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Canadian Equity Strategy

Key Takeaways

- ▶ Volatility rose in March as geopolitical risks lifted energy prices, complicating inflation and rate expectations and paring returns.
- ▶ The Strategy delivered positive absolute returns but lagged the benchmark due to weakness among our growth and cyclical holdings in technology and industrials.
- ▶ Positioning in the quarter emphasized disciplined rebalancing — trimming into strength and redeploying into dislocated opportunities — while prioritizing balance sheet health and valuation discipline.

Market Overview

Canadian equities delivered gains in the first quarter, though the path was not linear. January and February were generally strong, supported by resilient risk appetite and continued leadership from select areas of the market. That changed abruptly in March as the onset of the Iran war introduced a new source of geopolitical instability and raised concerns around the security of oil shipments through the Strait of Hormuz. The resulting increase in energy prices added a new layer of uncertainty to the macro outlook, particularly through the potential knock-on effects on inflation expectations and interest rate policy. The S&P/TSX Composite Total Return Index (TRI) briefly fell into negative year-to-date territory during March before recovering to finish the quarter up 3.9%.

While tariff risks and AI-related disruption remained important market themes during the quarter, both took somewhat of a back seat as investors shifted their attention toward the more immediate geopolitical and macroeconomic implications of higher oil prices. Market uncertainty has not disappeared, and concerns around the longer-term effects of AI on business models and industry structure continue to drive significant stock-level dispersion. However, by quarter end, the market's focus had broadened to include the possibility that rising commodity prices, particularly in energy, could complicate the path of monetary easing and place renewed upward pressure on long-term yields.

The macro backdrop at quarter end reflected these crosscurrents. WTI crude oil ended the quarter at \$101.38 per barrel (in USD), while natural gas finished at \$2.88 per mcf. Gold hit an all-time high of \$5,318 in January (in USD), then retraced in March to finish the quarter at \$4,647 per ounce. While geopolitical uncertainty and broader macroeconomic concerns continued to support demand

for hard assets, gold's price action in March was less reflective of its traditional safe haven role than investors might have expected. Government bond yields also remained elevated, with the Canadian 10-year rising 4 bps to end the quarter at 3.47%. The combination of higher commodity prices, elevated yields and renewed geopolitical tension reinforced sector dispersion and contributed to a more uneven market environment.

On an absolute return basis, the Canadian equity market's advance was cautious as only five of 11 GICS sectors posted positive returns. This was led by energy (+30.1%) and utilities (+11.2%). Materials (+10.7%) and communication services (+5.8%) also posted strong gains, while consumer staples rose 3.1%. By contrast, information technology (IT) was the weakest-performing sector, declining 22.5%, followed by health care (-4.5%), real estate (-4.3%) and consumer discretionary (-3.9%). Financials declined 1.9%, while industrials (0.2%) were roughly flat in the quarter.

Defensive areas held up relatively well during the March pullback as investors favored businesses with more resilient earnings and cash flow profiles. Cyclical non-resource and longer-duration segments of the market faced greater pressure, particularly where valuations remained elevated or where investors continued to weigh the effects of AI-related disruption and tariff sensitivity. As in prior quarters, headline index returns masked a more polarized underlying market, with benchmark performance continuing to be shaped by a relatively small group of dominant constituents and macro-driven leadership trends.

Performance Overview

The ClearBridge Canadian Equity Strategy underperformed its S&P/TSX Composite benchmark in the first quarter, driven by both negative sector allocation and security selection, though returns remained positive in absolute terms. The primary detractors were IT, industrials, materials and real estate. This was partially offset by positive contributions from financials and energy. While the quarter was disappointing overall, relative performance improved in March, when the Strategy held up better than the benchmark.

IT underperformance was driven primarily by weakness in held positions rather than benchmark concentration. While the Strategy benefited from being underweight Shopify as the shares declined, this was more than offset by continued weakness in OpenText, CGI, Descartes Systems and Constellation Software. More broadly, several positions we have built have remained under pressure as markets continue to weigh the potential for AI-related disruption despite meaningfully improved valuations.

In industrials, Boyd Group was the largest relative detractor, while Thomson Reuters also weighed on returns. Canadian National Railway and Canadian Pacific Kansas City contributed positively in absolute

terms but did not provide enough relative benefit to offset weakness elsewhere in the sector.

Materials also contributed positively to absolute returns, led by Franco-Nevada and Agnico Eagle Mines. The drag in relative returns came primarily from underweight exposure as stock selection within the sector was positive.

Overall, positioning in energy worked well, the underweight in financials was beneficial, and strong stock selection helped in materials. However, holdings in the Strategy's durable growth and cyclical recovery basket remain under pressure across IT, industrials and real estate.

Portfolio Positioning

Trading activity remained elevated as market volatility and a sharp shift in the geopolitical backdrop created opportunities to both add to and trim positions. As the quarter progressed, markets became increasingly bifurcated, with defensive areas and energy holding up better while several higher-quality durable growth and cyclical recovery names remained under pressure. Against that backdrop, we selectively reduced positions on strength while redeploying capital into dislocated businesses where we believe the market is overly discounting long-term value. Activity during the quarter included additions across materials, industrials, IT, financials and real estate, funded in part through trims in energy, utilities, consumer staples and communication services.

We initiated a position in mining company Capstone Copper, which offers a solid medium-term production growth profile, with the Mantoverde mine expected to support higher output in 2027 and Santo Domingo project offering an additional fully permitted growth option. The company entered 2026 with more than \$1 billion in available liquidity, giving us confidence in the balance sheet as it advances its next phase of growth.

In utilities, we exited our position in Hydro One following strong performance. The sector remained supported by resilient fundamentals, including growing electricity demand linked to AI and data center expansion, alongside increased safe haven buying amid rising geopolitical tensions late in the quarter. While we continue to value the strength of these businesses' franchises and visible growth opportunities, we elected to reduce exposure in favor of more attractive opportunities.

In financials, we initiated a new position in ONEX following share price weakness, as we believe the market is underappreciating both the value of its invested capital and the company's ongoing transition from a NAV-discounted holding company to an earnings-oriented financial services business. In our view, ONEX has the potential to become a meaningful driver of longer-duration underwriting earnings and float for asset management, while its

invested capital allows it flexibility to add more platforms adjacent to financial services over time, helping unlock market recognition of its balance sheet value.

At quarter end, the Strategy's largest sector exposures were financials, energy and industrials. Relative to the benchmark, the Strategy is overweight industrials and the generally defensive/non-cyclical consumer staples. The Strategy is most underweight the typically value-oriented and cyclical materials and financials sectors.

Outlook

The first quarter of 2026 was another period in which Canadian equity leadership was narrower than headline index returns would suggest. The Strategy generated positive absolute returns, though relative performance was disappointing. That, again, reflected the challenge of a concentrated benchmark and our willingness to stay selective where valuations remain stretched. More important than the quarter's numbers, however, is what it revealed about the Strategy: dispersion remains high, several high-quality businesses have become more attractively priced and we believe the Strategy is better positioned today than the recent scorecard alone would suggest.

Three factors defined the quarter. First, energy remained a constructive part of the Strategy. Our full weight in energy also gives the Strategy important exposure to higher oil prices in an environment where geopolitical developments can quickly affect supply expectations. Second, several software, workflow and industrial holdings we have been building came under further pressure as investors continued to weigh AI-related disruption. Higher-valuation equities saw share price pressure in the quarter, including businesses that, in our view, are more removed from direct AI risk. Third, benchmark leadership continued to favor areas where we remain selective, particularly within materials, where strong share price performance has not eliminated the need for discipline. Taken together, we see this less as broad-based thesis impairment and more as another example of a polarized market.

The most important development in the quarter was how capital was recycled. We leaned into select dislocations where share price weakness moved faster than intrinsic value, especially across information services, software and workflow businesses where AI concerns are real but, in our judgment, increasingly reflected in valuations. At the same time, we think that the AI debate is more nuanced than current market pricing often suggests. While AI clearly has the potential to disrupt some business models, it can also create meaningful benefits for a much broader set of companies through improved productivity, better asset efficiency and stronger operating leverage over time.

We are encouraged that the market remains inefficient in places that matter. March was a reminder that defensive positioning still has an important role to play when macro and geopolitical risks reassert themselves. That positioning helped during the month as markets became more unsettled. More broadly, benchmark concentration is still elevated, and AI continues to create a sharp divide between perceived winners and perceived losers. Gold and other dominant themes still command disproportionate attention, while several durable businesses with resilient cash flows and strong competitive positions remain out of favor. We do not see the Canadian equity market as a simple reflection of the Canadian economy, nor do we believe short-term leadership is a reliable guide to long-term opportunity. In an environment where geopolitical and policy uncertainty persists and valuations remain extended in some pockets, selectivity, balance sheet strength and disciplined security selection matter as much as ever.

While not satisfied with recent relative results, we believe the activity in the first quarter further improves the risk-reward of the Strategy. Our objective remains unchanged: to own high-quality Canadian businesses at meaningful discounts to intrinsic value, pursue attractive absolute and relative returns over time, and to do so with a better risk profile than the benchmark. That does not mean keeping pace in every narrow or momentum-driven period. It means staying disciplined, managing downside carefully and redeploying capital when dislocation improves future return potential. We believe that discipline remains central to the role the ClearBridge Canadian Equity Strategy is designed to play in client portfolios.

Portfolio Highlights

During the first quarter, the ClearBridge Canadian Equity Strategy underperformed its S&P/TSX Composite TRI benchmark. On an absolute basis the Strategy generated positive returns across five of the 10 sectors in which it was invested (out of 11 total), with energy the primary contributor and IT the main detractor.

On a relative basis, overall stock selection and sector allocation detracted from performance. In particular, stock selection in industrials, IT and consumer discretionary, an underweight to materials and overweights to IT and industrials weighed on results. On the positive side, stock selection in materials and an underweight to financials contributed to performance.

On an individual stock basis, top relative detractors included Open Text, CGI, Boyd Group, Thomson Reuters and not holding Suncor Energy. Top relative contributors included Headwater Exploration, Cenovus Energy, Franco-Nevada, Keyera and an underweight to Shopify.

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