GUARDIAN CAPITAL

GUARDIAN CANADIAN FOCUSED EQUITY FUND Q3 2026 MANAGER COMMENTARY

Market Review

The S&P/TSX Composite Index ended the third quarter of 2026 with a total return of +1.6%. Performance was led by the Information Technology sector (+17.9%) as software stocks performed well in the quarter buoyed by strong earnings and improving expectations. Sector performance was also positive in the Materials (+12.9%) and Energy (+3.3%) sectors. The Communication Services sector (-9.3%) was the largest detractor from performance as Telus's stock continued to come under pressure in the quarter. The Real Estate (-7.3%), Utilities (-7.2%), Consumer Staples (-7.0%), Health Care (-5.4%), Consumer Discretionary (-5.1%), Industrials (-3.2%), and Financials (-3.0%) sectors also detracted from performance in the quarter. Canadian equity markets began the quarter on a strong note, as renewed hostilities in the Middle East once again caused oil prices to rise. While the U.S. government and President Trump continue to claim that a permanent resolution is imminent, the two sides appear to remain far apart on any deal, and flows through the Strait of Hormuz remain below pre-conflict levels. The July 1st deadline to renew the CUSMA trade agreement passed without a deal to extend it, throwing the future of North American free trade into greater uncertainty. President Trump also announced new 50% tariffs on select Canadian goods that took effect in mid-August, and also signed a ban on the importation of Canadian goods such as alcohol and dairy products. While the duration of these policies, and the magnitude of their effects, remains uncertain, it is likely that they will be a dampening force on the Canadian economy in the last quarter of 2026. The Federal government continued to signal a change in direction on natural resource policy, as progress towards approving a new west coast oil pipeline advanced, with Energy minister Tim Hodgson announcing that the project would likely receive designation as a "project of national interest" under the new major projects office. The announcement comes as Canada attempts to diversify its trade markets, and European and Asian markets hasten their efforts to access oil and natural gas supplies that are unrestricted by the conflict in the Middle East. The Bank of Canada held its policy interest rate steady twice in the quarter, leaving the policy rate at 2.25% for the 6th and 7th consecutive decisions.

U.S. equity markets, represented by the S&P 500 Index, also posted moderately strong performance in the quarter, rising +2.3%. American equities benefited from record corporate profits reported in the quarter as software and other Information Technology stocks had strong earnings reports. Towards the end of the quarter, U.S. bonds came under pressure as markets became increasingly concerned about inflation, the Federal Reserve raised its interest rate for the first time since 2023, and concerns about the sustainability of growing government debt continued to mount.

In the commodity market, oil prices surged (WTI +30.1% in U.S.$) after declining towards the second quarter, once the likelihood of a peace agreement in the Middle East appeared to wane. Copper prices also rose significantly (+8.3% in U.S.$) amidst short-term supply disruptions and increasing demand driven by electrification and Artificial Intelligence ("AI") infrastructure construction, outperforming gold (+3.7% in U.S.$).

Performance Attribution

The Guardian Canadian Focused Equity Fund (the "Fund") underperformed its benchmark, the S&P/TSX Capped Composite Index, during the quarter. The underperformance was due to negative security selection, with negative sector allocation detracting from relative performance to a lesser extent.

Positives

- Contributions to performance from sector allocation were driven by being overweight the Information Technology (+17.9%) sector.
- Contributions from security selection were driven by stocks in the Energy (Suncor Energy Inc., Canadian Natural Resources) and Communication Services (Telesat Corp.) sectors.
- Top stock contributors to performance during the quarter:

  - **Mattr Corp.:** Mattr outperformed in the quarter as revenue and profitability growth accelerated rapidly. This was in line with the Manager's expectations from late last year that most of the headwinds that Mattr was facing were short term in nature, however the inflection happened much faster than anticipated. Mattr has spent the past 4 years modernizing their manufacturing facilities, improving their product line up, diversifying their customer base and exiting commoditized businesses. Completing all of these initiatives all at once led to some internal road bumps that slowed revenue growth and led to margin decline. With the transformation mostly complete, Mattr has become a faster growing, more profitable business which has led to a higher valuation on higher earnings estimates.
  - **Suncor Energy Inc.:** Suncor Energy benefited from a robust commodity and refining environment that played to its strengths as an integrated producer with a strong marketing franchise. During the quarter, refining crack spreads, especially for middle distillates, for which Suncor is disproportionately leveraged, hit "emergency" levels and buoyed expectations for free cash generation in the company's downstream business.
  - **Canadian Natural Resources.:** Canadian Natural Resources benefited from a full quarter of robust crude prices and elevated middle distillate refining crack spreads. The company's heavy exposure to Synthetic Crude Oil ("SCO") provides an earnings tailwind due to the disproportionately high middle distillate yield from SCO as a refining feedstock. This caused a significant premium during the quarter.

Negatives

- An underweight allocation to the Materials (+12.9%) sector and an overweight allocation to the Consumer Staples (-7.0%) detracted from relative performance in the quarter.
- Underperformance from stock selection was primarily due to portfolio holdings within the Information Technology (CGI Inc., Open Text Corp.) and Financials (Brookfield Corp) sectors.
- Stocks that detracted from relative performance during the quarter:

- **Element Fleet Management Corp.:** Element Fleet Management's recent share price underperformance was primarily driven by market concerns that near-term fleet origination is growing slower than expected, reflecting a combination of customers delaying vehicle replacements and fleet expansions amid elevated fuel and financing costs, high vehicle prices and trade-policy uncertainty, and commercial execution issues. The Manager views this potential slowdown as temporary, and continues to believe Element Fleet Management's business fundamentals remain very attractive and structurally resilient.
- **MDA Space Ltd.:** MDA Space's third quarter share price underperformance was primarily driven by general market volatility in a rising interest rate environment and continued trade uncertainty. The Manager continues to believe MDA's long-term fundamentals remain very compelling, underpinned by growing demand for satellite connectivity, large low-Earth-orbit constellations, rising government investment in sovereign defence and surveillance capabilities, and increasing adoption of Earth-observation data and analytics. Space exploration and robotics also provide additional growth opportunities for the company.
- **Capital Power.:** Capital Power's stock price was affected by concerns surrounding AI data centre pushback have cooled expectations on the value chain supporting the infrastructure buildout. These concerns have especially arisen in PJM and ERCOT, the former of which Capital Power is exposed to. While shifting public sentiment may impact the business's risk profile, the Manager remains confident in the company's positioning, strategy, and ability to execute its plans.

Portfolio Transactions

The Manager did not make any material transactions to the Fund's portfolio this quarter.

Portfolio Outlook & Positioning

The Canadian equity market continued its positive trajectory in the third quarter of 2026, as commodity prices, improved economic growth numbers and strong earnings all contributed to positive returns, led by the Information Technology sector. While there were encouraging signs for the Canadian economy in the quarter such as progress on natural resource and infrastructure development, significant risks remain related to macroeconomic factors, trade tensions and geopolitical risks. Global economic growth has remained resilient over the past 18 months, however increasing risks of rising inflation and interest rates are beginning to draw concern from investors as bond yields continue to rise to levels not seen in more than a decade. The persisting trade tensions with the United States are also a risk to Canadian equities, as the new tariffs and import bans that President Trump announced this quarter are likely to weigh on economic growth and potentially put downward pressure on earnings. In addition to the prior two risks, the conflict in the Middle East remains as a source of volatility. Should the conflict either escalate further or come to a resolution commodity prices would likely react drastically, causing large movements in both Energy stocks and the broader market.

Sentiment has begun to improve for traditional IT services and software companies in the Information Technology sector, with strong earning results and consistent growth helping to alleviate the fears of these companies being disintermediated by AI. The share prices of most of the large Canadian Banks pulled back slightly throughout the quarter, after a very strong start to the year, as the likelihood of interest rate increases rose due to persistent inflation risks. With bank valuations that remain above historical levels, this environment warrants careful monitoring of the industry for signs of either ongoing resilience or increasing consumer credit stress.

Overall, the Manager remains mindful of the present internal and external risks to Canadian equities. Sustained high oil prices will put pressure on inflation, and Central Banks may be forced to temper this with increases to benchmark interest rates, raising the cost of investments and potentially slowing growth. Geopolitical risks remain ever-present with trade tensions creating an uncertain environment for business investment and increasing costs for both businesses and consumers. Additionally, the conflict in the Middle East has the potential to increase energy costs and volatility in the commodity markets. Keeping these risks in mind, the Manager has sought to build the portfolio to be well diversified across both sectors and fundamental drivers of performance.

The Fund maintains a strong quality bias and is diversified across both cyclical and defensive companies. Macroeconomic conditions are expected to affect portfolio holdings to various degrees; however, the Manager believes that companies in the portfolio are poised for growth due to a combination of improving fundamentals and modest expectations implied in valuations, which should lead to favourable risk-reward results across the market cycle.

Values are reported in CAD, unless stated otherwise.

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