that they believe can continue to reward shareholders through growing earnings, revenue, and buybacks, combined with careful consideration of stock and sector allocations by the portfolio managers.

The Manager believes that leadership can still be captured in “quality growth” stocks by focusing on companies that can innovate and launch new products, and that the Manager believes are able to sustain and grow their revenue and earnings. The Manager is consistently monitoring portfolio exposures with respect to expected earnings growth and the probability of earnings disappointments, as well as aiming to avoid companies with high variability of cash flow and revenue growth.

The Fund aims to invest in companies with quality earnings growth, rising cash flows and low cost of borrowing, which makes them less sensitive to interest rate moves. The Fund also holds secular growth stocks that provide thematic exposure to disruptive growth drivers and converging exponential technology which the Manager believes offer long-term upside, meaning they should not be viewed through the short-term lens of market cycles. This includes leaders in innovation in Big Data and AI, Robots, Biotechnology, and Smart Cities. The Manager believes these forward-thinking companies that innovate and influence our lives daily in multiple areas are positioned to prove their resilience over multiple economic cycles.

On a sector level, the Fund remains overweight in Information Technology and Industrials. Information Technology and Industrials make up the bulk of the Fund’s quality growth and inflation protection positions. The fund is underweight Financials, with no positions in Energy, Utilities, or Real Estate.

* The i³ Investments™ Team combines quantitative and fundamental analysis in managing investment portfolios. The quantitative component of the team's investment process has evolved as new tools and datasets have become available and, over time, new quantitative models which incorporate aspects of artificial intelligence have been incorporated. The i³ Investments™ Team provides a modern approach to portfolio construction, combining the advantages of quantitative analysis, big data, and artificial intelligence with the experience, perspective, and decision-making of our investment team. The application of quantitative investment analysis that incorporates artificial intelligence and machine learning in a forecast model is forward-looking and the simulated results are subject to inherent limitations. Investment strategies which rely on predictive artificial intelligence and quantitative models may perform differently than expected, as a result of, among other things, the factors used in the models, the weight placed on each factor, changes from the factors' historical trends and the limitations of technology in the construction and implementation of the models. There is no guarantee that the use of the quantitative model and artificial intelligence will result in effective investment decisions. All investments are subject to risk, including loss. There is no assurance that any investment strategy will be successful.

Returns are presented in CAD, unless otherwise stated.

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