

GUARDIAN i³ US 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 central bank 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.

The S&P 500 Index advanced 9.02% CAD during the quarter. Consumer Discretionary was the only sector posting double-figure returns. Materials and Health Care sectors were the laggards.

Performance Attribution

The Guardian i³ US Quality Growth Fund¹ (the “Fund”) outperformed its benchmark, the S&P 500 Index, thanks to a combination of stock selection and allocation effects.

From an allocation perspective, the Consumer Discretionary, Financials and Communication Services sectors emerged as outperformers, significantly contributing to the benchmark’s performance. In contrast, the Fund underweight in the Financials, and the Consumer discretionary sectors slightly detracted from performance. The Materials sector was a notable laggard in the benchmark. The Fund

¹ On September 19, 2024, the Fund changed its name from Guardian i³ US Quality Growth ETF.

avoided this underperformance as it does not have positions in this sector, leading to a positive allocation effect.

From a stock selection perspective, the two sectors that contributed most to performance were the Information Technology and Communication services sectors. In the Information Technology sector, the Fund's position in Broadcom contributed with a double-digit return posted for the quarter. Broadcom demonstrated a notable performance in recent months, driven by strong financial results and significant advancement in its AI-driven semiconductor business. Within the Communication Services sector, the largest contributor was Alphabet. The company has been able to sustain revenue growth, particularly in cloud services and AI-driven initiatives coupled with strategic technological developments, that position the company favourably for continued success.

Overall, the Manager is seeing that value is converging to previously outperforming secular growth companies, based on fast market reaction to rate cuts and a low-quality mean reversion. This was prominent in the Consumer Discretionary and Information Technology sectors where value and high beta companies- those showing a greater sensitivity than the broader market, have rallied.

Transactions

Transactions in the Fund's portfolio this quarter reflect the Manager's further focus on forecasted secular earnings growth companies, while either taking profits in companies with lower growth that have stabilized their performance or exiting positions with deteriorating growth.

As such, Q4 saw minor adjustments to the portfolio addressing sector allocation and declining conviction in two Industrial and Information Technology companies. The Fund added a position in Moody's corporation to reduce the large underweight to Financials. This was funded by the sale of Parker Hannifin in Industrials as earnings were softer according to the Manager's forecast and they had similar thematic exposure in other companies. Adobe in Information technology was also sold due to declining confidence in their ability to monetize product execution.

Outlook & Positioning

The Manager's i³ Investments™ team* has a core belief that successful asset management is focused on three pillars of investment: **G**rowth, **P**ayout and **S**ustainability (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 HealthCare, Consumer Staples, and Industrials. The Fund is underweight in Financials (primarily banks) and Consumer Discretionary, with no holdings in Utilities, Energy, Real Estate, and Materials.

* The i3 Investments™ Team is a portfolio management team with Guardian Capital LP, that combines artificial intelligence and human intelligence to provide a modern approach to portfolio construction, incorporating the advantages of big data with the experience and perspective of our investment team. 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 technical issues in the construction and implementation of the models. Please consider these and other factors carefully and do not place undue reliance on modeled information. There is no guarantee that the use of the quantitative model will result in effective investment decisions, as the simulated results are subject to inherent limitations.

Returns are presented in CAD, unless otherwise stated.

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