

## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

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# GUARDIAN CANADIAN EQUITY FUND

DECEMBER 31, 2022

This annual management report of fund performance contains financial highlights, but does not contain either the annual financial report or annual financial statements of the investment fund. You can obtain a copy of the annual financial report or annual financial statements at your request, and at no cost, by calling 1-866-383-6546, by writing to us at Guardian Capital LP, Commerce Court West, 199 Bay Street, Suite 2700, P.O. Box 201, Toronto, Ontario, M5L 1E8, or by visiting our website at [www.guardiancapital.com/investmentsolutions](http://www.guardiancapital.com/investmentsolutions) or SEDAR at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### Investment Objective and Strategies

Guardian Canadian Equity Fund (the “Fund”) seeks to achieve long-term growth of capital while maintaining steady current dividend income, primarily through the investment in common shares issued by Canadian companies. The Manager uses a fundamental, bottom-up approach to security analysis to identify companies that have the potential for significant long-term capital growth, and invest in the securities of those which can be obtained at a reasonable price. In conducting analysis, the Manager evaluates the financial condition and management of the company, its industry and relevant economic factors.

### Risk

The risks associated with investing in the Fund remain as discussed in the prospectus. The Fund may be suitable for investors with a medium tolerance for risk, particularly those who seek diversified exposure to Canadian equity securities with a medium to long-term investment horizon.

### Results of Operations

*(This commentary is based on the performance of Series I units of the Fund.)*

The Fund’s net asset value decreased by 42% to \$267.2 million at December 31, 2022 from \$463.9 million at December 31, 2021. Of this change, a decrease of \$34.2 million was due to investment performance and a decrease of \$162.5 million was attributable to net redemptions.

Series I units of the Fund posted a return of -6.3% for the year. The Fund’s benchmark, the S&P/TSX Capped Composite Index, returned -5.8% for the same period. The Fund’s return is after the deduction of expenses, unlike the benchmark’s return.

A strong start and end to the year in the Canadian equity markets salvaged the year’s negative performance overall, as investors became increasingly concerned about a possible economic recession driven by central

banks aggressively hiking interest rates throughout the year to combat high inflation. Previous monetary and fiscal policies during the pandemic, high energy prices and supply chain problems have been the key drivers of rising inflation. The ongoing war in Ukraine has also weighed on investor sentiment and contributed to higher inflation by adding to the already substantial supply chain problems. The S&P/TSX Composite Index delivered a total return of -5.8%; however, Canada handily outperformed US and global markets. Energy stocks were the best performing sector by far, while Consumer Staples also managed to deliver positive returns during the year. Health Care and Information Technology were the worst performing sectors during 2022.

Central banks in Canada and the US became more aggressive in their fight against inflation by raising interest rates seven times (400 bps and 425 bps respectively) during 2022. Bond yields also increased materially, with the 10-year Canada bond yield rising 187 bps to finish at 3.298%. Within Energy, oil prices ended the year at US\$80 per barrel, after breaching US\$120 per barrel a few times during the year.

The Fund performed in line with the benchmark for 2022, due to positive stock selection, which was offset by negative sector allocation. An overweight allocation to Information Technology, due to positive stock selection, was a contributing factor to performance. An underweight allocation to the Financials sector and an overweight allocation to the Industrials sector also contributed to performance, due to both positive sector allocation and stock selection. An underweight allocation to the Energy sector had a negative impact on performance, due to negative sector allocation. An overweight to Consumer Discretionary and underweight to Consumer Staples, due mainly to negative stock selection, also had a negative impact.

The Fund’s position in Canadian Natural Resources was a positive contributor to performance as the company was able to deliver strong shareholder returns due to record production and strong oil prices. The company’s diverse business and strong execution was highlighted at the recent investor day. Meanwhile the Fund’s position in Shopify Inc. detracted from performance as higher global yields led to further valuation compression in the higher-valued, high-growth areas

of the market. Shopify's pivot to deploy capital to develop its own fulfillment network earlier this year has weighed on near-term profitability and competition has increased with Amazon launching new products that could erode Shopify's competitive advantage. The Fund's position in CIBC suffered from margin headwinds due to rising deposit rates. In addition, rising capital requirements may pressure banks (including CIBC) to raise additional equity at dilutive valuation levels.

The Fund added SNC-Lavalin to its portfolio, as SNC is undergoing a transformation toward a pure-play engineering and design consulting business (higher margin, capital-light, less lumpy), whereas, historically, it has faced issues with what are called Lump-Sum-Turn-Key (LSTK) projects that are bid at a specific cost, with any overruns being the responsibility of SNC. (An example of this is the Toronto-based Eglington Crosstown LRT.) Also added was Teck Resources, one of the world's lowest carbon-intensity producers of copper, zinc, and coal. They have been taking significant action to support a cleaner future and reduce the carbon intensity of its operations (reducing it by 5% this far, in line with their goal of a 33% reduction overall by 2030). The Fund added TMX Group, a position owned in the past and which is a high-quality defensive growth business with high margins and barriers to entry. The company continues to transition its business toward high-recurring revenue information services and analytics, which earn margins above the company average. TMX's quasi-monopolistic advantages in key trading markets and products as the dominant incumbent where liquidity is of paramount importance. TMX's business has shown resilience in up and down markets, making it an attractive and diversifying defensive growth exposure for the portfolio. The Fund also added National Bank of Canada. While the company is the smallest of the big six Canadian banks, National is a leader in Quebec, where the company is gaining market share from Desjardins, while Quebec's economy is outperforming the Canadian average. The bank also has a strong capital markets division and is growing profitably in select international markets.

The Fund sold its position in Bausch Health. The patent challenge against the company's largest drug introduced new risks that led us to sell the stock. While

it is likely that Bausch will win the case, the binary risk associated with the patent challenge led us to exit the position. The Fund sold Shopify due to intensifying competitive pressures in the industry, which introduces downside risk to the terminal value of the company. The capital was recycled into higher conviction positions. The Fund also sold CIBC, due to concerns about medium-term profitability as rising deposit rates squeeze net interest margins. Also, rising capital requirements may pressure banks, including CIBC, to raise additional equity at dilutive valuation levels. CIBC's margin and capital profiles are less robust vs. its peers. The Fund also sold its position in Brookfield Asset Management (BAM), post the spin-out of from Brookfield Corporation (BN), but maintained the position in BN. While BAM is a high-quality growth business, the steeply discounted valuation of BN implies higher future returns.

As part of the investment mandate to diversify away from concentrated sectors in the S&P/TSX Composite Index, the Fund has maintained its underweight in commodity driven sectors (Energy and Materials), as well as Financials, which is the largest GICS sector on the Index.

The Manager integrates ESG considerations into its investment analysis and stewardship activities with the objective of enhancing long-term investment performance. Active engagement and proxy voting are a core part of the Manager's stewardship approach, and the Fund's investment team participates in these activities in a manner suitable to the asset class and Fund. Our investment teams focus on ESG and other issues which they believe could be financially material and/or impact the long-term sustainability of the company. The consideration of ESG issues is one of a number of elements in the portfolio construction process and, may or may not have a material influence on portfolio composition at any given time. For more information, the Manager posts its annual proxy voting activities and an annual Responsible Investing report on its website:

<https://www.guardiancapital.com/investmentsolutions/>

## Recent Developments

As has been the case for some time, global policymakers continue to “talk tough” even as the impacts of their aggressive tightening moves are felt with a lag. While near-term inflation has clearly peaked, it is still unclear how far inflation will fall and how fast. As the US dollar and bond yields decline alongside inflation, financial conditions should ease at the margin, but earnings are expected to face headwinds as nominal growth slows. Whether or not the US and Canadian economies fall into recession has yet to unfold, but caution is warranted as policymakers seem determined to bring down inflation, even if it means intentionally leading the economy into recession.

At the company level, falling inflation and slowing growth are introducing crosscurrents. Falling inflation is simultaneously a headwind for revenue growth and a welcome relief from escalating input costs. Meanwhile, slowing growth and easing supply chain pressure are leading to higher inventories, which may lead to further price declines. While companies held in the Fund’s portfolio exhibit strong market positions and pricing power, the short-term impacts from the crosscurrents mentioned above are uncertain, which has led to valuation compression in many areas of the market. Over time, the Manager expects higher-quality companies to overcome these headwinds, making current valuations particularly attractive for long-term investors.

Economic headwinds are expected to affect all holdings to various degrees, however, we believe that as labour markets and supply chains continue to normalize, multiple companies in the portfolio will benefit, irrespective of the economic outlook.

## Related Party Transactions

Guardian Capital LP, the Manager of the Fund, is considered to be a “related party” of the Fund. The Manager is responsible for the day-to-day operations of the Fund and also acts as the portfolio manager, managing the investment portfolio of the Fund. These services are in the normal course of operations and the Fund pays a management fee to the Manager for these services, as detailed in the Management Fees section below. The Manager also receives an Administration

Fee from the Fund, amounting to and 0.15% of the average daily net asset value of the Fund, in return for the payment by the Manager of all the variable operating expenses of the Fund. The Independent Review Committee (“IRC”) has approved the Manager’s Policy for this item, and the Manager relies on this approval as a standing instruction from the IRC. The Manager received the Administration Fee and paid Fund expenses in accordance with this Policy during the period. The Manager is a wholly-owned subsidiary of Guardian Capital Group Limited, a publicly traded firm listed on the Toronto Stock Exchange.

The Fund may invest some of its available short-term cash in units of Guardian Canadian Short-Term Investment Fund, another investment fund managed by Guardian Capital LP and a related issuer, which invests its assets in high-quality short-term fixed-income securities. As at December 31, 2022, the Fund had invested \$ 4,775,115 or 1.8% of its net assets, in units of the Guardian Canadian Short-Term Investment Fund. With respect to investments in related issuers, the Manager has relied on the approval that it has received from the IRC. The approval requires the Manager to comply with its current policy and procedures regarding investments in related issuers and to report periodically to the IRC. The Manager will not duplicate management fees paid to an underlying fund that is a related issuer.

## Management Fees

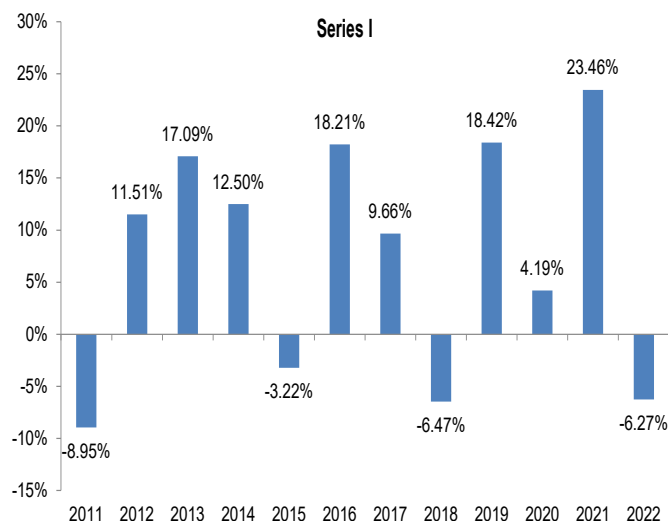
No management fees are payable or collected for Series I units of the Fund.

## Past Performance

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund. This performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. Past performance of the Fund does not necessarily indicate how the Fund will perform in the future.

## Year-by-Year Returns

The bar charts show the Fund's performance for the period from January 1, 2022 to December 31, 2022, and annual performance for each of the prior years shown, and illustrates how the Fund's performance has changed from year to year. The chart shows in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of that financial year.



## Annual Compound Returns

The table below shows the historical compound returns of the Fund's Series I units for the periods indicated, as at December 31, 2022. The returns of a broad based market index are also shown.

|                              | 1 Yr  | 3 Yrs | 5 Yrs | 10 Yrs |
|------------------------------|-------|-------|-------|--------|
| Series I (%)                 | -6.27 | 6.44  | 5.96  | 8.24   |
| S&P/TSX Capped Composite (%) | -5.84 | 7.54  | 6.85  | 7.74   |

\* Inception date - December 1, 1985

The S&P/TSX Capped Composite Index is designed to be a broad measure of the largest companies listed on the Toronto Stock Exchange, with the relative weighting of each stock capped at 10%.

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the periods indicated. The information is derived from the Fund's audited annual financial statements.

### The Fund's Net Assets per Unit (Series I)

|   | 12 months<br>ended<br>Dec. 31, 2022 | 12 months<br>ended<br>Dec. 31, 2021 | 12 months<br>ended<br>Dec. 31, 2020 | 12 months<br>ended<br>Dec. 31, 2019 | 12 months<br>ended<br>Dec. 31, 2018 |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Net Assets per unit, Beginning of Period <sup>[1]</sup>             | \$191.08                            | \$163.41                            | \$160.55                            | \$144.56                            | \$159.77                            |
| <b>Increase (decrease) from operations per unit: <sup>[1]</sup></b> |                                     |                                     |                                     |                                     |                                     |
| Total revenue   | 5.05                                | 4.54                                | 4.15                                | 4.35                                | 4.22                                |
| Total expenses  | (0.41)                              | (0.38)                              | (0.37)                              | (0.34)                              | (0.35)                              |
| Realized gains (losses)   | 31.47                               | 19.49                               | (1.38)                              | 10.25                               | 4.26                                |
| Unrealized gains (losses)   | (52.66)                             | 15.39                               | 4.09                                | 12.51                               | (18.02)                             |
| Total increase (decrease) from operations per unit                  | (16.55)                             | 39.04                               | 6.49                                | 26.77                               | (9.89)                              |
| Distributions per unit from: <sup>[1][2]</sup>                      |                                     |                                     |                                     |                                     |                                     |
| Income (excluding dividends)  | -                                   | -                                   | -                                   | -                                   | -                                   |
| Canadian dividends  | (4.73)                              | (4.37)                              | (3.87)                              | (4.15)                              | (4.08)                              |
| Capital gains   | -                                   | (6.29)                              | -                                   | (6.48)                              | (0.79)                              |
| Return of capital   | (10.47)                             | -                                   | -                                   | -                                   | -                                   |
| Total Distributions per unit  | (15.20)                             | (10.66)                             | (3.87)                              | (10.63)                             | (4.87)                              |
| Net Assets per unit, End of Period <sup>[1]</sup>                   | \$163.39                            | \$191.08                            | \$163.41                            | \$160.55                            | \$144.56                            |

<sup>[1]</sup> Net assets per unit and distributions per unit are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations per unit is based on the weighted average number of units outstanding over the financial period.

<sup>[2]</sup> Substantially all distributions were reinvested in additional units of the Fund.

### Ratios and Supplemental Data (Series I)

|  | 12 months<br>ended<br>Dec. 31, 2022 | 12 months<br>ended<br>Dec. 31, 2021 | 12 months<br>ended<br>Dec. 31, 2020 | 12 months<br>ended<br>Dec. 31, 2019 | 12 months<br>ended<br>Dec. 31, 2018 |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Total net asset value (000's) <sup>[1]</sup>               | \$267,200                           | \$463,893                           | \$501,757                           | \$497,946                           | \$435,355                           |
| Number of units outstanding <sup>[1]</sup>                 | 1,635,393                           | 2,427,789                           | 3,070,540                           | 3,101,502                           | 3,011,688                           |
| Management expense ratio <sup>[2]</sup>                    | 0.17%                               | 0.17%                               | 0.17%                               | 0.17%                               | 0.17%                               |
| Management expense ratio before<br>waivers and absorptions | 0.17%                               | 0.17%                               | 0.17%                               | 0.17%                               | 0.17%                               |
| Trading expense ratio <sup>[3]</sup>                       | 0.06%                               | 0.04%                               | 0.08%                               | 0.04%                               | 0.05%                               |
| Portfolio turnover rate <sup>[4]</sup>                     | 34.50%                              | 34.64%                              | 62.74%                              | 41.22%                              | 38.44%                              |
| Net asset value per unit <sup>[1]</sup>                    | \$163.39                            | \$191.08                            | \$163.41                            | \$160.55                            | \$144.56                            |

<sup>[1]</sup> This information is provided as at the end of each period indicated.

<sup>[2]</sup> The management expense ratio is based on total expenses (excluding commissions, other portfolio transaction costs and withholding taxes) of the Fund and its proportionate share of the total expenses of the Underlying Funds, where applicable, for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

<sup>[3]</sup> The trading expense ratio represents total commissions and other portfolio transaction costs of the Fund and its proportionate share of the Underlying Funds' portfolio transaction costs, where applicable, expressed as an annualized percentage of daily average net asset value for the period.

<sup>[4]</sup> The Fund's portfolio turnover rate indicates how actively its portfolio advisor trades portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in the portfolio once in the course of a year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.



## SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2022

| Portfolio Allocation           | % of Net Asset Value | Top 25 Holdings   | % of Net Asset Value |
|--------------------------------|----------------------|---|----------------------|
| Communication services         | 4.3%                 | Suncor Energy Inc.  | 6.8%                 |
| Consumer discretionary         | 8.8%                 | Royal Bank of Canada                                      | 6.0%                 |
| Consumer staples               | 3.8%                 | Canadian Pacific Railway Limited                          | 4.9%                 |
| Energy                         | 14.4%                | Bank of Montreal  | 4.6%                 |
| Financials                     | 28.9%                | Canadian Natural Resources Limited                        | 4.3%                 |
| Industrials                    | 14.9%                | CGI Inc., Class 'A'                                       | 4.0%                 |
| Information technology         | 6.1%                 | TC Energy Corporation                                     | 3.3%                 |
| Materials                      | 12.1%                | Restaurant Brands International Inc.                      | 3.3%                 |
| Real estate                    | 1.0%                 | TELUS Corporation   | 3.2%                 |
| Utilities                      | 3.6%                 | Intact Financial Corporation                              | 3.1%                 |
| Short-term securities          | 1.8%                 | National Bank of Canada                                   | 3.1%                 |
| Other net assets (liabilities) | 0.3%                 | The Toronto-Dominion Bank                                 | 3.0%                 |
|                                |                      | Agnico Eagle Mines Limited                                | 2.9%                 |
|                                |                      | Wheaton Precious Metals Corporation                       | 2.9%                 |
|                                |                      | Brookfield Corporation                                    | 2.8%                 |
|                                |                      | CCL Industries Inc., Class 'B'                            | 2.8%                 |
|                                |                      | Finning International Inc.                                | 2.8%                 |
|                                |                      | Teck Resources Limited, Class 'B'                         | 2.5%                 |
|                                |                      | Metro Inc.  | 2.2%                 |
|                                |                      | Magna International Inc.                                  | 2.1%                 |
|                                |                      | Open Text Corporation                                     | 2.1%                 |
|                                |                      | Gildan Activewear Inc.                                    | 1.9%                 |
|                                |                      | SNC-Lavalin Group Inc.                                    | 1.8%                 |
|                                |                      | Guardian Canadian Short-Term Investment Fund, Series I    | 1.8%                 |
|                                |                      | Fortis Inc.   | 1.7%                 |
|                                |                      | <b>Top 25 Holdings as a percentage of net asset value</b> | <b>79.9%</b>         |
|                                |                      | <b>Total Net Asset Value</b>                              | <b>\$267,199,899</b> |

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly update is available. If the Fund has invested in other investment funds, the prospectus and other information about the underlying investment funds are available on the internet via [www.sedar.com](http://www.sedar.com).

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