

# Sustainable Funds Update

July 2023

## ECONOMY AND MARKETS

- In contrast to the negativity with which we entered 2023, the first half of the year has produced very strong equity returns, with global markets up over 10% even as many leading indicators such as manufacturing surveys, lending standards and yield curves continue to point to weakness.
- Much of this divergence can be ascribed to a handful of AI-related Information Technology stocks, which have created one of the narrowest markets that investors have seen since the Dot Com boom of the early 2000s. Although we ascribe to the theme of AI as a generational technology with likely far-reaching consequences, we also see valuations and sentiment as stretched and, consistent with history, expect this outperformance to moderate.
- This should return investor attention to our original thesis of slowing economic growth and inflation along with interest rates that are at or close to peaking, which in our view, should favour high-quality global growth equities and investment-grade credit.

Read the [latest macroeconomic views](#) from our Asset Mix Committee^ (AMC)

## RECENT PORTFOLIO CHANGES

- Within Fixed Income allocations, minimal changes have been made since our last update. Although sticky services inflation and tight labour markets have driven another leg higher in interest rates, we see many signs of disinflation on the horizon and will look to further capitalize on higher rates and extend duration over the coming months.
- Within Equity allocations, we further trimmed our Canadian equity exposure given relatively high weight in the domestic index of lower-quality cyclicals, which we expect to underperform as economic growth slows, in favour of International quality growth equities.

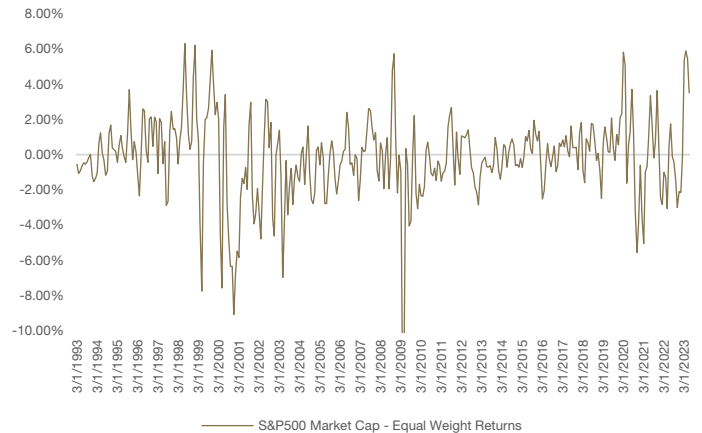
Visit our [website](#) for the latest positioning and fund details.

## RESPONSIBLE INVESTING UPDATE

- At Guardian Capital LP\*, our responsible investing philosophy revolves around the idea that engagement is an effective way to help companies we are invested in enact needed structural changes over time, and that divestment, while limiting one's investment exposure from select areas of concern, passes responsibility to other investors who may not share the same values.
- So it was encouraging to us to see a recent academic paper entitled "Exit vs. Voice" in the Journal of Political Economy and highlighted by the Financial Times ("Should investors stay and fight for green change – or divest?" by Luigi Zingales, July 5, 2023), which studied this topic in-depth.
- The authors concluded that "Voice" (engagement) achieves the socially optimal outcome so long as most investors are only even slightly socially responsible. At the same time, "Exit" (divestment) only works when everyone is significantly socially responsible and can sometimes even reduce social welfare when they are not.

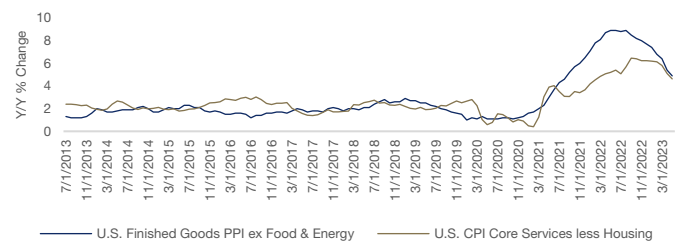
Learn about Responsible Investing at Guardian Capital LP.

S&P 500 Market Cap vs. Equal Weight Relative Performance (30 years)



Source: Guardian Capital based on data from Bloomberg to July 2023

Inflation Still Elevated but Showing Signs of Moderating (10 years)



Source: U.S. Bureau of Labor Statistics



\*Guardian Capital LP is the Manager and Portfolio Manager of the Sustainable Funds.

^Guardian's Asset Mix Committee (AMC) consists of investment professionals and asset class specialists and is charged with overseeing the development and management of multi-asset investment portfolios, specifically addressing asset mix composition/allocation and areas for advice or communication to such clients as it relates to the makeup of their portfolio.

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Guardian Capital LP is a signatory of the United Nations-supported Principles of Responsible Investment (UN PRI). The UN PRI does not prescribe the exclusion of any particular type of company or industry; rather it requires that, as the Manager, we are informed on the ESG issues, and that we are comfortable with the activities and practices of the companies that we invest in. Guardian's approach to responsible investing is consistent with the framework provided by the UN PRI. Our Responsible Investing policies are publicly available on our website at <https://www.guardiancapital.com/investmentsolutions/responsible-investing>.

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Guardian Capital LP is the Manager of the Sustainable Funds.

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