GUARDIAN CAPITAL

GUARDIAN INTERNATIONAL EQUITY SELECT FUND Q4 2025 MANAGER COMMENTARY

Market Overview

International developed markets, as represented by the MSCI EAFE Index, slightly cooled off to close out the year, posting a gain of a little over 3% in the fourth quarter. Overtaking the U.S. and global markets indices, it marked the continuation of a stellar run this year, with the index closing out 2025 up more than 25%. Returns were driven by a combination of easing recession fears, improving trade dynamics, and a weakening U.S. dollar.

The international markets benefited from early signs of cooling inflation pressures. Energy prices, which had been volatile through mid-2025, softened into year-end, helping relieve cost pressures on households and corporations. Manufacturing-heavy economies, particularly Germany, South Korea, and Japan saw modest recoveries in export orders as global supply chains normalized further. Meanwhile, trade frictions that had weighed on sentiment earlier in the year appeared to stabilize, with fewer disruptions and clearer forward guidance from major trading blocs. While uncertainty around U.S.–China relations remained, it did not materially worsen during the quarter, allowing international markets some breathing room.

Several major central banks, including the European Central Bank and the Bank of England signaled that the inflation trajectory was improving enough to consider holding the rates steady. A shift in tone that helped ease financial conditions and supported favourable equity valuations across developed markets. In Japan, the Bank of Japan maintained its gradual and cautious stance toward policy normalization, which kept keeping borrowing costs low and aided major exporters overcome a relatively competitive yen.

Overall, international markets delivered a strong quarter, supported by improving fundamentals and a more stable macroeconomic backdrop. For investors, the region provides valuable diversification benefits and meaningful exposure to sectors, such as industrials, financials, and consumer discretionary that stand to benefit from a broadening global economic upturn.

Performance Attribution

The Guardian International Equity Select Fund (the “Fund”) outperformed its benchmark, the MSCI EAFE Index, in the fourth quarter.

Stock selection within the Consumer Discretionary, Information Technology, Industrials and Energy sectors added value during the quarter. The combination of an underweight allocation and strong stock selection in Communication Services also had a positive effect on relative returns. Top contributors to performance included DSV, LVMH and Tokyo Electron. Shares of Danish logistics company **DSV**, which was added to the portfolio at the end of the second quarter last year, rose after the company reported fourth quarter earnings results that were slightly better than investor expectations. The company has made progress integrating its recent acquisition of DB Schenker while its scale and operational efficiency has helped it navigate rising freight costs better than some competitors. **LVMH** shares reacted positively to a better-than-expected quarterly report, with a recovery in demand for the company’s goods in Asia a particular bright spot. Excellent fourth quarter results from **Tokyo Electron** helped drive shares higher in the fourth quarter. Net sales rose more than 30% year-over-year, driven by incredible demand for advanced semiconductor nodes used in Artificial Intelligence (AI) infrastructure.

Conversely, stock selection within the Materials and Financials sectors held back relative returns. Among the largest detractors from performance were BAE Systems, Air Liquide, and NTT. Shares of **BAE Systems** fell from highs reached earlier in 2025 as investors appeared to reassess expectations for future defense spending due to fiscal constraints and geopolitical shifts, despite the company continuing to report a robust backlog of orders. **Air Liquide** detracted from performance this quarter as investors focused on disappointing revenue growth in the Gas & Services segment, despite strong growth in other segments like Electronics and Healthcare, expanding margins and a record investment backlog. Shares of Japanese telecommunications company **NTT** came under pressure due to declining revenue in its core telecom business. The company reported record full-year revenue, but earnings fell.

Portfolio Transactions

There were no transactions during the quarter.

Portfolio Outlook

2025 proved to be a transformational year, from the acceleration of AI capital expenditures and seeming “winner-take-all” race between U.S. mega-cap tech stocks, massive shifts in global trade dynamics, a weaker U.S. dollar and the outperformance of international developed markets relative to U.S. equities (as measured by the S&P 500 Index). The Manager views shifts like these to uncover or present opportunities, with some areas of particular note:

1. Health Care stocks – the sector has underperformed the Index each of the last three calendar years, and valuations are generally more attractive as a result. The Fund currently owns three stocks in the sector: AstraZeneca, Alcon and Sanofi.
2. Consumer stocks – The market has been quick to divide the “haves” and “have-nots” in terms of immediacy of benefits from AI. Many companies in Consumer Staples and Consumer Discretionary seem to have fallen into the latter category. This is too hasty, in the Manager’s view as we all still want physical goods or experiences like concerts, travel and accommodation.
3. Housing and construction – the industry appears near trough levels in the Manager’s view. German new home permits fell 25% in both 2023 and 2024, for instance. However the EUR 500 billion German infrastructure bill has yet to begin allocating funds and, while the Manager will remain selective, believes further downside has largely been priced in at these valuations.
4. Enterprise software – A prime example of “AI-losers” in today’s market, with many stocks in the industry falling significantly below their highs. Some software-as-a-service companies are embracing AI as an opportunity to add more value for customers, but the market appears as yet unwilling to make a distinction.

Returns are presented in CAD, unless otherwise indicated.

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Published: January 2026