

GUARDIAN STRATEGIC INCOME FUND

Q1 2026

REVIEW AND OUTLOOK

MARCH 2026

Market Review

Canadian bond yields ended the quarter higher following a late quarter surge in near-term inflation expectations, driven in part by rising energy prices amid heightened tensions in the Middle East and concerns around the potential disruptions to the Strait of Hormuz. As a result, the yield curve flattened, as front-end (short-term) yields moved higher alongside a shift toward more hawkish policy expectations. Credit spreads on Canadian investment-grade corporate bonds also widened modestly over the period, reflecting higher credit risk premiums amid rising interest rates, elevated macro uncertainty, and new-issue concessions in the primary market.

In Canada, the macroeconomic backdrop softened over the quarter, with the economy shedding more than 100,000 jobs early in the year, led by weakness in the trade services sector. Fourth-quarter real GDP data released at the end of February showed output contracting by 0.6%, driven largely by a drawdown in business inventories. By contrast, business conditions in the manufacturing sector showed improved in January and February, reflecting an uptick in employment and stable production levels. The Bank of Canada (BoC) held its policy rate unchanged during the quarter, pointing to weaker economic activity, elevated uncertainty, downside risks to growth, and increased inflation risks stemming from higher energy prices as justification for maintaining its current policy stance.

In the U.S., the Federal Reserve held the federal funds rate unchanged at 3.75%, citing still elevated inflation and heightened economic uncertainty, including recent developments in the Middle East, as factors supporting a pause in policy adjustments. Globally, monetary policy paths diverged over the quarter: The Bank of England, the Bank of Japan, and the European Central Bank left policy rates unchanged, while the Reserve Bank of Australia (RBA) raised its policy rate by 25 basis points. The RBA cited ongoing capacity pressures driven by household spending and investment, persistent inflation, and continued tightness in the labour market.

Domestically, the broader fixed income market remained narrowly positive, with the FTSE Canada Universe Bond Index up +0.23%. The mid-term segment (FTSE Canada Mid-Term Overall Bond Index; +0.40%) outperformed both the short-term (FTSE Canada Short-Term Overall Bond Index; +0.26%) and long-term (FTSE Canada Long-Term Overall Bond Index; -0.03%) segments. Corporate bonds (FTSE Canada All Corporate Bond Index; +0.14%) underperformed government bonds (FTSE Canada All Government Bond Index; +0.26%).

The ICE BofA High Yield Canadian Issuers Index (100% Hedged) returned -1.03% in CAD terms. High yield bonds in Canada (FTSE Canada High Yield Bond Index; +0.55%) outperformed investment grade bonds (FTSE Canada Universe Corporate BBB Bond Index; +0.22%) over the quarter. In USD terms, investment grade bonds (ICE BofA BBB US Corporate Index; -0.47%) outperformed U.S. high yield bonds (ICE BofA US High Yield Index; -0.55%) over the quarter.

The USD/CAD exchange rate strengthened from 1.3724 to 1.3916 over the quarter as long-term interest rate differentials between the U.S. and Canada widened. The move was also consistent with broader U.S. dollar strength amid evolving policy expectations across the G7 and periods of heightened geopolitical risk.

Performance Attribution and Positioning

The Guardian Strategic Income Fund's (the "Fund") positive performance in the first quarter of 2026 was primarily driven by spread carry and credit selection.

The top contributor to performance came from the Fund's holding of Venture Global bonds (VENLNG 9% Perpetual). Venture Global is a U.S.-based LNG exporter focused on large-scale, low-cost facilities with long-term contracts. Early in the quarter, global gas prices recovered by their December lows due to low inventories in Europe and colder-than-expected weather. In addition, the company continued to sign new long-term contracts with high-quality customers. Finally, global gas prices moved sharply higher in March amid the conflict in Iran, bolstering the company's near-term outlook and reinforcing the strategic importance of U.S. export capacity. The combination of improving project visibility, supportive LNG market fundamentals, and continued investor demand for high-quality energy infrastructure credits drove spread tightening, with the high-coupon perpetual structure amplifying total return through carry.

Also contributing positively was the Fund's holding of Algoma Steel bonds (ALGSTE 9.125% 04/15/2029). Algoma Steel is a Canadian steel producer undergoing a transition from blast furnace production to electric arc furnace (EAF) technology, which is expected to materially lower costs and reduce emissions intensity. The bonds outperformed in 1Q26 as the Canadian steel market showed signs of stabilization following introduction of U.S. tariffs. The government of Canada implemented measures to reduce steel dumping by foreign suppliers, and also provided funding to solidify Algoma's position as a key strategic supplier of steel for Canadian defense and infrastructure.

Notwithstanding the positive quarter, the Fund did see a few spots of weakness, most notably the Fund's holdings of goeasy bonds (GSYCN 6% 05/15/2030 and 6.875% 05/15/2030). goeasy is a Canadian non-prime consumer lender providing unsecured loans through its easyfinancial platform and indirect lending via its LendCare segment. The bonds underperformed in 1Q26 following a significant deterioration in credit performance, primarily within the LendCare business, which drove elevated charge-offs and increased provisioning for credit losses. The company reported substantial incremental write-offs and withdrew its forward guidance, raising concerns around underwriting discipline, asset quality, and financial transparency. In response, management initiated a strategic pivot toward balance sheet preservation, scaling back higher-risk originations and suspending shareholder returns to preserve liquidity.

During the quarter, the Fund participated in some new issues including Six Flags 8.625%/Jul2032 Notes, Artemis Gold 5.625%/Feb2031 Notes and Boston BidCo (i.e. Keenfinity an M&A financing of Bosch security business spin-out) Mar2030 Floating rate Notes and Block Communications 10.25%/Mar2031. The Fund also trimmed several bonds which had outperformed including Organon 6.75%/May2034, Herc Holdings 7%/2030 and 7.25%/2033 Notes and some Ford Credit Canada notes. As the market moved lower through the quarter, the Fund added to positions that appeared to be oversold, including iHeartCommunications 9.125%/2029 Notes, Michaels 11%/2034 Notes, and Mativ 8%/2029. The Fund also extended its duration and spread in Vermilion Energy bonds by moving from the 6.875%/May2030 Notes into the 7.25%/Feb2033 Notes and added back to Ero Copper 6.5%/Feb2030 and First Quantum 7.25%/Feb2034 Notes. The Fund also adjusted some CDX hedges, net reducing \$10m notional in IG and 5mm in HY during the spread widening in March.

The Manager remains focused on robust underwriting of current and prospective investments given the uncertain macro environment, with a focus on elevated raw materials costs due to the conflict in Iran, and potential disruption or benefit from AI. In addition, utilizing credit hedges to manage overall portfolio quality and add value in both positive and negative environments.

Outlook

Markets are reassessing downside risks to growth and the potential for demand destruction should prolonged disruptions to the Strait of Hormuz keep energy prices elevated. While the near-term response in rates has been characterized by higher yields, the level and shape of the yield curve over the medium-term will depend on how central banks balance inflationary pressure from the energy shock, against the risk of softer growth.

Yield curve relationships largely remain anchored near historical norms, while the resilience of credit markets, despite equity market volatility, suggests that uncertainty has been absorbed rather than feared, largely supported by still attractive all-in yields and resilient credit fundamentals. In this environment, risk is being priced at the margins, not across the curve or capital structure. For fixed income investors, this continues to favour carry, diversification, and portfolio discipline over event-driven positioning.

Returns are presented in CAD, unless otherwise stated.

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