GUARDIAN CAPITAL

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

Performance Attribution

The Guardian Canadian Diversified Core Equity Fund (the "Fund") underperformed its benchmark, the S&P/TSX Capped Composite Index in the quarter. The underperformance was due to both negative sector allocation and negative security selection.

Positives

- Contributions from sector allocation were driven by being overweight the Information Technology (+17.9%) sector.
- Contributions from security selection in the quarter were driven by the Energy (Suncor Energy Inc., Canadian Natural Resources) sector.
- Top stock contributors to performance during the quarter:
    - **Shopify Inc.:** Shopify's recent outperformance has been driven by a broader market rotation out of high fly semiconductor and AI hardware names and into lagging enterprise software names, as investors begin to identify which software companies stand to benefit from AI. Shopify's Q2 results reinforced this narrative, with earnings ahead of expectations and stronger-than-expected guidance for both revenue growth and free cash flow margin. Notably, the results also addressed concerns that Shopify's AI spending would weigh on profitability as their operating margin widened, helped by Shopify's use of both open and closed source models across internal development and its product offering to contain rising AI costs. Late in the quarter, Shopify partnered with Meta to let Meta's new personal AI agent, Muse, browse and check out across all Shopify stores. The near-term revenue contribution from this channel is likely to be modest, but the partnership is strong validation of Shopify's position in agentic commerce.
    - **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

- Being underweight the Materials (+12.9%) sectors detracted from performance during the quarter.
- Underperformance from stock selection was primarily due to holdings within the Industrials (Boyd Group Services Inc., Element Fleet Management Corp.) and Information Technology (CGI Inc., Open Text Corp.) sectors.

- Stocks that detracted from performance during the quarter:

  - **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.
  - **Maple Leaf Foods Inc.:** Maple Leaf underperformed in the quarter as their prepared foods segment disappointed. Poultry continued to outperform and drove strong growth of revenue and profitability for the company as more consumers continue switch to chicken given the health aspects and relative value to beef. Prepared foods is where the company has focused their innovation, but volumes declined on the back of price increases in February to cover commodity inflation. The Manager believes this is demand elasticity as Maple Leaf is price leader and that this will normalize throughout the year. A return to volume growth will help give the market confidence in Maple Leaf's longer term plan of 5% revenue growth and 15% EBITDA margins which should help re-rate the stock.
  - **Brookfield Corp.:** Brookfield Corp ("BN") has lagged even though its operating results have been solid with earnings growth, record fundraising and plenty of capital ready to deploy. The Manager believes the weakness is more driven by sentiment than fundamentals as the alternative asset managers as a whole have been de-rated following investor concerns over private credit and rising interest rates. BN's Investor Day in September confirmed the company's growth trajectory, which could make the current weakness an opportunity to own a high-quality business at a compelling valuation.

Portfolio Transactions

The Manager initiated a position in Telesat Corp. in the quarter. Telesat Corp. is a Canadian satellite operator with two businesses: 1) a cash-generating GEO satellite business that is in decline and 2) Lightspeed - a 225-satellite LEO constellation fully financed by Canadian and Quebec government loans, with Phase 1 being commercially operational by Q1 2028. The Manager initiated the position based on the belief that there is asymmetric upside in the stock, given Lightspeed's potential, despite the market's focus on ongoing debt restructuring negotiations, with support from the Telesat Canada Reorganization and Divestiture Act and the Government of Canada's alignment with Lightspeed's success. Once operational, Lightspeed becomes a long duration, high cash flow generation asset as the marginal cost of customer acquisition becomes effectively immaterial and ongoing maintenance requirements are minimal over the effective life of the constellation (~12 to 15 years). Telesat's 50+ years of institutional knowledge from operating GEO satellites translates directly to Lightspeed, a structural advantage that new entrants cannot easily replicate.

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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