GUARDIAN CAPITAL™

GUARDIAN i^3 GLOBAL QUALITY GROWTH ETF Q3 2023 MANAGER COMMENTARY

Market Review

In the third quarter of 2023, global equity markets grappled with a combination of positive and negative forces and, ultimately, concluded in a summertime decline driven by ongoing concerns about inflation, which continued to exceed target levels. Oil prices surged by more than 30% over the past three months, as the Organization of the Petroleum Exporting Countries' members have deepened their supply cuts due to concerns about global demand. Despite the US Federal Reserve Bank (Fed) opting for a 25 basis points hike during its July meeting, pushing the rates to 5.50% - the highest it's been in 22 years, there were still fears that the underlying inflationary pressures would remain sticky for a while. However, the market sentiment quickly swung from soft landing relief to concerns about "higher for longer" rates after the September meeting.

Meanwhile in China, the economic recovery stalled as data indicated a weaker property market, further amplifying concerns among global investors regarding potential worldwide consequences. In Europe, policy makers faced a dilemma with inflation still rising, the high borrowing costs and the downturn in China. It's against this backdrop that the European Central Bank decided to raise its key interest rate to 4%, immediately sending a message that the hiking cycle had reached its tail end. Despite this prevailing market volatility, recent economic indicators demonstrated consumer-driven resilience, suggesting continued growth, notwithstanding the burden of higher interest rates. Wage pressures gradually eased, signaling a more balanced supply and demand and instilling confidence that labor markets may continue to cool off. Amid the challenging supply-chain landscape, the U.S. Institute for Supply Management (ISM) Manufacturing Purchasing Managers' Index (PMI) showed signs of improvement, reflecting a move toward recovery driven by an increase in factory employment and a rise in new orders. However, it should be noted that U.S. ISM Services PMI has contracted, led by a decline in non-manufacturing new orders, contributing to the aforementioned market volatility.

Value stocks demonstrated notable resilience compared to their pricier Growth stock counterparts, buoyed by a robust performance in the Energy sector. Despite facing the negative energy shock and higher rates, Growth stocks have still outperformed significantly when considering performance year-to-date. In this climate, economic and earnings growth forecasts, which faced downgrades earlier in the year, have adjusted upward, and concerns about a significant near-term economic downturn have been muted.

In Canadian dollar terms, both the MSCI World Index and S&P 500 Index ended the quarter down approximately 1%. The best performing sectors were the Energy, Communication Services, and Financials, while Utilities, Real Estate, and Consumer Staples sectors lagged.

Performance Attribution

In the third quarter of 2023, the Guardian i^3 Global Quality Growth ETF (the “Fund”) underperformed its benchmark, the MSCI World Index.

The Fund outperformed in 3 of 11 GICS sectors, with the top 2 being Consumer Staples and Communication Services. Demand for bulk consumer food and household products was still strong, as Costco outperformed the sector. A large overweight in Alphabet was responsible for stock selection in Communications.

The Fund’s secular growth bucket in Information Technology, Industrials, and Consumer Discretionary underperformed, as prices reverted to their long-term mean in these sectors after the first two quarters. The Fund’s position in Keysight returned -20% and their earnings growth outlook has deteriorated. Industrial automation company Rockwell Automation returned -10% for the quarter. The Manager’s forecasted earnings outlook for Rockwell remains strong and they are a core holding for the Fund. Finally, luxury brand retailer LVMH returned -17% due to some fear of slowdown in China. The Manager does not see this as an excessive risk and LVMH still screens as a strong earnings grower relative to the rest of the European retail space.

Transactions

The Fund’s third quarter turnover was only in the Information Technology sector, and was minimal.

The Fund’s position in Keysight Technologies was sold after seeing both forecasted earnings and realized earnings growth turn negative, and any positive growth potential pushed out into the future.

In its place the Fund bought ARM Holdings following its initial public offering, which has more than 90% of market share in the semi-conductor design licensing space, making it a crucial component in the end-to-end semi-conductor supply chain. While some fundamental data is limited, the Manager has AI-based earnings growth forecasts* of 38% over the next year.

Outlook & Positioning

The Manager’s i^3 Investments™ team has a core belief that successful asset management is focused on three core pillars of investment: Growth, Payout and Sustainability. For outlook and positioning, the i^3 Investments™ team will address each of these core beliefs.

Growth — With respect to profitability, we continue to see flattening or declining earnings. According to our AI Model* forecasts, Earning Per Share growth rates predicted a decline for 2023 and may stay lower for the next few months but stabilize and move higher into 2024 with projected growth rates from 5-20% in most sectors globally. In the US, the consumer appears to have accounted for economic headwinds (e.g. slowed housing and tighter lending standards having a negative effect on potential capital expenditure) as our earnings growth forecasts now predict the greatest recovery in the Consumer Discretionary sector. We see this as being driven by technology headwinds as applied to Amazon, which also services the entire consumer spectrum, not just those hit hardest by economic conditions. In Europe, growth in Information Technology companies are continuing to catch up to their US counterparts. We are also seeing a recovery in earnings growth, as predicted by our AI* models, in cyclical energy and commodity stocks, which would support late cycle growth in both price appreciation and cash flow growth. We see revenue and cash flow growth as strongest from secular companies that are thematically driven, especially in the area of technology and industrial automation. AI demand is certainly a tailwind, as well as continued chip re-shoring, and the implementation of AI into Software as a Service (SaaS) in multiple industries.

Payout — The Fed's more hawkish comments in September led to an increase in rates and the view continues to be higher rates for longer. We see bond proxy segments including utilities, Real Estate Investment Trusts, and telecommunications companies continuing to underperform. Revenue and cash flow growth are weakest in this area, however the Fund is well positioned as it does not hold any positions in this segment. Higher price appreciation potential comes from thematically driven "quality growth" companies in the Information Technology, Industrials, and Consumer sectors.

Sustainability (of cashflows) — With the inconsistent signaling based off this quarters' economic indicators and the Fed's more hawkish comments in September, volatility in the markets has increased with the CBOE Volatility Index trading under 13% in mid-September and rising to above 18% at the end of September. We believe that we are in a phase when profitability and stability needs to be embraced, not just in the short term, but structurally for higher-for-longer rates.

While overall growth may be scarcer, we feel we can still capture leadership in "quality growth" stocks by focusing on companies that can innovate and launch new products, and that we believe have the ability to sustain and growth their revenue and earnings. We are consistently monitoring our exposures with respect to expected earnings growth and the probability of earnings disappointments, as well as avoiding companies with high variability of cash flow and revenue growth.

The Fund aims to invest in companies with quality earnings growth, rising cash flows and low cost of borrowing, which makes them less sensitive to interest rate moves. The Fund also holds secular growth stocks that provide thematic exposure to disruptive growth drivers and converging exponential technology offering long-term upside, meaning they should not be viewed through the short-term lens of market cycles. This includes leaders in innovation in Big Data and AI, Robots, Biotechnology, and Smart Cities. The Manager believes these forward-thinking companies that innovate and influence our lives daily in multiple areas are positioned to prove their resilience over multiple economic cycles.

On a sector level, the Fund remains overweight in Information Technology and Industrials. Information Technology and Industrials make up the bulk of the Fund's quality growth and inflation protection positions.

The Fund is underweight Financials (primarily banks) and Materials.

* The i^3 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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