GUARDIAN CAPITAL

GUARDIAN FUNDAMENTAL GLOBAL EQUITY FUND Q3 2023 COMMENTARY

Performance Attribution

The largest positive contributor to the returns of the Fund during Q3 2023, with shares rising 16.7%, was **Booking Holdings**. It continues to benefit from consumer prioritization of spending on experiences like travel. Revenues in Q2 were more than 40% higher than the same period in 2019, reflecting robust post-pandemic demand for travel and strong positive pricing. Shares of **Novo Nordisk** finished the period 16.5% higher, as this stock continues to benefit from increased market excitement around the obesity opportunity. In August the company released a 5-year long cardiovascular study of the drug Wegovy. This drug reduced the risk of heart attacks in non-diabetic people with obesity by 20%. This data may result in longer stay times on Wegovy, broader payer adoption and alleviates competitor concern. Shares of **CME Group also** rose 11.0% in Q3. Despite tough comparisons with strong volume growth in 2022, it posted consensus-beating Q2 revenue and earnings growth of 10% and 17%, respectively. Asset price volatility has been muted since the end of Q1 2023, but may have hit an inflection point in Q3. **Alphabet**'s stocks ended 11.7% higher in Q3. In the face of a global pullback in spend, advertising revenue grew 3% in Q2 for Alphabet, as Google cloud (11% of company revenue) grew 28%. The company now has 15 core assets, with over 0.5 billion monthly logged-in users, and 6 of those with more than 2 billion total users - and has been incorporating AI into its core products for the last seven years. Shares of **ADP** climbed 12.4% during Q3. This company reported quarterly results that beat guidance, with strength in new business bookings and better than expected client retention in their Employer Services segment. In addition, higher interest rates have provided a tailwind to interest income on funds held for clients.

The largest detractor to returns over the quarter was **MarketAxess**, with shares falling -16.3%. The company continues to lose market share in high grade and high yield corporate credit. Management point to the low volatility environment and an increase in portfolio trading. In addition, fee capture has been under pressure as traders focused on lower duration bonds. Volatility has picked up over the last month. Shares of **Illumina** ended -25.2% lower in Q3. Good news on the initial roll-out of its latest high-throughput sequencer, NovaSeq X, was tempered by a slower than expected ramp up of NovaSeq X consumables, competition worries in China and the resignation of its CTO. The uncertain future of Grail, a biotechnology company owned by Illumina, remains an overhang on the stock. Shares of **FANUC** fell -23.4% in Q3. The company reported disappointing quarterly results and lowered full year guidance. There was a significant drop in new orders, primarily from China and the US. Margins were squeezed by a combination of low utilization and an increase in cost of goods sold. **Keyence** finished the quarter -18.8% lower. The company reported 11% constant currency year on year growth in revenue but warned of increasing caution among customers due to an uncertain macroeconomic environment. Shares of **Nike** fell -11.2% in Q3. Nike shares struggled as concern over China's consumer demand grew, while elevated levels of inventory weighed on the activewear industry. After quarter end, Nike reported better-than-expected earnings, driven by a recovery in inventory levels.

Fund Activity and Positioning

There were no outright sales or purchases during the quarter.

In September, we trimmed the Fund's position in **Novo Nordisk** and added to **Illumina**.

Fund Construction

The Fund invests in 20-25 high-quality long-term secular growth companies with a strong focus on valuation. It is managed using a bottom-up investment process and the companies invested in are exposed to secular growth drivers meaning that the strategy does not employ "top down" macro-economic analysis or forecasting as a driver of asset allocation decisions.

The Fund's portfolio contains stocks which the Manager believes:

- have significantly higher and more sustainable earnings and cash flow growth rates than the market average. Each company is exposed to a long term secular growth industry, has produced consistent and sustainable earnings and cash flow growth in the past and is expected to do so in the future.
- have significantly better quality characteristics than the market average, with a broad definition of quality to include better returns on invested capital, conservative balance sheet structure, well diversified stable, reliable businesses, with few structural barriers to sustainable growth; and
- are not overvalued at the time of purchase, taking into account their long term earnings and cash flow growth potential, and, good growth and quality characteristics incorporating previous valuation ranges.

The weighted average compound annual growth rate of earnings per share of the companies currently in the Fund's portfolio is expected to be in double-digit percent per annum over the long-term, but the impact of the coronavirus means that the portfolio as a whole is unlikely to achieve double-digit percentage growth from this point over the short- to medium-term. On a weighted average basis, companies held in the portfolio currently have net cash on their balance sheets, have significantly higher returns on invested capital (ROIC) than the index average and are well-established, well managed businesses with high standards of corporate governance. Approximately 25% of the sales of the portfolio's companies were to emerging markets in the last reporting period, although there are no emerging-market listed companies in the portfolio. The Fund has higher weightings than its benchmark index in Consumer Discretionary and Health Care sector stocks, and is (on a long-term basis) zero weighted in Energy, Commodities and Banks.

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There can be no assurance that the 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 do not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's 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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