



Canadian Dividend Strategy



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Key Takeaways

- ▶ Canadian equities finished the third quarter modestly higher, with the quarter defined by a renewed energy shock and a sharp rise in bond yields rather than by broad equity gains.
- ▶ The Strategy generated a positive absolute return for the quarter and modestly outperformed the S&P/TSX Composite Dividend Index.
- ▶ We remain constructive on energy infrastructure, where contracted cash flows benefit from tighter physical markets without direct commodity exposure, and disciplined on gold producers after a volatile quarter.

Market Overview

Canadian equities finished the third quarter modestly higher, but the period was defined by a renewed energy shock and a sharp rise in bond yields rather than by broad equity gains. The ceasefire that had reopened the Strait of Hormuz in June collapsed in early July after Iranian attacks on commercial shipping drew fresh U.S. strikes and hostilities escalated through the summer. Oil rallied roughly 30% over the quarter, gold set new highs and government bond yields rose sharply on both sides of the border, with the 10-year Government of Canada yield climbing from about 3.4% to just under 4.0% and the U.S. 10-year moving above 5%.

Against that backdrop the S&P/TSX Composite Index rose 1.6%, while the S&P/TSX Composite Dividend Index added just 0.3%. The gap reflects the composition of the dividend universe, which carries the rate-sensitive utility, telecommunications, real estate and pipeline names that sold off as yields rose and excludes Shopify, which gained about 30% and was the single largest contributor to the broader index. Only three of benchmark's 11 sectors advanced, materials (+13.1%), IT (+7.3%) and energy (+3.6%), while communication services, real estate, utilities and consumer staples each fell roughly 7.0%–9.0%, and financials declined 3.0% as the banks gave back part of the second quarter's 25.6% advance despite record results.

Performance Overview

The Strategy generated a positive absolute return for the quarter and modestly outperformed the S&P/TSX Composite Dividend Index. Our long-standing overweights in utilities and communication services were a headwind as bond yields rose, while security selection was supportive, led by the precious metals royalty and streaming holdings, business

services provider Thomson Reuters and financials exchange operator TMX Group. Not owning CIBC, National Bank, Brookfield Corporation and TC Energy also helped, even as those positive effects were partially offset by not owning Suncor, the strongest-performing large cap energy name.

Wheaton Precious Metals, Agnico Eagle Mines and Franco-Nevada were the largest materials sector contributors. Each reported record second-quarter cash flow on firm gold and silver prices, and Wheaton's first investor day under new CEO Haytham Hodaly reiterated its path to 1.2 million gold-equivalent ounces by 2030 without the need for incremental capital. Our precious metals exposure remains concentrated in the streaming and royalty model and in Agnico, where asset quality, jurisdiction and capital discipline meet our criteria, rather than in the broader producer group.

In energy, Canadian Natural Resources and Cenovus Energy benefited from the crude rally while also delivering record production and raising guidance. Both companies continue to convert higher commodity prices into free cash flow and shareholder returns rather than into growth capital.

TMX Group reported 16% revenue growth and announced the combination of MEMX and BOX, and the concerns about prediction markets and crypto perpetual futures that created our second-quarter buying opportunity receded. Thomson Reuters saw organic growth accelerate to 8% with guidance raised, although volatility in the stock persists. We have continued to be opportunistic buyers of the stock on weakness.

Intact Financial was a detractor after a catastrophe-heavy second quarter, with a combined ratio of 94.9% including roughly four points of excess catastrophe losses and a U.K. personal lines result above 110%. Underwriting returns remain in the upper teens, book value per share grew 13% and excess capital stands at \$3.7 billion (CAD). We have viewed the underperformance of Intact shares as an outsize opportunity to build a meaningful position in one of Canada's best franchises.

Telus declined after new management reset guidance in late July and cut the dividend by roughly 55% to fund deleveraging and a restructuring program. We had added modestly to the position in early July, and have maintained the position, with the view that under new stewardship and with improved financial capacity following the dividend cut, there is a path for Telus to make the strategic adjustments necessary to re-establish a positive growth trajectory.

Alimentation Couche-Tard (ATD) fell despite a solid fiscal first quarter, with adjusted earnings per share up 15%, as the market weighed the capital committed to a controlling stake in Poland's Żabka Group and the associated pause in share repurchases. We believe Żabka is strategically consistent and aligned with ATD's M&A track record. Management has called out Żabka's innovative in-store approach as offering some portable concepts that could be applied across other banners.

Enbridge, Keyera and Fortis were under pressure as rates lifted (our underweight to Enbridge was beneficial relative to the benchmark).

Pembina, Brookfield Infrastructure Partners LP and RioCan were modestly lower for the same reason, and the banks were collectively down modestly, despite notably strong third-quarter earnings across the board.

Portfolio Positioning

Trading activity was light relative to the first half of the year. We used the quarter to add to high-quality businesses on weakness and to trim positions where strong performance had brought valuations closer to our assessment of intrinsic value.

In financials, we trimmed Bank of Montreal and Bank of Nova Scotia after strong share price performance and persistent elevated valuations, continuing the gradual reduction in bank exposure we began earlier in the year. Proceeds were redeployed into Intact Financial and Brookfield Asset Management.

In energy, we added to Cameco in July after a sharp pullback, consistent with the view expressed last quarter that we would build the position if volatility moved the valuation more meaningfully in our favor. We also added to Enbridge in September, participating in the company's equity financing of its Tallgrass acquisition. Enbridge's shares had declined with bond yields while its 2026 guidance remained on track and roughly C\$9 billion of new projects were sanctioned during the year, and we viewed the pullback as an attractive point at which to add to the position.

In communication services, we added to Telus in early July, funded by a trim to RioCan, where strong operating results, including record 98.8% occupancy and same-property net operating income growth of 4.3%, had been well recognized by the market.

Outlook

Looking ahead, the fourth quarter opens with an unusually wide range of outcomes. We do not attempt to forecast the path of oil, gold or policy rates. Our approach is to own businesses whose cash flows and dividends can withstand that uncertainty, and to use dislocations as they arise. We have been selective in adding where we have a line of sight to growing free cash flow, and where balance sheets and payout coverage are sound. We remain constructive on energy infrastructure, where contracted cash flows benefit from tighter physical markets without direct commodity exposure, and disciplined on gold producers after a volatile quarter. We continue to recycle capital from fully valued positions into those offering better risk-adjusted total return.

Portfolio Highlights

The ClearBridge Canadian Dividend Strategy outperformed its S&P/TSX Composite Dividend benchmark during the third quarter. On an absolute basis, the Strategy had positive contributions from four of the nine sectors in which it was invested (out of 11 sectors total). The leading contributors were the materials and energy

sectors, while the communication services and consumer staples sectors detracted the most.

On a relative basis, stock selection in financials, utilities, industrials and materials contributed to performance. Conversely, stock selection in energy detracted from performance. An overweight to utilities and an underweight to materials also weighed on results.

On an individual stock basis, the largest contributors to relative returns were Wheaton Precious Metals, TMX Group and not owning Brookfield, TC Energy and RB Global. The largest detractors were Telus, Intact Financial, Keyera and not owning Suncor Energy and Barrick Mining.

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