

## Episode 9 - All Abroad!

**John Pagliacci**

[00.00.00]

Hello everybody. Welcome back for episode number nine of Guardian Capital LP's "Buy the Way" podcast. I'm your host, John Pagliacci. And no, this episode's title does not have a typo. We are going all abroad and discussing stocks that continue to chug along ahead of US equities. That's right. This episode is all about international equity markets, and joining me today to talk about some of the best opportunities that he is seeing outside of North America is Guardian Capital LP's own Senior Portfolio Manager, Andrew Cox. Andrew, thanks for being here. It's been a while since you and I got to sit down one-on-one, so this would be great.

**Andrew Cox**

[00.00.34]

Yep. Thanks, John. Thanks for having me. I'll look forward to it.

**John Pagliacci**

[00.00.38]

Well, it is, of course, your first time joining us on this podcast. So, by way of introduction, for those that might be less familiar, as I mentioned, Andrew is a Senior Portfolio Manager here at Guardian Capital. For the past ten years with us, Andrew has brought a unique approach to managing three distinct and concentrated equity strategies. He's got one focused on Canada, another on the US, and of course, the one that we're going to focus in on today is focused on international markets. So, Andrew, I've spoken recently quite a few times with David OJ on this particular podcast about really the whirlwind of macroeconomic and geopolitical headlines that we've all had to contend with during Trump's second term here in office. Seeing as how you've been managing money now for about 25 years. I'm just really curious to hear how you've sort of found the job of being a portfolio manager in these recent periods, relative to sort of the earlier parts of your career. I mean, for example, do you need to be hyper aware, you think, of whatever's in the news on any given day today, or do you find that really the fundamentals of a company are less important relative to the general sort of vibes out there or themes in the market?

**Andrew Cox**

[00.01.44]

Yeah, I mean, I've always followed the daily political and economic news, of course. How can you not? And certainly the current pace is just so heightened and almost has sort of a policy on the fly kind of vibe to it that, I dare say, if anything, I downplay it a bit more than I normally would because it's just so subject to rapid change. You know, we went into the weekend thinking we'd have 10% tariffs out of the US and came out of the weekend perhaps with 15% tariffs. So it's just so very volatile. So the fact that things can change so rapidly perhaps, maybe dilutes the daily impact of that sort of news. But I do think that what hasn't changed is really just the central tenets of good-sense portfolio management. Those are sort of much more enduring. So keep a diverse range of high quality stocks across countries, and keep a mix of more high growth, perhaps higher valuation stocks with also slower growth, more defensive stocks such that you've always got a portfolio that has both attributes of good growth and reasonable valuations. So as you know we do our research here. And that really is necessary to give the confidence to, you know, not across the board but hopefully selectively or thoughtfully acted contrarian fashion to move when opportunities arise. So all of those attributes remain just as relevant as ever and unchanged.

**John Pagliacci**

[00.03.18]

Great. Okay. Well, one of the interesting dynamics that I'm finding right now in the market is really this sell America kind of undercurrent. You know, if we look at the ETF market here in Canada, 2025 was a banner year for global and international equity inflows. Investors really sought to diversify their portfolios beyond not just the US but Canada as well last year. And for investors that did decide to swap some of that US exposure for international equity exposure, they were likely rewarded pretty nicely with higher returns. What do you think were some of the major

drivers of the international equity outperformance last year? And do you think that these drivers from last year have staying power as we move forward through 2026?

**Andrew Cox**

[00.04.01]

Yeah, I think there are a few unique attributes that drove that performance. And they could be quite enduring, I think. There's a push in Europe to rebuild a domestic defense industry. And those are sort of long lasting long life programs that could certainly last more than a decade from here, I think. The banks in Europe, which were rather lackluster really coming out of the financial crisis, now appear to be in kind of healing mode, if you will. And that could be certainly a trend or a tailwind that remains in place for quite some time. Germany has historically been the most austere, or prudent country in Europe for federal spending. But that has changed recently with a €500 billion infrastructure program that has yet to be put to work. So that's all to come, I think, in future years. And then finally, in Japan, there is a push towards improved corporate governance, which does seem to have traction. And our view is it could have another leg higher, potentially, if Japanese retail investors who historically have not been active participants in our own equity markets, start to become more interested in equity investing in Japan. So those are unique to EAFE markets, international markets, and they could be long lasting, I think.

**John Pagliacci**

[00.05.31]

Okay. Excellent. Well, one of the obviously major narratives that's been front and center in the markets for quite some time now is really the concentrated, tech-centric segments of the US market driving really an inordinate amount of the overall returns of that market. I'm curious, how would you classify or differentiate the overall makeup of the broad international equity market relative to what we're seeing in the US?

**Andrew Cox**

[00.05.54]

Yeah. So for our International Select Fund, we use the kind of industry standard benchmark which is the MSCI EAFE Index. So that is 700 stocks that are spread across 21 developed markets in Europe and Asia. So it's a very deep market for sure. And by the way, that might change potentially to 22 countries from 21 countries. This year or next, there's a chance they include Greece not currently included in the index. Whether it's 21 or 22 countries, it's a very deep and broad market. And, you know, it's the biggest company in that benchmark is only 2.5% weight. The biggest sector, which is financials, is only 25% weight. So, however you slice it's a much broader mix of investment opportunities and a more diverse universe for us to invest.

**John Pagliacci**

[00.06.50]

Yeah, absolutely. I mean, you contrast that to the US. What do you think, is the number one holding Nvidia still? I don't even know. It seems to change pretty frequently, but somewhere around 9% of that market or somewhere in around there.

**Andrew Cox**

[00.07.01]

So they're very big also in Canada. You're right, of course, the big banks [inaudible].

**John Pagliacci**

[00.07.06]

Okay, so you talked about the MSCI EAFE Index there, as you mentioned, the sort of the broad benchmark a lot of people use for international exposure. Does the same differentiation at that broad index level also reflect itself within your international portfolio? Like for example, when you look at, let's say, two of the funds that you managed, you got the Guardian US Equity Select and then Guardian International Equity Select, is it that you're really sort of honing in on the same sorts of industries and themes that are just located in different parts of the world, for

example, or are there fundamentally different drivers that you're finding in returns between US and international stocks?

**Andrew Cox**

[00.07.42]

Yeah. So the approach we use is exactly the same across all the accounts I manage. And certainly the composition of each particular fund is really largely reflective of just opportunities that are specific to each end market. I will say that I'm certainly appreciative of industries that are, you know, lucrative and have promising growth potential. And then occasionally these stocks will pull back sort of in unison and give us an opportunity, perhaps in two accounts, but those are really the exception rather than the rule. I guess there's one example, so last year in the US select, we did one single transaction which was to add Applied Materials in May, which is a semiconductor equipment company. It's a leader in what it does. And it's very similar to Tokyo Electron, which is also a semiconductor equipment leader, which we own in the international select, we bought that a few years prior. It's based in Japan. So these are very similar businesses and in fact, so similar that in 2013 Applied Materials tried to acquire Tokyo Electron, but the deal was immediately blocked for antitrust reasons because they would have been so highly dominant if combined. So, that's more of an exception, by the way, that transaction is really a good example to what I alluded to earlier, which was, you know, doing your research in advance and just waiting for your moment to hopefully, thoughtfully act in a contrarian fashion, you know? Like I said, we bought that Applied Materials just in May of last year at a price of \$157. And it's only nine months later, and it now trades at \$375. So, I'll respectfully submit, not a lot has changed that company over the last three quarters, except for certainly market sentiment, which was downbeat and now really quite positive on that industry. So, that's one example, I suppose, of some similar attributes between funds. But really for the most part each fund is built very independently, stock by stock. And there's any number of examples, like for example, Murata Manufacturing is one we own in International Select. This is based in Japan. It's a world leader in small ceramic capacitors that are used in a variety of electronics. There's really no US equivalent to that company. So it's a very international specific opportunity. I will say it has a 40% market share globally in these capacitors, but certainly in more leading-edge devices and electronics such as electric vehicles and AI servers, that market share is much higher still. And it has only two competitors and they're both based in Asia. So that's a better example of really, you know, company specific, fund specific opportunities, that are held in each account.

**John Pagliacci**

[00.10.34]

Okay. So it sounds like you don't necessarily or really start with a macro theme and then pick your stocks that you think are going to benefit from that theme or that tailwind. I mean, you're aware of it, but you don't start there. You know, rather you start with the bottom up approach where you look at the company fundamentals and then pick the most attractive stocks that you see, regardless of sector or industry. That being said, however, I would maybe ask you if you could to point out perhaps 1 or 2 of the, let's say, strongest thematic tailwinds that might be blowing in your mind in the international market right now and maybe talk to us about a name or two that you think is set to potentially benefit from those tailwinds.

**Andrew Cox**

[00.11.15]

Yeah. So as I mentioned earlier, one is defense spending in Europe. I mean, that is a big one. That is, I think still in the early days of rollout, because these military programs take years to plan and also can last for decades. So you can have you can really sketch out a scenario quite easily where defense spending in Europe, perhaps that's to double from here. And then the whole continent has previously capitalized on the sort of Bill Clinton era peace dividend from the 90s, which allowed them to sort of reduce expenditures and really rely on US suppliers to the point now where 80% of European military equipment is purchased from the US. So they're acutely aware of that change, and they really want to get closer to a 50/50 balance. And so we own BAE Systems, which is based in the UK. It's the old British Aerospace, which is a defense contractor with a number of products that could see really rising demand in coming years. So, for example, it makes the typhoon fighter jet, which was really an aircraft which was coming to the end of its life until this recent pickup, and now might have as much as a decade of growth ahead of it as they get new orders, for example, recently from Turkey. And they also are the lead in the successor aircraft

dimension, which would be called Tempest. So they also make nuclear submarines, nuclear powered submarines for the Royal Navy and also the Australian Navy. And I mean, just to give you a sense of how long lasting these programs are, they have four of these sort of leading-edge dreadnought class submarines in design. They started construction on the first one in 2025, and it should be delivered in 2032. So seven years to build and then expected life of 40 years. So it's very long-lasting projects which we think should be a nice tailwind for something like BAE Systems. And then maybe the second big tailwind underway is that corporate reform I mentioned in Japan. So there are companies under pressure from the Tokyo Stock Exchange to submit a plan to improve their returns on equity. It's kind of a name and shame plan. They have to improve their return on equity and improve their shareholder returns. And it does seem to have traction. And we own Mitsubishi UFJ, which is the largest bank in Japan, and it's well placed, we think, in many ways. So one is the return of, quite simply, loan growth, which was anemic for a couple of decades but is now returning, improving real estate markets where there had been real estate lender, of course. To give you a sense on how sort of tight the commercial real estate market is, there are five central wards in Tokyo, and the vacancy rate is currently 2%. I mean, it's remarkable, and contrast that to European or North American markets, where it might be anywhere between 10 to 20%. So, it is a very robust office market, which bodes well for Mitsubishi UFJ as a lender. And then, like I say, potentially the nascent rise of the Japanese retail investor. So historically not a factor in their own market. The Japanese government launched something called a NISA, which is their version of a tax free savings account in Canada ten years ago, but despite these certain readily apparent or any sort of obvious tax advantages, only a quarter of adults in Japan have one versus, say, 65% of adult Canadians have tax free savings account, for example. Or put differently, in America, households have approximately 12% of their money in cash and 60% in the stock market. And it's flipped in Japan, where they have 20% of their assets in stocks and 50% in cash. So as that market gets momentum and improves, I think there's an increasing chance that the Japanese retail investor awakens and that becomes an influence in the equity market. Again, that will help Mitsubishi UFJ, which is the biggest retail brokerage in Japan with 35 million brokerage accounts. So that would be another nice tailwind we think, which can last quite some time.

### **John Pagliacci**

[00.15.28]

That's great. I actually was listening to a podcast from the Financial Times a week or two ago, they had some pretty strong views on Japan and some of the upside potential there, you know, sort of echoing the environment with the reforms there and potential upside for the equity market. But on top of that, when you think about currency, I know that you don't necessarily do a lot of sort of intraday currency or management that way. The fund is unhedged. So we're not hedging the currency back to the Canadian dollar. Without getting sort of too nuanced, basically what they were saying is that as the yield on the Japanese government bonds has materially increased, investors in both Europe and even potentially in the US and certainly within Japan are looking at their own domestic bond market and saying, there's actually a decent yield here. Maybe we don't need to keep on buying US Treasury bills. And so if there is that sort of, let's say, pivot moment here, where more and more investors buy these fairly attractive bonds out of Japan, that's going to be stimulative for the currency. And if we see the currency appreciate as a Canadian investor, you want the Japanese yen to appreciate to increase further your equity market returns. So anyways, I digress a little bit there, but you talked about tailwinds and maybe currency wasn't top of people's minds, but I think that there is some tailwinds for the Japanese yen from here as well. I was going to ask you more of a broad open ended question here, which is we talked about the themes driving some of the overarching market movers, but what do you think might be the most undervalued or underappreciated stock within your international portfolio today? And why do you think that might be?

### **Andrew Cox**

[00.17.04]

Yeah, I think for that I'd point to actually one in Japan we've been on for about, not too long, maybe 18 months. It's called SMC Corp and it's the world's largest manufacturer of pneumatic parts. So valves and controls used in factory automation and in robots, for example, we've had this for like I say, 18 months. Until lately it's been a very difficult pick. Those end markets have not been great, but it is a wonderful company, big picture. So it's 20% net margins. It's debt free. It's led by the founder. It has a market cap of about 30 billion USD and about 4 billion in cash on the balance sheet. So it's got a very good financial position. And things are picking up in automation. So whether it's on semiconductor markets, so these are used in semiconductor equipment where you want to minimize human handling of wafers, so you use these robotic arms and those use SMC components if you will. And also just simply

in factory automation and adoption of robots generally. So, you know, critically, to satisfy this growing demand, the company added production capacity about three years ago, built some new facilities. And like I say, demand was initially lackluster. So they in a financial sense, they've been incurring a full depreciation charge for building these new facilities, but without the sort of offsetting profits that should come with it. But that's changing. So they've had an earnings hint, which I think is going to prove temporary, and that those profits stand to improve as this company grows. And it'll still have surprisingly high earnings power in the future. And as it gets bigger, it seems to get better. So ten years ago it had a 30% global market share, which is now 36%. And then the other thing that's going to happen is, it has a great dividend history. Dividends have grown 18% annually over the last decade. But again, in keeping with these corporate reforms, at its next annual meeting, it plans to enhance its shareholder return. So I'd rather suspect we'll get more in the way of dividends and also probably the start of a share buyback, which has historically not been on offer from this company. So it's out of balance year to date, you know, in a short period of time, but it's maybe up 35% start of the year. But bigger picture, it's been an underperforming stock for a few years. So we think there's much more to go at SMC.

**John Pagliacci**

[00.19.30]

Okay. Excellent. Well, we spent a little bit of time already talking about Japan, and you made the comment earlier about how your international portfolio really is focused on developed markets not emerging. You mentioned there was 21, potentially 22 with Greece coming in potentially in the next year or two. But I wanted to ask you, you know, like I said, we've talked about Japan, do you think that's sort of the country where you're finding the most fertile ground for opportunities in international markets, or are there other areas, or perhaps even certain countries that you really tend to avoid within international markets?

**Andrew Cox**

[00.20.03]

Yeah. So let's see. So I guess we will never rule anything out. Keep everything on the table. Certainly as a generalist portfolio manager I'm open to a lot of different things. So we certainly don't rule any of our countries out. We do find a lot of opportunities in Japan. It really is a leader in all things industrial and technology wise. I will say, I suppose we have a predisposition towards Scandinavian markets, Denmark and the Nordic region who have, they're not the most populous regions, but they have a disproportionately high amount of world leading companies. And so it's usually a good area for our research efforts. For example, we own one called Sampo in Helsinki, and it's really a world-leading property and casualty insurance company. It's the largest in Scandinavia. And, you know, there's this relationship between levels of wealth and the adoption or usage of insurance. So, kind of ironically, the people who can afford it, or maybe don't need insurance, are the biggest adopters of insurance. And so this is certainly the case in Scandinavia, where it's a sort of cultural convention, even though they have a very good health care system relative to the rest of the world. It's very common to get supplemental private health insurance if you have a newborn baby and infant baby. And they, you know, most households will keep this insurance well into adulthood for these people. So very recurring revenues for this company, it makes an 85% combined ratio. So that's an industry term. But I mean what it means is a 15% operating margin. And that is very hard to find amongst property casualty insurance companies around the world. So, there's one, sort of behind the scenes that won't be a familiar name to most. But Sampo is a leader. And then another one would be in Copenhagen, we own shares of Novonesis. So this is the world leader in enzymes. It makes half of the world's enzymes. These are natural organisms used to either extend the shelf life of food or preserve them, or also in a variety of other uses. Industrial uses, I should say. So if you've ever wondered if you buy a shrink wrap salad at the grocery store, how does this have a shelf life of seven days? You can thank Novonesis, which provides the enzymes which will prevent the accumulation of bacteria that will erode that lettuce much more quickly. So I'd say probably a sort of inclination towards Scandinavian markets is a good area of research for us I think.

**John Pagliacci**

[00.22.32]

Okay. One of the things I found is sort of interesting and refreshing to hear is, as part of your process you do a lot of research, actually sitting down yourself and writing out full research reports that you keep catalogued to refer back to over time. As we talk about concentrated, high conviction portfolios like yours, are there any big name holdings in

perhaps the broader MSCI EAFE Index that you'd caution investors against owning right now? Like, what's the case for the active side and maybe steering clear of some of the heavier weights in that index.

**Andrew Cox**

[00.23.05]

Yeah. So I guess much like for countries, I'm also reticent to talk too negatively about stocks I don't own. And again, just as a generalist with a diverse portfolio, we're open to a lot of different sorts of companies. I mean, we've never owned a, this account opened almost ten years now, we've never owned a European auto stock, for example. I mean, perhaps we will at some point, although I have to say, the kind of backdrop of high fixed overhead, inflexible labor costs, inherently low margins, does make us tread warily about stocks in that industry, for example. But I have to say, again, big picture, if you know, if you've been in this industry or in this business of investing long enough, you learn to not cling too rigidly to certain views on certain industries because they can change. They can change rapidly or in slow motion. I mean, a recent example of a rapid change was literally one year ago. Everyone was talking about the Doge. You know, the Department of Government Efficiency and its potential impact on defense spending and military costs and cutbacks. And those stocks were all very difficult. And literally, one year later, the US is going to hit a record, I think, \$1 trillion defense budget. Again, BAE Systems, which makes half of its revenues in the US, the stock is up 80% over the last year. That was a really rapid swing in sentiment or news flow or perception, if you will. Other times it's more slow motion. I mean, we've owned Mitsubishi UFJ for the full life of this fund, almost ten years. And I mean, for the first several years, it was just a very embarrassing security to own. I mean, these Japanese banks were quite washed out and considered as zombies by many. Although not anymore. There's been an improvement. It's been gradual. And like I said, I think it's still unfolding. So these are just good examples of perhaps don't act in haste or write off certain securities entirely.

**John Pagliacci**

[00.25.09]

Well, we've talked about in the past few minutes here, some of the tailwinds perhaps for the international markets. But I am curious to get the other side of that coin as sort of my last question for you before we wrap up is, you know, are there any overarching themes or maybe structural changes that you think are taking place globally that really have you concerned about some potential downside risks to the international market?

**Andrew Cox**

[00.25.32]

Yeah. Well. So I guess the tariffs regime as we've discussed is always a risk and fluctuating as we speak, it seems. And by the way, to frame that, across the entire MSCI EAFE universe, about 20% of the all of those 700 companies revenues is into the US. So it's not a killer, but it's certainly meaningful for sure. So that's one thing to consider, I suppose. And then also there's always in the background the threat of some sort of military action. Of course we've seen it in certain parts of the world, potentially in Asia. It seems to loom larger lately. So these are risks in the background, although I have to say, there's always something to worry about. And big picture, I think importantly, international stocks collectively are still reasonably valued. They have good growth in dividends and earnings. And the setups collectively overall I'd say still seems quite decent.

**John Pagliacci**

[00.26.31]

Yeah. Good stuff. Okay. Well like I said, this is your first time on the Buy the Way podcast here. And we like to finish up with a little interesting segment called oh, by the way, which we like to delve into some lesser known sort of interesting tidbits of information, could be in and around the financial markets, or it could be something completely different on what you did over the weekend. So, being a newcomer to the podcast, I will kick it off for you. I'll start with my tidbit of information I thought was interesting, and then I'll kick it over to you. So for me, we are now recording late February. So just a little bit after Valentine's Day, I went down a little bit of a rabbit hole, uncovering some interesting spending statistics. So not completely divorced from finance here, but personally, I may think that Valentine's Day is a bit of a silly holiday. It appears that most people disagree with me on that one, or maybe at least felt guilty into doling out money to please their significant other. But according to the National Retail

Federation, apparently, they are based in the US. Consumers were projected to spend almost \$30 billion on Valentine's Day this year. That would be the highest on record. The expectation for what the average American celebrating Valentine's Day would be was roughly \$200 spent per person, so that's \$400 round trip for a couple that night. That makes it the third most expensive holiday behind Christmas and Mother's Day. Apparently, as well, men spend twice as much as women. Maybe not as surprising, if you've ever tried to buy roses around this time of the year. Florists stock about 250 million roses. That's actually a boon to South America, where they supply and grow a lot of these roses and ship them up. So, you know, I brought it back to international markets there. But where is the spending going? A couple of the bigger segments include jewelry at 7 billion. Out of that total 30 billion projection and an evening out priced in at around \$6.5 billion worth of spending. So together these two categories really tend to coincide with, I'd say, a growing trend that we're seeing in discretionary spending, particularly as it relates to both luxury goods and increasingly even more so, the sort of experience driven purchases. And while not necessarily a leading indicator of markets, Valentine's Day spending does provide us at least a bit of an indication of the health of the US consumer, which is, as we know, one of the major forces that drives global economic growth. The last thing finally here was that roughly one third of the spending is on gifts that recipients ultimately don't want. It's really a shame, though, because I had my wife's name engraved on that bowling ball, but it is what it is. Over to you, Andrew. What have you got for.

**Andrew Cox**

[00.29.11]

I don't have anything to add. I'll just say, I hope these folks are buying high-end cosmetics from L'Oreal or luxury accessories from Louis Vuitton, or perhaps, and this might be relevant for you, Cartier jewelry from [inaudible], because those are three holdings in the International Select, so hopefully I can capitalize on some of that spending.

**John Pagliacci**

[00.29.35]

I don't know why you drew that back to me, Andrew. I'm not sure you're aware of how much I make, but I appreciate the little boost there with the Cartier. Okay. Well, Andrew, thank you. That was a fun discussion. Fun and insightful, of course. I really appreciate your time. And thank you, everybody, for listening in. If you are enjoying these podcasts that we put out every two weeks or so, please do consider following us so that you don't miss an episode. And of course, as I always say, we always do welcome your questions or feedback. If you're curious about certain topics or want us to feature certain topics or members from Guardian or around the industry, please reach out to us and let us know. You can reach us at our inbox at [Insights@GuardianCapital.com](mailto:Insights@GuardianCapital.com). Excuse me, I will end it off there. Thanks again Andrew and thanks everyone for tuning in. We will catch you next time.

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