GUARDIAN GLOBAL REIT ETF
Q4 2022
MANAGER COMMENTARY

Market Review

The major themes that dominated the year continued during the fourth quarter, including hiking of interest rates, inflation at high levels, geopolitical tensions, supply chain issues and increasing odds of a recession. As a result, lowered earnings and valuation resets were the major drivers of the bear market this year.

That being said, during the quarter, the Real Estate markets rallied from their lows, indicating that inflationary pressures were starting to ebb and underlying economic momentum remained somewhat more resilient than anticipated.

Together with the rally, the markets saw a dispersion within different regions and industries, characterized by risk-on sentiment. Health Care REITs were the weakest among all industries driven by the tough operating environment for hospitals. Residential REITs, being previously more defensive and resilient, decoupled from the rally starting in November, in particular those exposed to softness in the Technology sector and in the California region. Cyclical industries, such as Retail REITs, Hotel REITs, Mortgage REITs and Real Estate Operating Companies posted the best performance. Hong Kong properties led a December rally as China's zero COVID policy eased. In the broader markets currency also played an important role, as the Euro and Japanese Yen strengthened, while the US dollar retreated from the year's high.

Despite the risk-on behavior, the impact of the tightening campaign undertaken by global central banks is likely to become increasingly apparent in the months ahead, and REITs, which are more sensitive to interest rates, are likely to continue to feel greater pressure. Broader concerns about the outlook, unresolved geopolitical risks, and perceived elevated recession risks are expected to weigh on spending, investment and hiring plans, which may add to the volatility of REITs' earnings.

Performance Attribution

Sector allocation effect dominated performance attribution in the fourth quarter.

On an industry level, Industrials REITs were the largest contributor to relative performance, with a positive stock selection effect from Summit Industrials and positive allocation effect from the overweight position. In Office REITs the outperformance was mostly due to positive stock selection and a contribution from Gecina, as European REITs bounced back this quarter.

Negative contributions came from underweights in Retail REITs, Mortgage REITS, Real Estate Operating companies, and overweights in Health Care REITs, Residential REITs, Specialized REITs and Cash. Among

Retail REITs, Simon Properties (which the fund added late in Q4) had a significant return, but our underweight in the position resulted in a negative stock selection effect.

From a regional perspective, an overweight in North America and underweight in Europe and Asia, contributed negatively to performance as European and Asian REITs recovered their losses from the bottom, coupled with the weakening of the USD and the strengthening of the EUR and JPY.

Transactions

With the outperformance of US REITs unwinding this quarter, and European and Asian REITs seeing favorable valuations, the Fund's transactions focused on reducing the over-allocation to the US region, while finding attractive opportunities elsewhere. Similar considerations were taken when adding Retail and Hotel REITs.

Buys:
British Land Company is a UK-based property company operating in Campus, Retail and Logistic REITS. It has a strong balance sheet and a unique positioning in the Campus segment.

Safestore Holdings is a UK-based self-storage company with strong AI Forecast Earnings Growth and Dividend Growth. Its historical growth, quality, and credit are also strong.

Swiss Prime is one of Switzerland's leading real estate companies with diversified business segments. It is viewed as more insulated from macroeconomic factors and is currently benefiting from an undersupplied market in Zurich. It also has a strong AI Earnings Growth forecast.

Hysan Development is a Hong Kong-based company primarily engaged in property leasing, with strong forecasted earnings growth according to our model, solid credit profile, and reasonable valuation. It also has a balanced exposure towards the China re-opening theme.

Simon Property Group, the developer, owner and operator of Premium Outlets, is one of the leaders in US Retail REITS, and a core player in the Real Estate landscape, despite its exposure to economic cycles and cyclicality. As inflation concerns soften with market sentiment stabilizing in Q4 and an improved AI model prediction, the position was added back to the fund.

With Host Hotels performing well, Ryman Hospitality, a hotel REIT with exposure to Sun Belt region, was added to increase exposure to the industry while diversifying the fund's exposure within the industry and regionally. The company has strong AI Growth and earnings growth momentum.

Sells:
Allied Properties was sold. With the news of Shopify not moving into its newly developed property and the forecast probability of a dividend cut reaching 40%, we exited the name as the likelihood of earnings recovery remains low with dividend risk non-negligible.

The Fund exited Aedifica NV due to increased probability of a dividend cut and a negative forecast dividend growth.

The Fund exited Sun Communities due to high valuation, and to reduce our overweight in residential REITs.

Summit Industrial Income REIT agreed to be acquired by Dream Industrial REITs. With the stock jumping higher after the announcement, the fund exited the position realizing the profit into cash.

Outlook & Positioning

With a heavier sell-off of REITs early in the year compared to the broad equity market, there is potential for a bottoming in some areas in the REIT space. The current level of yield also looks promising in the Global REIT sector. That being said, the market is still facing economic and geopolitical uncertainty, with further interest rate hikes down the road and the risk of recession still on the table.

Therefore, in the current environment, the amount of leverage and degree of interest rate exposure is one of the key considerations in managing the Fund's positions, followed by the valuation levels reflected in cap rate and dividend yield, accompanied by earnings growth potential and the ability to recover from bottoming. We aim to avoid companies with high leverage or credit risk or with risk to earnings and dividend payout and instead focus on companies that can continue to generate, sustain, and growth cash flows and dividend.

This view is further validated by our AI earnings growth predictions*. The AI EPS model continues to show softness in REITs across the board, with Europe continuing to be the worst. Asia looks promising, backed by momentum from an eventual China recovery. In summary, we do not see a quick recovery of the economy but there are emerging opportunities. With EPS predictions being an input feature for dividend predictions, the AI systems are seeing the slowing EPS growth affecting future payouts. In simple terms, companies are not growing their dividends as much as before, but are not cutting them broadly either. According to our AI model, the probability of dividend cuts is rising. Although the probability of cuts is nowhere near the levels we saw at the peak of COVID in 2020, that does not mean the levels are not of concern, and using our AI model predictions to screen out dividend cuts will be even more important in a shaky economic environment. We take a hands-on approach to every stock in our fund regarding the probability of dividend cuts and perform due diligence on any names where we see a rising probability of dividend cuts.

Over the long-term horizon, we recognize secular growth drivers in cell towers, logistics, and recreational properties along with their stronger demand and pricing power while continuing to be underweight the Office and Retail sub sectors, as the workspace and consumer landscape continue to shift into the digital space. Style-wise, we continue to focus on quality and long-term growth.

* The i3 Investments™ Team is a portfolio management team with Guardian Capital LP, that combines artificial intelligence and human intelligence to provide a modern approach to portfolio construction, incorporating the advantages of big data with the experience and perspective of our investment team. Investment strategies which rely on predictive artificial intelligence and quantitative models may perform differently than expected as a result of, among other things, the factors used in the models, the weight placed on each factor, changes from the factors' historical trends and technical issues in the construction and implementation of the models. Please consider these and other factors carefully and not place undue reliance on modeled information. There is no guarantee that the use of the quantitative model will result in effective investment decisions, as the simulated results are subject to inherent limitations.

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