

GUARDIAN STRATEGIC INCOME FUND

Q4 2025

REVIEW AND OUTLOOK

DECEMBER 2025

Market Review

Canadian bond yields ended the quarter higher, except for money market yields (terms of one year and less), which moved lower. Short- and mid-term yield curve spreads (e.g., 5-year vs. 2-year, and 10-year vs. 2-year) steepened, while long-term spreads (e.g., 30-year vs. 10-year) flattened slightly. Similarly in the U.S. the yield curve steepened, driven by short-term rates while long-term rates increased by a greater extent than mid-term rates.

Early in the quarter, the macroeconomic backdrop in Canada showed continued signs of softening, with the S&P Global Canada Purchasing Managers' Index (PMI) moving further into contraction territory. The Bank of Canada (BoC) delivered what is widely expected to be the final rate cut of this cycle, lowering its policy rate from 2.50% to 2.25%. However, momentum shifted later in the quarter as the labour market demonstrated resilience: Statistics Canada's Net Change in Employment surpassed expectations, pushing the unemployment rate down from 7.1% to 6.5%. Third-quarter GDP also beat forecasts (0.5% expected vs. 2.6% actual vs. -1.6% prior), driven by lower imports and strong residential investment, as increased resale activity and renovations offset declines in new construction.

In the U.S., the Federal Reserve reduced the federal funds rate from 4.25% to 3.75%, citing downside risks to employment and ongoing economic uncertainty. Globally, some developed world central banks continued their rate-cutting cycles: the Bank of England and the Reserve Bank of New Zealand each lowered policy rates by 25 basis points. In contrast, the Bank of Japan raised rates by 25 basis points, responding to inflation concerns fueled by import-cost pressures from a weakening yen.

Domestically, the broader fixed income market posted negative returns for the quarter, with the FTSE Canada Universe Bond Index down -0.32%. The short-term segment (FTSE Canada Short-Term Overall Bond Index; +0.33%) outperformed both the mid-term (FTSE Canada Mid-Term Overall Bond Index; -0.35%) and long-term (FTSE Canada Long-Term Overall Bond Index; -1.36%) segments. Corporate bonds (FTSE Canada All Corporate Bond Index; +0.34%) outperformed government bonds (FTSE Canada All Government Bond Index; -0.54%), supported by shorter duration and credit spread compression.

The ICE BofA High Yield Canadian Issuers Index (100% Hedged) returned 0.96% in CAD terms. High yield bonds in Canada (FTSE Canada High Yield Bond Index; +1.44%) outperformed investment grade bonds (FTSE Canada Universe Corporate BBB Bond Index; +0.44%) over the quarter. In USD terms,

investment grade bonds (ICE BofA BBB US Corporate Index; +0.78%) underperformed U.S. high yield bonds (ICE BofA US High Yield Index; +1.35%) over the quarter.

The USD/CAD exchange rate weakened from 1.3920 to 1.3724 over the quarter as long-term interest rate differentials between the U.S. and Canada narrowed. Meanwhile, the spread between West Texas Intermediate (WTI) and Western Canadian Select (WCS) crude oil prices widened.

Performance Attribution and Positioning

The Guardian Strategic Income Fund's (the "Fund") positive performance in the fourth quarter of 2025 was primarily driven by credit selection.

The top contributor to performance came from the Fund's holding of Magnera Corporation bonds (MAGN 7.25% 11/15/31). The company manufactures and supplies papers and engineered materials, offering composite fibers and airlaid materials for food and beverage applications, personal hygiene products, packaging, and home décor. During the quarter, the company's common shares received an analyst update following better than expected earnings and a positive 2026 outlook as the company looks to de-leverage their balance sheet. This positive development resulted in tightening credit spreads of the Fund's holding of the company's bonds.

Also contributing positively was the Fund's holding of Baytex Energy Corp bonds (BTECN 7.375% 03/15/32). Baytex is an energy company engaged in the acquisition, development, and production of crude oil and natural gas in North America. During the quarter, the company announced and closed the sale of its U.S. Eagle Ford assets. This was accepted positively by the market as the sale allows the company to improve their balance-sheet and focus on their Canadian heavy oil assets. The Fund realized a \$104 exit price for these bonds, which was allocated to other holdings.

Notwithstanding the positive quarter, the Fund did see a few spots of weakness, most notably the Fund's holdings of Venture Global Inc. hybrid bonds (VENLNG 9% Perpetual). Venture Global is an energy infrastructure company providing liquefied natural gas (LNG) to utilities and energy companies throughout the world. In addition to weak gas prices in Europe, the company lost an arbitration case to British Petroleum (BP) in the quarter with damages potentially exceeding \$1bn USD. As a result, bonds sold off into the middle of December, and the team added to the position at the wide spread levels in December. Despite the concerns, Venture Global is supported by long-term (20-year) contracts with high quality customers and best-in-class project construction.

Over the quarter, the Fund participated in a number of new issues, including Getty Images 10.5%/2030 Notes, Cipher Compute LLC 7.125%/2030 Notes, Secure Waste Infrastructure 5.75%/2032 Notes and Enerflex 6.875%/2031 Notes. Consistent with the theme in the high yield market over the last couple of years, the Secure Waste and Enerflex deals were refinancings of existing debt. The Getty Images use of proceeds was for the contemplated Shutterstock acquisition, and the Cipher Compute use of proceeds was for data centre capital spending. The Fund's Manager is being selective in our AI data centre investments given the current capital raising environment.

The Manager remains focused on finding idiosyncratic investment opportunities that provide adequate risk/reward, while managing the Fund's overall risk exposure by tactically adjusting hedges and aiming to increase overall portfolio quality.

Outlook

Market expectations suggest the Bank of Canada is unlikely to implement additional rate cuts in 2026. While slower labour force growth constrains potential economic expansion, cooling inflation and stable employment support a neutral monetary policy stance. In the United States, however, overnight indexed swap pricing indicates that the Federal Reserve is expected to continue lowering rates through 2026.

From a credit perspective, we see the most attractive reward-to-risk in shorter-duration corporate bonds. Current spreads appear to reflect expectations of continued accommodative monetary and fiscal policy in 2026, which we believe will persist. Despite this, there remains dispersion in certain segments of the credit markets that provide some opportunity. Net primary issuance is likely to remain strong, similar to last year, as some firms look to opportunistically refinance debt maturing in 2027. Additionally, capital spending and M&A financing could provide upside surprises to issuance volumes.

Returns are presented in CAD, unless otherwise stated.

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