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## Canadian Dividend Strategy

### Key Takeaways

- ▶ Canadian equities closed out 2025 on a constructive note despite ongoing uncertainty around global growth and trade, with materials propelled by surging gold prices.
- ▶ We are meaningfully underweight the gold sub-industry, which drove relative underperformance, while security selection in industrials and utilities contributed positively.
- ▶ Portfolio activity in the quarter reflected a continued emphasis on upgrading business quality and the consistency of long-term value creation where valuations offered an attractive risk-reward.

### Market Overview and Performance

Equities closed out 2025 on a constructive note despite ongoing uncertainty around global growth and trade. In Canada, equity markets continued to push higher through the fourth quarter with the S&P/TSX Composite Total Return Index (TRI) advancing 6.3% and touching an all-time high in the period. Market sentiment improved as the quarter progressed, but volatility persisted, with leadership concentrated in financials and materials in Canada, while broader participation across sectors remained uneven.

Eight of 11 GICS sectors in the S&P/TSX Composite advanced in the fourth quarter. Market leadership was driven by materials (+11.9%), consumer discretionary (+11.0%) and financials (+10.5%). Materials performance was propelled by surging commodity prices, led by gold producers, while copper producers also demonstrated solid gains. Consumer discretionary benefited from a rebound following softness in the previous quarters as trade-related uncertainties, including proposed tariffs and counter-tariffs, started to subside. Financials outperformed as Canadian banks delivered strong quarterly results, supported by constructive capital-markets activity and an easing rate backdrop that helped underpin credit conditions. Meanwhile, real estate (-5.8%), communication services (-1.7%) and industrials (-1.4%) were the three worst-performing sectors.

During the fourth quarter, the ClearBridge Canadian Dividend Strategy generated a positive absolute return but underperformed the S&P/TSX Composite Total Return Index. From a sector standpoint, the Strategy's positioning in materials represented the most significant headwind, followed by information technology (IT) and communication services.

In materials, gold's "safe haven" status remained a defining theme with gold bullion continuing its ascent, finishing at US\$4,341 per ounce, up 13.0% in the quarter and 64.4% for the year. Although producers are currently generating significant free cash flow due to prevailing gold prices, opportunities that satisfy our criteria for robust balance sheets, high-quality assets and prudent capital allocation remain relatively limited. Against this backdrop, we are meaningfully underweight the gold sub-industry, which ended the quarter with a 13.3% weight in the index. While new position Wheaton Precious Metals was a positive contributor in the quarter, not owning Barrick Mining was a more meaningful detractor.

In IT, divided opinions about which companies will emerge as the primary beneficiaries of AI and which will face disruption and competition pressures continue to influence performance. Against this backdrop, not owning Shopify and Celestica hampered returns for the quarter. However, relative underperformance in sector was most notably negatively impacted by an overweight stance in OpenText, which saw a pullback in share price following its quarterly results, with concerns arising around its organic growth targets. We remain constructive on the name as we await a number of catalysts to unfold in the near-to-medium term.

Our overweight to the lagging communication services sector adversely affected relative performance during the quarter. In particular, a significant position in Telus proved challenging, as increasing concerns over the company's financial health and its capacity to sustain dividend payments intensified against a backdrop of lingering industry competition.

On the positive side, partially offsetting these headwinds, security selection in both industrials and utilities contributed to relative results.

### Portfolio Positioning

Portfolio activity in the quarter reflected a continued emphasis on upgrading business quality and the consistency of long-term value creation where valuations offered an attractive risk-reward. Rather than responding to short-term market momentum, we allocated capital selectively toward businesses with durable cash flows, proven capital allocation discipline and sustainable reinvestment opportunities that are well-suited to a higher cost-of-capital environment.

Within materials, we initiated a position in Wheaton Precious Metals, adding exposure to precious metals through a capital-light streaming model rather than traditional mining operations. While gold prices have been strong, our interest in Wheaton is not driven by short-term price momentum, but by the company's underlying economics. At current commodity prices, the economic reserve lives of many of Wheaton's underlying assets have expanded materially,

increasing long-term cash flow potential without requiring incremental capital investment. The streaming model limits operating and cost inflation risk while providing embedded optionality to precious metal prices. In our view, the valuation reasonably reflects current conditions while underappreciating this long-duration optionality.

In industrials, we added WSP Global, a leading professional services firm with a diversified global footprint and long-duration growth characteristics. Recent share price weakness reflected concerns around near-term funding cycles and acquisition integration, but in our view these risks are more than discounted at current valuation levels. WSP benefits from strong backlog visibility, solid free cash flow generation and exposure to long-term infrastructure investment, environmental remediation and urbanization trends. These attributes support a durable compounding profile that aligns well with our focus on business quality, balance sheet strength and long-term value creation.

Finally, we initiated a position in Brookfield Asset Management, reflecting our view that the company offers an attractive way to participate in long-term real asset and private market growth without relying on equity multiple expansion. The simplified structure following its separation from Brookfield Corp. has improved transparency, while fee-bearing capital growth and operating leverage underpin a compelling long-term earnings profile. At current valuations, we believe the market is underestimating the durability and scalability of Brookfield's fee-related earnings stream.

We financed our recent purchases in part by exiting positions in Nutrien and Freehold Royalties, where valuations had become more reflective of near-term fundamentals and offered less compelling forward return potential, in our view.

Other positioning involved reducing exposure to Bank of Montreal, Scotiabank, Royal Bank of Canada and Toronto-Dominion Bank as valuation multiples expanded following their relative outperformance. We reallocated proceeds to Intact Financial on relative weakness as competitive dynamics in large commercial accounts temporarily weighed on results and sentiment. We remain constructive on Intact's outlook, supported by its leading market share, consistently above-industry return on equity and strong long-term earnings growth profile. In IT, we added to Constellation Software following share price weakness around competitive pressures and margin implications from AI. We remain confident in Constellation's decentralized operating model, disciplined capital allocation and robust pipeline of vertical market software acquisitions, which collectively support long-term compounding. Finally, within utilities, we trimmed Canadian Utilities as valuation became more demanding relative to expected returns and added to Brookfield Infrastructure Partners LP,

reflecting our conviction in its globally diversified portfolio of essential, long-life infrastructure assets.

### Outlook

A strong and increasingly concentrated advance for stocks has reduced the margin of safety in parts of the market, even as select businesses continue to trade at meaningful discounts despite durable fundamentals. While economic growth is moderating, corporate balance sheets remain healthy and recessionary conditions are not evident. At the same time, higher capital costs and policy uncertainty are encouraging more cautious investment behavior. In this environment, valuation discipline, balance sheet strength and the durability of free cash flows remain critical. We continue to rely on fundamental analysis to guide portfolio positioning, seeking to provide predictability and downside protection while maintaining reasonable valuations. We believe this disciplined, long-term-oriented approach positions investors well in what remains an uncertain investing climate.

### Portfolio Highlights

The ClearBridge Canadian Dividend Strategy underperformed its S&P/TSX Composite TRI benchmark during the fourth quarter. On an absolute basis, the Strategy generated gains across six of nine sectors in which it was invested (out of 11 sectors total). The top-contributing sectors were the financials and utilities sectors, while IT and communication services were the main detractors.

Relative performance was negatively impacted by a combination of sector allocation and security selection. Stock selection in materials, IT, energy, communication services and financials, as well as a materials underweight and utilities and communication services overweights detracted the most. Conversely, stock selection in industrials, utilities and real estate proved beneficial.

In terms of individual securities, the top contributors to relative returns were Canadian Utilities, CCL Industries and not owning Brookfield Corp., Thomson Reuters and TC Energy. The main relative detractors were Open Text, Telus, Franco-Nevada, Keyera and not owning Barrick Mining.

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