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GUARDIAN SUSTAINABLE PORTFOLIO Q4 2025 COMMENTARY

Please note: The following commentary applies to all Sustainable Funds in our product suite, which includes: **Sustainable Growth 100 Fund**, the **Sustainable Growth 80/20 Fund**, the **Sustainable Balanced 60/40 Fund**, the **Sustainable Balanced 40/60 Fund**, the **Sustainable Income 20/80 Fund** and the **Sustainable Income 100 Fund**.

While portfolio transactions and positioning information may apply to all Sustainable Funds, it will be applied differently depending on the asset allocation parameters of each Sustainable Funds' investment strategy. Also note that Sustainable Growth 100 Fund and Sustainable Income 100 Fund are each an equity only or fixed income only fund, respectively, and the portfolio transactions commentary regarding the opposite asset class will not be relevant to those funds.

Market Overview

Global financial markets capped a strong year with further gains in Q4 as focus shifted away from the persistent political uncertainty and toward the signs of positive and broadening economic momentum — supported by monetary and fiscal easing — and the implications for corporate earnings. The resulting improvement in investor sentiment saw major equity benchmarks close the year at or near record highs.

In equities, the MSCI World Index rose 1.6% in Canadian dollar terms for the three months ended December to close out its third consecutive year of gains in excess of 15% (+15.4% in CAD for 2025). In contrast to the previous two years, 2025 saw gains extend beyond the artificial intelligence-related company stock gains in the U.S. — the American benchmark S&P 500 Index recorded a further 1.1% (in CAD terms) increase in the final three months of the year to bring its total return for the year to 12.4%, however, that lagged the gains in Canada (S&P/TSX Composite Index +6.3% in Q4, +31.7% for the year in CAD terms) and Europe, Australasia & the Far East (MSCI EAFE Index +3.3% in Q4, +25.1% in 2025 in CAD terms) for both the quarter and the year as a whole.

The run of positive data surprises to end the year, however, saw markets pare back their expectations for further central bank policy easing — in Canada, markets actually began to price in the prospect of hikes by the end of 2026 which put upward pressure on market yields and weighed on fixed income performance. The FTSE Canada Universe Bond Index ended Q4 down 0.3% (CAD terms) to pare the annual total return to +2.6%, with the more interest rate sensitive longer-term and government bonds underperforming corporate credit and securities with shorter duration in the quarter.

Performance Attribution

The suite of Sustainable Fund portfolios' (the "Sustainable Funds") relative overweight exposure to Equities and underweight to Fixed Income versus their Strategic Asset Allocations again made a positive contribution to relative performance compared to each Sustainable Funds' benchmark in the quarter. These effects, however, were more than offset by the negative impact of the underperformance in the quarter of the Canadian and Global Equity underlying funds, while the underperformance of thematic exposures also weighed on relative returns. The net result was that each Sustainable Fund's tactical multi-asset portfolio broadly trailed their respective blended benchmark in Q4.

Portfolio Transactions

Given the assessment of current macroeconomic and market conditions and expectations, the Manager decided it remained comfortable with the overall risk exposures in each Sustainable Funds' portfolio. No materials changes were made to Equity and Fixed Income allocations in Q4.

Portfolio Outlook & Positioning

The story of 2025 was that underlying global economic momentum — underpinned by consumers and AI-driven investments with an assist from monetary easing and growing fiscal supports — was sustained and broadened out in spite of some gale force headwinds. This was reflected in the strengthening earnings, which in turn provided a broad boost to financial markets.

Looking ahead at the year to come, there is little reason to anticipate that this object in motion will not stay in motion, barring any sort of unforeseen shock (for which the risks are arguably elevated).

The worst of the U.S. government economic policy-related shocks to the system could to be in the past, as there may be a diminished appetite to disrupt activity and stoke market volatility ahead of the U.S. midterms slated for November. With respect to monetary policy, while the coming year is unlikely to see the same magnitude of easing as occurred over the last two years as central banks approach their “neutral” policy settings — and there is the potential that further upside surprises to growth and corresponding firm inflation could result in less easing that is currently anticipated — the bar appears to be elevated for any course correction, which could keep short-term rates anchored and market yields within recent ranges.

The Manager acknowledges that there are risks around AI should the benefits from investments prove more limited than assumed, but this will be likely be a story that plays out further out the forecast horizon. Near-term, the prospect of increased clarity for the outlook and fairly benign interest rates would appear to be supportive of continued business capital investment. Add in ongoing, if somewhat more moderate, consumer spending growth supported by strong household balance sheets, and the renewed global focus on government investment, and that sets the stage for sustained economic momentum in the months ahead.

This represents a constructive fundamental backdrop for financial markets in the year to come that can support further, if likely more modest, positive performance across asset classes, even with generally elevated valuations. In the near term, Newton’s first law of motion looks to apply to markets.

Further, the broadening out of economic and earnings growth, and healthy concerns about valuations in the areas of the market that have massively outperformed in recent years, suggest that there is scope for the broadening out of market performance seen in 2025 to continue — which could prove supportive of more actively managed investment strategies whose performance has been challenged by narrow leadership.

With respect to thematic allocations, we believe that the outlook for energy transition themes remains positive.

Notwithstanding the withdrawal of the U.S. from several global climate initiatives over the past year, the forces shaping the energy transition in 2026 are increasingly economic, technological and physical. Clean energy investment rebounded in 2025 and is expected to continue building, driven largely by surging electricity demand from AI and data centers. This demand is resulting in capital flows into grid expansion, battery storage and power management software, alongside renewed interest in longer dated solutions such as nuclear.

At the same time, infrastructure bottlenecks (i.e. grid interconnection backlogs) are emerging as binding constraints. As a result, companies and investors are increasingly focused on physical resilience and energy system reliability regardless of U.S policy direction.

Taking it all together, the Manager remains comfortable with the overall risk exposures in the Sustainable Funds’ portfolios. Accordingly, the Sustainable Funds’ portfolios remain overweight Equity with a continued bias toward Global quality-focused strategies. Fixed Income allocations maintain a tilt to high quality credits and a modestly below benchmark duration.

The Manager will continue to monitor economic and market developments closely and stands ready to tactically exploit opportunities that may present themselves.

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