

GUARDIAN DIRECTED EQUITY PATH PORTFOLIO

Q3 2024

COMMENTARY

Market Overview

While markets were subject to some considerable volatility in the quarter, we ultimately saw strong performance across asset classes, as the combination of moderating inflation, declining global short-term interest rates, and indications of sustained momentum in global economic activity and corporate earnings supported investor sentiment.

The MSCI World Index increased by a further 5.0%, in Canadian dollar terms, over the three months ended September to establish a new record high, with the gains more broad-based than seen in recent periods — the more rate-sensitive and income-oriented segments of the market outperformed and resulted in stocks in Canada (S&P/TSX Composite Index +10.5%) and Europe, Australasia & the Far East (MSCI EAFE Index +5.9%) beating the US (S&P 500 Index +4.4%) for the first time in two years.

Bond markets turned in their best quarter of the year so far in the third quarter, against the broadening move by global central bankers toward less restrictive policy stances, including two more 25 basis point cuts by the Bank of Canada. The downward move in policy rates and expectations of more to come drove broader market interest rates sharply lower across the curve this quarter — the more-policy-sensitive front-end of the curve saw the biggest declines and resulted in the gap between 10-year and 2-year Government of Canada bond yields turning positive for the first time since June 2022. Overall, the benchmark FTSE Canada Universe Bond Index rose 4.7% to finish the quarter at its highest level since December 2021 — all sub-indexes finished the period with near-uniform solid performance.

Performance Attribution

The stocks within the Guardian Directed Equity Path Portfolio (the “Fund”) delivered a total return of 6.47%, leading the market given the broadening out of the market and the more rate-sensitive and income-oriented segments of the market outperforming. Call option premiums earned from the covered calls were more than offset by the upside forfeited from the stock performance of various position, detracting 1.65% and the put options fell in value by 2.07%, as a result of generally higher stock prices and time value decay. The Fund incurred operating expenses of 0.045%. The third quarter continued to see a broadening out in the market with the MSCI World Equal Weighted Index outperforming the capitalization weighted index.

The Manager continues to cautiously balance the premium collected with selling further out of the money call options to protect against a sharp reversal to the upside while still collecting a moderate level of option premium. The protective put options benefit from weaker stock performance and increases in implied volatility, which will continue to contain the downside if market conditions deteriorate. The Manager will continue to balance the trade-off between the premiums collected with the upside strike prices on the covered calls to provide a decent level of option premiums and upside participation.

The key stocks that contributed to performance within the Fund were:

YUM China Holdings Inc. (YUMC) climbed 44.81% this quarter. Yum China operates as a restaurant company in China, primarily through its KFC, Pizza Hut, Taco Bell, and other brands, offering a range of food options to consumers. The stock price benefitted from a raft of monetary and fiscal measures by the Chinese authorities. These measures aim to boost liquidity, stimulate consumer spending through one-off cash handouts and discount vouchers, and revitalize the real-estate sector.

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MarketAxess (MKTX)'s stock price ended 26.54% higher this quarter. MarketAxess is the leading electronic trading network for the institutional market in credit products. Following a period of share loss and weak share price performance, electronic bond trading platform MarketAxess reported a slight improvement in its volume numbers for August. Roll out of its new platform, X-Pro, is continuing and the improved portfolio trading offering is gaining traction.

CME Group Inc. (CME) finished the period 11.39% higher. CME Group is the world's leading derivatives exchange. Increased volatility across most asset classes in Q3 acted as a catalyst to its shares which had been relatively muted in 2024. Average daily trade volumes (ADV) grew +27% in Q3 with broad-based increases across all segments but particularly in Interest Rates at +36%. Year-to-date ADV is +12%.

Accenture Plc (ACN)'s stock price ended 15.52% higher this quarter. Accenture is a global professional services company that offers consulting, technology, and outsourcing services to clients across various industries. The company reported strong bookings growth in the last quarter of its fiscal year and guidance for Fiscal Year 2025 was reassuring. The company continues to make good progress with its Generative AI offering. Bookings accelerated each quarter, totaling \$3 billion for the full year. Management noted that customers are beginning to scale projects beyond "proof of concept".

The largest stock detractors to returns over the quarter were:

Novo Nordisk A/S (NOVO-B) ended -19.23% lower this quarter. Novo Nordisk is a global pharmaceutical company specializing in the development and production of medications and therapies focused on diabetes and chronic diseases. Share price weakness in the quarter can be attributed to a slightly disappointing readout from a clinical trial for Monlunabant and political pushback on drug pricing in the US. Important pipeline news flow is expected in by year-end, including data on CagriSema and higher dose Wegovy.

Alphabet Inc. (GOOGL) ended -9.99% lower this quarter. Alphabet develops web-based solutions and provides many of them free of charge to customers to drive advertising revenue. While its Q2 results were strong with organic revenue growth of +15% and earnings per share (EPS) of +31%, several factors weighed on its shares: profit-taking after a strong performance year-to-date; imminent threat of regulatory intervention; and management commentary around the slower-than-hoped pace of AI development.

Microsoft Corp. (MSFT) fell -4.78% this quarter. Microsoft is a technology company that develops and supports software, services, devices, and solutions. The company's share price saw some weakness as the AI narrative has become more two-sided with questions around return on investment. However, the company's recent quarterly results remained strong; sales increased 16% at constant exchange rates driven by 30% Azure growth.

Nestle SA (NESN) finished the quarter -2.58% lower. Nestlé is a global packaged food company that manufactures and markets a diverse range of food products. Management reduced their annual guidance from around 4% to above 3%, with a continued shift toward more balanced growth from both price and volume. The lower guidance, combined with commentary on weaker consumer spending and a more promotional environment, was the main driver of the stock price decline after results.

Verisk Analytics Inc. (VRSK) fell -1.71% this quarter. Verisk Analytics is a leading provider of data analytics to the insurance industry. The company reported solid results, but maintained their full year guidance, which implies a deceleration in EPS growth in the second half, due to seasonality in margins, planned investments in the business and the end of tax rate benefits they saw in the first half. Long-term drivers remain intact, and the company holds an unrivalled data library on US Property&Casualty insurance.

Portfolio Transactions

During the quarter, the Manager trimmed some of the outperformers (GOOGL, EssilorLuxottica, Novo Nordisk) and added to some of the laggards (Illumina, Reckitt, Yum China). All changes were 1% or less in magnitude. The catalyst for the changes was largely valuation driven. The Manager trimmed the winners and added to some

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of the laggards of the recent past. The Manager continues to expect the valuation gaps to converge and see a lot of value in the broader basket of stocks in the portfolio.

Portfolio Outlook & Positioning

Guardian Directed Outcomes strategies offer investment choices designed to address different priorities of investor objectives for either growth with enhanced downside protection through Guardian Directed Equity Path or for tax-efficient cash flow generation through Guardian Directed Premium Yield.

The guiding principles underlying the investment philosophy of the Guardian Directed Outcomes strategies rests on the following key tenets:

1. Employing the security analysis and selection process of the high-conviction, concentrated equity portfolios within Guardian's UK, US and Canadian asset management businesses
2. Identifying short- to intermediate-term catalyst and stock price behavior aligned with long-term quality growth intrinsic value estimates
3. Implementing varying option overlay strategies to tailor the return behaviour of the underlying positions to target the portfolio outcomes desired

The premise of the Guardian approach to managing the Directed Outcomes strategies is to apply its bottom-up fundamental research from our concentrated equity teams in the United Kingdom, the United States and Canada. In effect, the Directed Outcomes portfolios will hold a concentrated portfolio of global high-quality growth securities (20 to 30 stocks/indices) with a managed options overlay, taking into account intrinsic value estimates and catalysts derived from the research. This information will be complemented with a short- to intermediate-term technical and fundamental review to assess prevailing trend strength and stock price behavior to exploit shorter horizon trading opportunities.

The Guardian Directed Equity Path Portfolio is engineered with the aim to manage volatility and provide downside protection, so that it is never exposed to the entire downside of any position held. As a result, returns are expected to lag in a rising market environment (the sharper the rise, the larger the lag) and to preserve capital in a declining market environment (the more severe the drawdown, the better the protection). This Fund targets a tax-efficient* annual distribution of 4%, paid monthly, as disclosed in its prospectus.

Volatility levels have leveled out considerably with both implied and realized volatility normalizing. This Fund's portfolio continues to be positioned defensively with a high level of option protection implying that the portfolio will be well insulated on the downside if market conditions deteriorate in the near-term. This strategy is expected to continue to collect attractive option premiums and participate in the upside in a more gradual manner.

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Returns are presented in CAD, unless otherwise stated.

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There can be no assurance that the Fund's 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 may not represent the Fund's entire portfolio and in the aggregate may represent only a small percentage of 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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Published: October 28, 2024

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