

GUARDIAN CANADIAN DIVERSIFIED CORE EQUITY FUND Q4 2025 MANAGER COMMENTARY

Market Review

The S&P/TSX Composite Index had a total return of +6.3% in the fourth quarter of 2025, driven by strong returns in the Materials (+11.9%), Consumer Discretionary (+11.0%) and Financials (+10.5%) sectors. Performance was also positive in the Consumer Staples (+6.7%), and positive but lagged the Index in Information Technology (+2.8%), Utilities (+1.9%), Energy (+1.8%), and Health Care (+1.4%). The Real Estate sector was a detractor from performance in the fourth quarter, declining 6.2%. The Communication Services (-1.7%) and Industrials (-1.5%) sectors also posted negative returns.

The Canadian equity market continued its positive trajectory throughout the quarter as the increase in gold and silver prices drove performance in the Materials sector, and broad-based strong fundamental business results in Financials. During the quarter, the Canadian economy was fairly resilient, despite muted expectations. While GDP shrunk to 0.3% in October (down from over 1.0% in Q3/25), the CPI inflation rate remained modest at 2.2% in October, job growth totaled 22,300 full-time positions (lower than the last two quarters), but part-time positions were strong at 106,100 (the best quarter since Q2/24), and the unemployment rate dropped to 6.9% (after hitting a 4-year high of 7.1% in August-September). The Bank of Canada cut its target overnight rate 25 basis points in October to 2.25% and elected to not make a change in the December decision.

U.S. and International markets continued to post steady growth as the S&P 500 Index rose 2.7% and the MSCI EAFE Index rose 3.3% (in CAD terms) this quarter. In the U.S., AI and datacentre spending continues to drive growth, along with solid consumer spending despite some signs of American importers beginning to pass tariff costs onto consumers. The U.S. Federal Reserve (the Fed) enacted its third consecutive rate cut, bringing its policy rate to 3.50-3.75% in December. Three members of the Fed's Board dissented, the most since September 2019, highlighting a lack of unanimity on the preference for the path of the policy rate.

The performance of commodities was varied, with natural gas and most metal prices appreciating, while oil prices fell. Precious metals continued to surge on central bank demand for gold and investors seeking safety from geopolitical events. Oil prices languished on further incremental OPEC+ and non-OPEC supply additions.

Performance Attribution

The Guardian Canadian Diversified Core Equity Fund (the “Fund”) underperformed the S&P/TSX Composite Index during the quarter. The underperformance was due to negative security selection, as well as negative sector allocation.

Positives

- Contributions from sector allocation were driven by being overweight the Consumer Discretionary (+10.96%) sector.
- Contributing stock selection was driven by Fund holdings within the Energy (Cameco) sector.
- Top stock contributors to performance during the quarter:
 - **Royal Bank of Canada.:** Royal Bank’s stock rose sharply in December as the Bank posted strong earnings driven by its capital markets and wealth management divisions, beating expectations, as well as raising profitability guidance for 2026. Royal Bank additionally increased its dividend showing a commitment to rewarding shareholders.
 - **Finning International Inc.:** Finning International's stock continued to rally in Q4 as earning beat expectations based on a strong global backlog, product-support growth in mining and construction, improving margins, record improvement in SG&A and used equipment sales growth.
 - **Loblaw Companies LTD.:** Loblaw companies’ stock performed well in the quarter, supported by resilient food and pharmacy demand and improved investor confidence in its earnings outlook. In Q4, the company continued to execute well in its core grocery and drug retail businesses and announced the sale of PC Financial to EQB which is an accretive move that simplifies the business while maintaining strategic alignment with the PC Optimum ecosystem.

Negatives

- Being underweight the Materials (+11.86%) and overweight the Industrials (-1.45%) sectors detracted from performance during the quarter.
- Underperformance from stock selection was primarily due to Fund holdings within the Information Technology (Open Text, not owning Shopify) and Financials (Brookfield Corp.) sectors.
- Stocks that detracted from performance during the quarter:
 - **Maple Leaf Foods Inc.:** After successfully executing the spin-off of its Canada Packers pork division, Maple Leaf Foods gave disappointing margin guidance when it reported Q3 results. As input cost inflation led to margin compression, delayed pass-through via higher prices would only be able to be executed in Q1 2026.
 - **MDA Space LTD.:** Shares of MDA underperformed during the quarter due to market concerns that MDA’s contract with GlobalStar could be at risk. While we do not have clear visibility on how the GlobalStar development will evolve, we continue to believe that the company will execute this contract to completion, while winning more contracts with new and existing customers. MDA’s industry-leading digital satellite technology and space robotics offerings position them well to benefit from the rapidly expanding space industry.

- **Open Text Corp.:** Despite posting favourable quarterly results, Open Text guided to revenue headwinds in 2026 stemming from its ongoing licence to cloud transition. Open Text continues to focus on operational improvements and its targeted divesture program as it progresses to becoming a more focused, higher growth company.

Portfolio Transactions

The Manager entered a position in WSP Global this quarter. WSP shares were under pressure during the quarter as investor concerns mounted that AI adoption could reduce demand for engineering services across the industry. The manager believes these concerns are overstated. AI is more likely to serve as an opportunity than a risk for WSP given sector dynamics such as liability-bearing decision-making, physical project delivery, and the complexity of site-specific work that still require experienced engineering oversight. Moreover, rising investment requirements to keep pace with AI and digital capabilities should further advantage large, trusted players like WSP.

The Manager initiated a new position in TD Bank this quarter based on a desire to diversify the portfolio's Canadian bank exposure. Continued operational and leadership improvements, positive earnings results, progress on its US anti-money laundering program, and its valuation relative to the other large Canadian banks made it an attractive opportunity.

The position in AtkinsRealis was sold out as it has reached the Manager's valuation target.

The Manager exited the position in Loblaws this quarter due to valuation, and to fund more attractive opportunities in the Consumer Staples sector.

The Manager decided to exit the position in Brookfield Renewable Partners in order to fund a more attractive opportunity in the Utilities sector as well as take profits from the stocks strong performance.

The Manager sold the position in Cameco in the fourth quarter of 2025 due to the company's high valuation.

Portfolio Outlook & Positioning

Despite economic uncertainty, volatile geopolitical conditions and trade policies, Canadian equities managed to have an extremely strong year, which continued in the fourth quarter of 2025. GDP growth has stalled in Canada although inflation remains low, and the labour market has started to show signs of stabilization. The Bank of Canada has paused its rate cuts, and dissenting votes from members of the Federal Reserve signal that its rate cutting cycle could be ending soon as well. While low inflation and improving unemployment is encouraging, stagnating GDP growth is worrying and could increase the risk of earnings growth disappointments.

While the S&P/TSX Composite Index has continued to perform strongly, market leadership has narrowed. In fact, two-thirds of the market return in 2025 was contributed by banks, gold miners and Shopify, all of which are trading at or near the high end of their historical valuation ranges. While the Canadian market is no longer cheap, it still trades at a discount to U.S. equity market. While the S&P/TSX Composite Index is at risk of de-rating should earnings growth disappoint or metals prices fall, there are still plenty of attractive growth and valuation opportunities outside of the aforementioned sectors.

Under Prime Minister Mark Carney, the government has continued its push to reduce the regulatory burden for infrastructure and other investments in Canada with the Major Projects Office (“MPO”) streamlining approval for “nation-building” projects and “One Project, One Review” deals with the provinces. While these projects and deals could provide a boost to economic growth, there is little clarity on timing. Additionally, trade policy uncertainty continues to haunt markets as CUSMA will be up for review in 2026, with U.S. President Donald Trump signalling that he will demand steep concessions from the Canadian Government or let the deal expire. Should renegotiations be unsuccessful, some of the optimism currently priced into markets would be at risk of de-rating, as the economic headwinds could be substantial.

The Fund maintains a strong quality bias and is diversified across both cyclical and defensive companies. Macroeconomic conditions are expected to affect portfolio holdings to various degrees; however, the Manager believes that companies in the portfolio are set for growth due to a combination of improving fundamentals and modest expectations implied in valuations, which should lead to favourable risk-reward results across the market cycle.

Values are reported in CAD, unless stated otherwise.

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