GUARDIAN CAPITAL

GUARDIAN DIRECTED EQUITY PATH PORTFOLIO Q1 2024 COMMENTARY

Performance Attribution

The Guardian Directed Equity Path Portfolio (the “Fund”) underperformed its benchmark[1] in Q1 2024. The stocks within the portfolio delivered a total return of 6.12%, lagging the market given the underweight in the Information Technology and Industrials sectors as well as the security selection within the Consumer Discretionary, Financials and Information Technology sectors. Call option premiums earned from the covered calls were more than offset by the upside forfeited from the stock performance of various position, detracting 1.07% and the put options decreased in value by 0.47% from a blend of the gains and losses of the stock positions in the portfolio. Resilient economic data helped investors during the first quarter of 2024. US economic growth grew more than expected and macroeconomic data elsewhere around the world also showed encouraging signs, further supporting the prospects of a soft landing. The Fund primarily underperformed its benchmark due to security selection in the Consumer Discretionary, Financials and Information Technology sectors and the upside forfeited from the covered calls resulting from some of the securities in the portfolio and the reduction of the value of the put options from the combination of gains and losses of the stock positions in the portfolio.

The Fund’s 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. We 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.

Below is a summary of the key contributors to the stock performance within the Fund:

Novo Nordisk (NOVOB)’s stocks ended 27.5% higher in 1Q. Novo Nordisk is a leading producer of treatments for diabetes, obesity, and rare diseases. The company continues to benefit from a strong uptake of its diabetes and obesity medicines. 2024 sales growth guidance of 18-26% follows 36% growth in 2023. Its cardiovascular dataset is a strong point of differentiation. Amycretin, its weight loss drug in phase I, has shown promising early results and is potentially market leading at improving weight loss.

EssilorLuxottica (EL) finished the period 15.8% higher. EssilorLuxottica is the global leader in the eyecare and eyewear industry. They reported consensus-beating sales growth in its latest quarterly earnings. Management claim to have their richest pipeline ever, with a 10-20 year time horizon, including products for myopia management, eyeglasses powered by technology and audio.

Mastercard (MA) shares rose 16.1% in the first quarter. Mastercard, one of the largest global card networks, is poised to benefit from the secular shift to cashless payments. Mastercard reported strong quarterly results driven by growth in cross border transaction volumes and healthy consumer spending.

[1] Benchmark : 40% FTSE Canada Universe Bond Index, 60% MSCI World Index (Net, C$)

Payment network revenues grew high-single digits at constant exchange rates, value added services increased nearly 20%. The company is guiding to double digit organic revenue growth at constant exchange for 2024.

Colgate-Palmolive (CL)'s stock price ended 16.7% higher in Q1. Colgate-Palmolive is the global leader in the oral care market and also produces personal hygiene, home care, and pet nutrition products. Price-driven organic revenue growth and a strong recovery in gross margin in the latest quarterly results rounded off a strong year for the company. Global market share in toothpaste turned the corner in 2023, exceeding 40%, and forecast organic growth of mid-single digits will be much better balanced between volume/mix and pricing.

Alphabet (GOOGL) climbed 10.9% in Q1. Alphabet develops web-based solutions and provides many of them free of charge to customers to drive advertising revenue. Alphabet outperformed during the quarter as the company reported solid quarterly earnings, with ad revenues and margins remaining strong. Talks with Apple over licensing Google's "Gemini" AI model for use in iPhones also gave shares a boost.

The largest negative contributors to returns over the quarter were:

MarketAxess (MKTX) ended -22.9% lower in Q1. MarketAxess is a leading electronic bond trading platform. MarketAxess reported market share losses in the first quarter. Lower levels of credit spread volatility, a greater focus on new issuance, and a higher mix of lower-rated bonds all contributed. While new issuance has a negative impact for market share, it is a longer term positive for market volumes. The company will launch a raft of initiatives in 2024 to grow corporate bond market share.

Reckitt Benckiser Group (RKT) ended -15.4% lower in Q1. Reckitt Benckiser is the world's leading consumer health and hygiene company. The company reported disappointing second half results. News of an understatement of trade spend in the Middle East hit sentiment; management believe the incident is an isolated event. In March a jury awarded $60 million in damages to a mother who said her baby died after consuming the company's pre-term Enfamil baby formula. There are several hundred similar claims. Reckitt are confident in a successful appeal based on the science. The product has not been withdrawn.

Nike (NKE) fell -10.8% in Q1. Nike is a leading manufacturer of athletic footwear and apparel. At its most recent results presentation, Nike gave guidance for its next fiscal year which disappointed the market. Although the company expects growth, it is not expected until the second half of the year. Inventory levels have improved significantly, and the product portfolio will go through a transition in the next couple of quarters. Management believes that the Paris Olympics will serve as a catalyst for Nike brands.

Nestle (NESN) finished the quarter -5.9% lower. Nestlé is a global packaged food company that manufactures and markets a diverse range of food products. While organic revenue growth guidance in the mid-single digits was below market expectations, management remain committed to a range of 4-6% over the mid-term. Nestle called out soft demand as consumers adjust to higher prices. Nestle is gaining or holding shares in 52% of its billionaire brands that represent ~70% of sales; the focus in 2024 will be to increase support on these brands.

UnitedHealth Group (UNH) fell -3.2% in Q1. UnitedHealth engages in the provision of health coverage, software, data and consultancy services. UnitedHealth saw its share price drop this quarter as a subsidiary, Change Healthcare, reported a significant cyber-attack. Change is a healthcare technology company that touches 1 in 3 healthcare payments in the US. It was forced to shut down its systems for several weeks.

Portfolio Activity and Positioning

Buys: None

Sells: None

Outlook

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 both 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 Capital'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, as follows:

Guardian Directed Outcomes strategies

The premise of Guardian Capital's approach to managing the Guardian 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 Guardian 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.

Guardian Directed Equity Path Portfolio
Risk Rating[2]: Low-Medium

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,

[2] As disclosed in the Fund's most recent prospectus and Fund Facts. The Risk Classification of a fund has been determined in accordance with a standardized risk classification methodology in National Instrument 81-102, that is based on the fund's historical volatility as measured by the 10-year standard deviation of the fund's returns. Where a fund has offered securities to the public for less than 10 years, the standardized methodology requires that the standard deviation of a reference mutual fund or index that reasonably approximates the fund's standard deviation be used to determine the fund's risk rating. Please note that historical performance may not be indicative of future returns and a fund's historical volatility may not be indicative of future volatility.

returns are expected to lag in a rising market environment (the sharper the rise, the larger the lag) and to help preserve capital in a declining market environment (the more severe the drawdown, the better the protection).

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 put option protection, implying that the portfolio is focused on being well insulated on the downside if market conditions deteriorate in the near-term. This strategy is expected to continue to collect option premiums and participate in the upside in a more gradual manner.

Guardian Directed Premium Yield Portfolio
Risk Rating[2]: Medium

Guardian Directed Premium Yield Portfolio is designed to deliver a high and consistent level of tax-efficient[3] cash flow – 6%[4] annually, distributed monthly – to investors, recognizing that securities within the portfolio may fluctuate according to prevailing market conditions.

Volatility levels have leveled out considerably with both implied and realized volatility normalizing. This strategy is expected to continue to collect option premiums and participate in the upside in a more gradual manner.

Returns are presented in CAD, unless otherwise stated.

[3] Distributions are expected to be primarily return of capital or capital gains generated from option premiums and securities transactions, which are taxed more favourably than income.

[4] As disclosed in the Fund's prospectus, the Fund intends to make monthly distributions based on a targeted annualized monthly distribution of 6% of the NAV per Unit at the end of the prior year. Distributions may consist of net income, dividends, net realized capital gains, and may also include return of capital.

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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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