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Canadian Dividend Strategy

Key Takeaways

- ▶ Canadian equity exposure offered a degree of insulation relative to the broader U.S. market, with the S&P/TSX Composite Index returning 3.9% in the quarter in Canadian dollars.
- ▶ Gold and copper remained important beneficiaries of the quarter's risk environment, while oil moved sharply higher as disruption around the Strait of Hormuz refocused markets on energy security and supply risk.
- ▶ We continue to shape the portfolio guided more by valuation discipline and business quality than by top-down macro views.

Market Overview and Performance

Canadian equities delivered a positive return in the first quarter, though the path was not linear. January and February were generally strong, supported by resilient risk appetite. That backdrop changed abruptly in March when 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 move higher 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. In this environment, Canadian equity exposure offered a degree of insulation relative to the U.S. market. The benchmark S&P/TSX Composite Index returned 3.9% in the quarter in Canadian dollars, compared to a 2.6% decline for the S&P 500 Index.

Gold and copper remained important beneficiaries of the quarter's risk environment, with gold still posting a quarterly gain and copper reaching a record high in January, while oil moved sharply higher as disruption of Middle East production and implicit closure of the Strait of Hormuz refocused markets on energy security and supply risk.

Against this backdrop, the Strategy performed better than its benchmark in the quarter, driven by its differentiated, dividend-oriented portfolio that benefited from underweights to information technology (IT) and consumer discretionary, an overweight to utilities and stock selection in industrials and materials.

Strong stock selection in the industrials sector was driven by Thomson Reuters (a new position) and Toromont Industries. Materials was helped by strong performances from Franco-Nevada and Agnico Eagle Mines as well as not owning Barrick Mining.

In IT, not owning Shopify helped relative results as shares sold off; this overcame the relative headwind of poor performance from holding Open Text. Not owning Dollarama was beneficial in consumer discretionary.

Midstream energy was rewarded in a tight energy market and for its defensive cash flows in a more volatile market, helping Keyera and Pembina Pipeline. At the same time, this tailwind was offset by not owning Suncor Energy.

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, capital was allocated selectively to businesses with durable cash flows, proven capital allocation discipline and sustainable reinvestment opportunities that are well-suited to a higher cost-of-capital environment.

We established a new position in Thomson Reuters following a sharp decline in the share price, which left the stock down more than 50% from its July 2025 high by mid-quarter. Thomson Reuters is still widely viewed as an AI “loser,” but we believe the market is underestimating both the resilience of the core franchise and the opportunity AI may create. We expect AI to expand, rather than compress, the legal and tax technology addressable market as customers add new tools on top of existing core systems. With a moat built on proprietary content, editorial validation and deeply embedded workflows, Thomson Reuters appears well positioned to integrate and monetize AI as the competitive landscape evolves.

We also added to our existing position in Wheaton Precious Metals on more than one occasion, maintaining exposure to one of the very few precious metals businesses we continue to view as high quality enough for the portfolio. Although our approach is often countercyclical, we remain comfortable with the position given the company’s strong profitability at current precious metals prices and the resilience of its streaming model. Wheaton continues to deploy cash flow into top-tier assets with high-quality counterparties, as shown by the quarter’s \$4.3 billion silver stream on BHP’s interest in Antamina. In our view, that transaction reinforces the company’s long-term growth profile while preserving exposure through a business with strong margins, limited operating risk and disciplined capital allocation.

During the period, we trimmed our position in EQB after a strong share price recovery following our initial purchase in 2025. Investor sentiment has improved meaningfully, supported both by the market’s positive reaction to the announced PC Financial acquisition and by what has been a persistent re-rating across Canadian bank

stocks. While we continue to view the acquisition as strategically important, the improved valuation led us to take some profits.

We also continued to add to newer positions in Constellation Software and WSP Global.

Other sources of cash during the period included trims to positions where we remain constructive on the outlook but where valuations have more closely approached our assessment of intrinsic value. These included Canadian Utilities, CCL Industries, Toromont Industries, Cenovus, Granite REIT and Alimentation Couche-Tard.

Outlook

We continue to shape the portfolio guided more by valuation discipline and business quality than by top-down macro views. As higher rates and moderating growth continue to sharpen the distinction between businesses, we remain focused on companies with durable cash flows, conservative balance sheets and the capacity to compound value throughout the cycle. We believe these qualities are also closely aligned with our dividend emphasis, supporting resilient current income and the potential for growth in shareholder distributions over time.

Portfolio Highlights

The ClearBridge Canadian Dividend Strategy outperformed its S&P/TSX Composite TRI benchmark during the first quarter. On an absolute basis, the Strategy generated positive contributions across seven of nine sectors in which it was invested (of 11 total). The top-contributing sectors were the energy, materials and utilities sectors, while IT and financials were the detractors.

Relative performance was positively impacted by both sector allocation and security selection. Stock selection in industrials and materials, an IT underweight, utilities overweight and a lack of consumer discretionary holdings contributed the most to relative results. Conversely, stock selection in energy and IT and underweights to materials and energy detracted.

In terms of individual securities, the top contributors to relative returns were Keyera, Pembina Pipeline, Franco-Nevada and not owning Shopify or Brookfield Corp. The main relative detractors were Open Text, Intact Financial, TMX, Constellation Software and not owning Suncor.

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