

GUARDIAN CANADIAN DIVERSIFIED CORE EQUITY FUND Q1 2026 MANAGER COMMENTARY

Market Review

The S&P/TSX Composite Index ended the first quarter of 2026 with a total return of +3.94%. Performance was led by the Energy (+30.08%), Utilities (+11.24%) and Materials (+10.90%) sectors. Sector performance was also positive in the Communication Services (+5.78%) and Consumer Staples (+3.13%) sectors. The Information Technology sector was the largest detractor from performance in the benchmark, declining -22.50% in the quarter. The Health Care (-4.48%), Real Estate (-4.30%), Consumer Discretionary (-3.94%), Financials (-1.91%) and Industrials (-0.24%) sectors also posted negative returns in the quarter.

The Canadian equity market began the quarter on a continued positive trajectory as rising gold prices continued to drive strong performance in the Materials sector. However, stock prices were put under pressure as the outbreak of the war in Iran caused oil prices to spike, leading investors to become increasingly cautious. Software stocks in the Information Technology sector were also pressured in the quarter as concerns about AI disruption continue to grow, leading to debates about the long-term viability of some portions of the software sector. The Canadian economy began to show further signs of weakness as GDP growth remained stagnant and the unemployment rate sustained at an elevated level in February relative to recent years at 6.7%. The inflation rate in Canada continued to decline, reaching 1.8% in February, however, it is likely that the economy will see a rise in overall inflation as a result from the commodity price spike. The Bank of Canada maintained its key policy rate at 2.25% in the quarter.

U.S. equity markets declined in the quarter while International equities rose slightly, with the S&P 500 Index declining -2.60% and the MSCI EAFE Index rising 0.55% (in CAD terms). The U.S. stock market suffered from both the decline in software stocks, and the commodity shock and heightened uncertainty stemming from the war in Iran. European stock markets declined sharply after the outbreak of the war and the subsequent energy price shock, wiping out gains made in the first half of the quarter. Compared to North America, Europe and Asia are more vulnerable due to their reliance on energy imports. The Federal Reserve maintained its federal funds rate at 3.5%-3.75% in March, marking the second consecutive decision in 2026 with no change. The European Central Bank also maintained its benchmark interest rate, leaving it at 2.15% for the sixth consecutive meeting.

Commodities experienced heightened volatility to begin the year as the first half of the quarter consisted of strong gains in precious metals, as silver and gold reached all time highs in January. However, during the second half of the quarter, metals prices parred back some of the earlier gains, and energy prices surged in response to the supply shock resulting from the closing of the Strait of Hormuz. If the supply shock persists beyond two months, we could experience energy shortages that could severely disrupt global economic output.

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 sector allocation, with positive security selection partially offsetting.

Positives

- Contributions from sector allocation were driven by being overweight the Utilities (+11.24%) sector.
- Contributing stock selection was driven by Fund holdings within the Consumer Staples (Maple Leaf Foods) and Energy (Canadian Natural Resources, Suncor Energy) sectors.
- Top stock contributors to performance during the quarter:
 - **Maple Leaf Foods Inc.:** Maple Leaf’s stock performed well in the quarter as they showcased their much leaner business without pork production and processing following the spinoff of Canada Packers. The company forecasted strong growth in revenue, profitability, and free cash flow. This comes from market share gains in higher end chicken products and the launch of new brands which allow for the company to launch new innovative products for years to come.
 - **Suncor Energy Inc.** Suncor performed well during the quarter, chiefly owing to developments in the Middle East that materially impacted the markets for oil and refined products. In addition to the company’s oil price leverage, the downstream business benefited from elevated refining cracks, especially diesel. Repeated quarters of operational outperformance and expectations for long-term growth guidance continue to drive positive investor sentiment.
 - **MDA Space Ltd.:** MDA Space’s shares performed well in the quarter, supported by increased defense-related spending in the industry and recent contract awards, including contracts with the Canadian Defence Investment Agency and selection to support the U.S. “Golden Dome” initiative. MDA also completed its inaugural U.S. equity offering, which broadens the company’s contract opportunities and investor base while providing additional capital to pursue its large and growing pipeline of opportunities.

Negatives

- Being underweight the Energy (+30.08%) and the Materials (+10.69%) sectors detracted from performance during the quarter.
- Underperformance from stock selection was primarily due to Fund holdings within the Information Technology (Open Text) sector.
- Stocks that detracted from performance during the quarter:
 - **Open Text Corp.:** Open Text’s share price weakness is seen by the Manager as largely macro-driven, reflecting sector-wide multiple compression across software as frontier AI models increase market fear of software displacement. The Manager believes the market reaction is overdone, as the company is executing a clear turnaround agenda. Management is progressing on its divestiture plan and refocusing on organic growth in its core strength of managing unstructured data, which could be seen as an AI opportunity.

- **CGI Inc.:** CGI reported a solid quarter with in-line earnings and robust cash generation and bookings, but the share price fell after the earnings call as the market focused on weakness in the United States Federal business, which was pressured by the US federal government shutdown. On the positive note, bookings improved across Europe and the Systems Integration and Consulting segment, suggesting early signs of recovery. Looking forward, CGI is well positioned to capitalize on the ongoing AI trend by partnering with the frontier model providers as large enterprises look to embed AI into their workflows and develop AI-powered Intellectual property solutions.
- **Element Fleet Management.:** Element Fleet's recent share price underperformance was primarily driven by a modest Q4 earnings miss, reflecting lower-than-expected operating margins as the company continues to invest in digitization and product expansion. The Manager views this as largely a timing issue, as these investments enhance the company's operating platform and positions it well to capitalize on a large and growing self-managed fleet opportunity.

Portfolio Transactions

The Manager initiated a position in EQB Inc. as the acquisition of PC Financial from Loblaw's Company Ltd. is a catalyst event that could result in financial accretion and improved competitive advantage. Further catalysts, such as a sale of its equipment finance business, and an upcoming investor day should lead to sharpened investor focus on the growth potential of the core business. Valuation is compelling on our free-cash-flow based framework. Near-term risks include continued lumpiness in PCLs as we traverse an adverse point in the housing cycle.

The Manager had been developing its bottom-up perspective on ARC Resources for a significant amount of time prior to initiating a position in Q1 2026. The company had historically been perceived as an excellent operator but had lost some of that pedigree due to hiccups at the start of its main growth project, Attachie, creating a low-expectations set-up for the stock. The Manager viewed the business as overly punished for its missteps, given the rest of the portfolio's strong performance, and Attachie's long-term potential. Additionally, the energy sector had become increasingly attractive on a normalized free cash flow basis and as a potential portfolio hedge against inflation. The combination of low expectations and its attractive portfolio characteristics supported the team's positive view and decision to initiate.

The Manager entered a position in Shopify amidst a pullback on the stock's price in the first quarter of 2026. The company retains a durable competitive advantage driven by technology leadership. The Manager is also optimistic that growing scale and operating leverage will provide the opportunity for continued margin expansion and continues to have confidence in management's ability to maintain financial discipline and operational excellence.

The position in Finning International was sold out on strength as it had reached the Manager's valuation target.

The Manager decided to exit the position at TELUS due to the unexpected announcement that Chief Executive Officer Darren Entwistle will step down, with financial veteran Victor Dodig taking over. This event introduces uncertainty surrounding dividend policy and the long-term plan to monetize the TELUS Health platform. This, coupled with the rising competitive intensity of wireless flanker brands and regulators' increased scrutiny, created a less predictable outlook for TELUS's strategic plan for cash flow generation and balance sheet deleveraging.

Portfolio Outlook & Positioning

Despite the strong performance of Canadian equity markets, the domestic economy has continued to show signs of weakness, with GDP growth remaining flat and unemployment worsening in an already soft labour market. Furthermore, the global economy is likely to experience turbulence beginning in the second quarter of 2026 as the effects of the energy shock resulting from the war in Iran begin to take effect.

While the Canadian equity market produced a positive return through the first quarter of 2026, it is important to note that three sectors (Energy, Utilities and Materials) overwhelmingly contributed to this return, while a majority of sectors experienced negative returns. Fears of AI disruption also continue to weigh on markets as software and other service-oriented companies have experienced valuation de-ratings. While there is the potential for AI to lead to greater productivity gains, markets tend to “shoot first, ask questions later” in times of uncertainty.

Trade uncertainty continues to be an additional source of uncertainty in the markets as the renegotiation of CUSMA approaches, with both the U.S. and Canadian Governments disclosing limited details on the current state of negotiations ahead of the renewal date of July 1 2026. As the deadline approaches, if details on the status of negotiations remain sparse, investors may begin to price in the risk of increased trade barriers in North America. While our Federal Government has made some progress on expanding “One Project One Review” frameworks with provinces, there remains a lack concrete actions on reducing regulatory burdens for key infrastructure projects. If progress continues to be limited on these projects, it could be a drag on efforts to improve economic growth in Canada, reducing earnings growth potential.

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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