# Partners | QUARTERLY PROFILE

2nd Quarter 2019

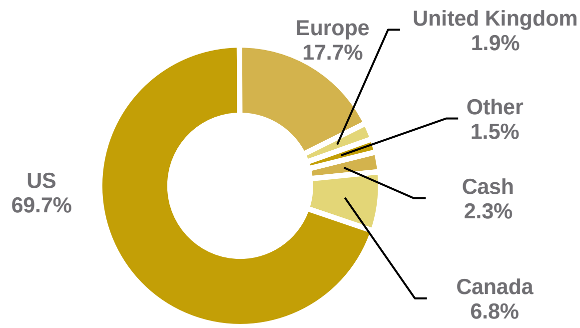
GUARDIAN CAPITAL

## GLOBAL DIVIDEND EQUITY

### PORTFOLIO OBJECTIVE

The Guardian Global Dividend portfolio has, as its primary objective to outperform the MSCI World Index. Risk will be carefully managed through diversification, primarily through investment in global dividend-paying equity securities.

### ASSET ALLOCATION




### MAJOR HOLDINGS

| COMPANY | % OF PORTFOLIO |
|---|---|
| MICROSOFT CORP | 3.71% |
| MASTERCARD INCORPORATED | 3.55% |
| NESTLE SA S/ADR | 3.44% |
| MCDONALDS CORP LTD | 3.13% |
| LOCKHEED MARTIN CORP | 3.13% |
| ROYAL BANK OF CDA | 3.02% |
| UNITEDHEALTH GRP INC | 2.70% |
| ACCENTURE PLC CL A NEW | 2.66% |
| NOVARTIS AG S/ADR | 2.64% |
| DIGITAL RLTY TR INC | 2.63% |

| 2nd Quarter 2019 | QTD | 1YR | 3YR | 5YR | 10YR |
|---|---|---|---|---|---|
| **Guardian Global Dividend*** | **3.4%** | **10.6%** | **10.0%** | **10.9%** | **13.6%** |
| MSCI The World Index - Net | 1.7% | 5.6% | 12.0% | 11.1% | 12.0% |
| **Guardian Global Dividend (USD)*** | **5.4%** | **11.5%** | **9.7%** | **6.6%** | **12.6%** |
| MSCI The World Index - Net (USD) | 4.0% | 6.3% | 11.8% | 6.6% | 10.7% |

*Return Data Source: Inception to Sep 2011 are manager supplied returns that are gross of fees and in C$. From October 2011 to present is a RJ Partners Program composite, gross returns in C$. All performance data represents past performance and is not necessarily indicative of future performance. Benchmark: 100% MSCI The World Index - Net.

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## PORTFOLIO REVIEW

The bond market rebounded back in the second quarter to outperform stocks as the prospects for lower short-term rates and slower growth pushed the 10-year treasury yield to 2%, a 33-month low. However, year-to-date stocks are still up ahead of bonds as the S&P 500 had a very strong first quarter. Overall, the U.S. markets had outperformed international equities as the MSCI EAFE and emerging market indices both trailed the S&P 500 and NASDAQ in Q2 as well as YTD. However, the top asset class in Q2 was Gold which rose to a six-year high. At the other end of the spectrum commodities were the weakest asset class in the second quarter as the S&P GSCI declined during this period dragged down by crude oil.

For the quarter as well as year-to-date, the Financials, Information Technology and Consumer Discretionary sectors were the top three performing sector for the MSCI World Index. Overall, growth sectors have led broad-based gains. Energy was the worst performing sector as political risk concerns hung over the sector.

Geographically, during the second quarter the Pacific ex. Japan region was the best performing region due to strong gains in Australia. The United States was the sixth best performing country for Q2 and the biggest contributor to the MSCI All Country World Index during the first half of the year. On the other hand China dragged down emerging markets in Q2 while Japan posted one of the lowest major country/region returns. So far, half way through the year no developed markets has declined.

### Performance Attribution

The MSCI World Index had a return of 1.7% for the second quarter with the mandate outperforming the index with a return of 3.1%. The portfolio outperformed the benchmark in 7 of the 11 GICS sectors.

The Consumer Staples sector was the leader in outperformance, with strong returns from holdings in Nestle, Costco, Kimberly Clark and Unilever. Positive stock selection came from positions in Waste Management, Lockheed Martin and Republic Services in the Industrials sector. In the Information Technology sector, holdings in Microsoft and MasterCard led to positive relative performance. Air Products did well in the Materials sector. In the Financials sector outperformance came from positions in CME, JP Morgan and Allianz. Stock selections McDonalds and Home Depot led to a positive selection effect in the Consumer Discretionary sector. In the Energy sector, Royal Dutch Shell outperformed.

The mandate had relative underperformance in the REIT sector where Medical Properties Trust and Iron Mountain lagged. Iron Mountain was sold as forward looking earnings metrics began to decline signaling a slowdown in growth for the company.

In the Communication Services sector, lower relative performance by Verizon and Telus led to a negative stock selection effect.

### Transactions

Turnover was minimal for this portfolio this quarter as we maintained our lower market sensitivity and continued to consolidate in names we already own adding to our conviction.

We reduced our weight in Financials, selling Bank of America and Axa. Iron Mountain was sold due to deteriorating forward looking metrics signaling slower growth for the company. Six Flags was sold on the basis of weakening revenue and earnings quality as some of the international projects are in doubt. Pfizer was also sold.

Allianz was purchased with strong earnings quality metrics combined with a dividend yield of 4.3%.

## OUTLOOK

Despite the increasingly negative narrative that seems to dominate the discussion of the macroeconomic backdrop, the global expansion continues to roll on and is on the cusp of surpassing the run through the 1990s to early 2000s for the longest stretch of economic growth since at least the turn of the 1900s. Sentiment has indeed weakened amid persistent uncertainty over the outlook, but real activity data continue to point towards sustained growth as strong labour markets globally underpin consumer demand. That said, the slowing in the pace globally has raised concern that the elongated cycle could fizzle out soon. A moderation in growth at this stage of the game is to be expected given that the available resources required to drive above-trend growth are in increasingly low supply.

There are heightened risks to the outlook. This will continue to drive volatility in financial markets as the likelihood of worst-case scenarios materializing ebbs and flows with the stream of media headlines.

At this stage, our research shows yield sustainability is of primary importance. We see less opportunity sets within high yielding companies that can sustain high payouts. We continue to immunize the portfolio against economic uncertainties and greater systemic risk. This is especially true in Europe and Asia. Combine this with the ongoing threats of the U.S. and China Tariff wars uncertainty is expected to cloud visibility in the coming months during earnings season.

As a result of the economic backdrop and our outlook on economies and valuations, our core view on uses of cash investment recommendations are to own stocks that deploy cash in a shareholder friendly way. In these markets we will continue to look for companies with defensive and quality growth characteristics that have dividend growth but with a low probability of dividend cuts. ur decision to increase exposure to the Dividend Growth factor over Dividend Yield over the past few years— which has served well to keep up with the growth market while maintaining reasonable cash flows —has proven beneficial to our performance. The enhancements in our process that have coincided with this period have led to the implementation of our machine learning model for Dividend Growth Forecasting and Dividend Cut Prediction. This has helped us position the portfolio in strong dividend growers and avoid the damaging dividend cutters. In addition to our new machine learning model, we continued to enhance our relative model.

As of June 30, 2019 the mandate had an overweight in Utilities (+4.7%), Consumer Staples (+4.5%) and REITS (+2.0%). Underweight sectors were Financials (-7.6%) and Consumer Discretionary (-2.9%).

Geographically, the portfolio is overweight North America (+ 14.0%) and underweight Asia & Pacific Basin (-10.8%). The mandate does not have a weight in Emerging Markets at this time. The dividend yield at June 30, 2019 was 2.9% and the portfolio has a large cap, high-quality bias.