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Canadian Dividend Strategy

Key Takeaways

- ▶ The S&P/TSX Composite Total Return Index surged 12.5% in the third quarter of 2025, reaching a new all-time high on the final day of the quarter.
- ▶ The Strategy's defensive profile and its materials and energy holdings were relative headwinds in the quarter, although IT and industrials positioning was strong.
- ▶ We believe our consistent focus on long-term fundamentals and valuation puts investors on solid footing in what remains an unstable investing climate.

Market Overview

The S&P/TSX Composite Total Return Index surged 12.5% in the third quarter of 2025, reaching a new all-time high on the final day of the quarter. Strength was broad based, with new records set by seven of 11 Canadian GICS sectors.

The Strategy generated strong absolute returns, although its defensive profile — overweights to utilities, consumer staples, telecom stocks, and underweight to the more cyclical materials sector, in particular in gold equities — detracted from its relative performance.

In materials, surging commodity prices drove strong gains for gold producers, with additional support coming from solid performance in copper producers. Our not owning Barrick Mining was a relative headwind, although the Strategy's gold-related holdings, Agnico Eagle Mines and Franco-Nevada, were both strong performers year to date.

In information technology (IT), Canadian stocks performed well collectively, but under the surface perceived winners and losers of artificial intelligence (AI) saw a divergence in performance. Canada's largest IT player, Shopify (not owned in the Strategy) remains less of an AI story but continued to execute operationally to the satisfaction of shareholders. With a refreshed capital program and improved communication around its AI roadmap, Open Text shares gained. Recent addition Constellation Software saw continued weakness as investors contemplated potential AI disruption to the business.

Our top absolute contributor was Bank of Montreal: BMO kept pace with Canadian bank strength as the outlook for credit losses moderated, capital markets activity rebounded and excess capital positions enabled return on equity improvements via buybacks. BMO

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continues its run of impressive performance in Canada and provides a line of sight to strengthening and scaling its U.S. franchise.

In industrials, Toromont Industries, which distributes and services heavy machinery for construction, mining, agriculture and road building, was a top performer as the company delivered solid results that demonstrated its continued strong backlog and diverse business mix. Furthermore, its industrial cooling business is maintaining a very strong pace of profitable growth. Strong demand for infrastructure building and mining (helped by soaring commodity prices) drove an abrupt recovery from tariff-related weakness earlier in the year. We trimmed our position on strength, retaining a core holding given Toromont's superior capital discipline and market leadership. Proceeds from the sale were reallocated into our existing position in relative underperformer Waste Connections.

An active weight in Toromont, meanwhile, along with not owning the underperforming Thomson Reuters, drove positive stock selection in industrials, which overcame weakness from the railways — Canadian National Railway and Canadian Pacific Kansas City — which were pressured by softer shipping volumes, trade uncertainty and lingering macroeconomic headwinds causing both companies to lower guidance in 2025. We continue to view both Canadian railways as representing attractive risk-adjusted reward opportunities.

In energy, commodity price volatility and weakness resulted in poor performance for our holdings, particularly in natural gas. Stronger performance from Parex Resources and Cenovus Energy was not enough to offset weaker overall performance from our natural gas-focused producers ARC Resources and Tourmaline.

Portfolio Positioning

A number of portfolio opportunities emerged in the quarter, and trading activity was elevated. We exited several positions, among them Parkland, following its previously announced takeover by Sunoco, and Parex Resources, Brookfield Renewable and Saputo, as valuations either approached or exceeded fair value and left less prospective upside. We also completed a patient exit from Allied Properties, where fundamentals continue to deteriorate amid higher office vacancy rates and rising refinancing costs. Finally, we reallocated capital from Sun Life into our existing position in Manulife, reflecting a more attractive valuation and stronger near-term growth outlook. We remain encouraged by Manulife's high return on equity and increasing targets, coupled with an attractive valuation relative to other life insurance companies.

Also in financials, we initiated a position in EQB and added to our existing position in Intact Financial. EQB is Canada's leading digital-first bank, delivering above-average growth through innovative online banking, mortgages and commercial lending. Its asset-light, technology-driven model allows it to operate with lower costs and

higher efficiency than traditional peers. The company has delivered strong earnings growth and a high return on equity, supported by prudent risk management and expanding customer adoption. Competition for large accounts led to softer results in Intact Financial's commercial insurance business, resulting in a muted share price response. Management reiterated that premium growth would exceed claims costs, given that most of Intact's commercial book is unaffected by weaker market dynamics. We remain positive on the company's outlook, supported by its 20% Canadian market share, consistent above-industry ROE and strong long-term profit growth.

In IT we opportunistically initiated a position in Constellation Software on weakness related to investor concerns around the impact of AI on the business, coupled with the unfortunate announcement that Mark Leonard has resigned as president due to health reasons. While these events understandably weighed on the shares, we view the pullback as a chance to enter a best-in-class compounder that our team has admired for a long time. Constellation's culture of capital allocation discipline, decentralized structure and embedded incentives, all designed by Leonard, have enabled a remarkable 27% free cash flow per share compounded annual growth rate since its IPO. With Mark Miller, a Constellation veteran, stepping in as president, we believe the company's proven process will continue to drive outsize returns over the long term.

In materials we added Teck Resources to the portfolio late in the quarter. The stock has underperformed driven largely by weaker-than-expected operational results and revised guidance at its flagship QB2 copper project in Chile. Despite these headwinds, shares more recently experienced a recovery following the announcement of a takeover proposal from Anglo American. While the consummation of a transaction remains uncertain and the stated timeline is protracted (12–18 months), the development highlights the strategic value of Teck's world-class assets and substantiates investor expectations for an eventual turnaround at QB2.

In energy we reduced our position in Cenovus Energy after building the stake aggressively during the stock's selloff in the spring. With the rebound in oil prices and share performance, we realized partial gains while maintaining a meaningful position.

Outlook

Overall, these portfolio adjustments enhance our exposure to high-quality dividend growers at attractive valuations while maintaining balanced sector diversification. In this rising equity market environment, we continue to be concerned that various risks, notably macro headwinds and political uncertainty, are being priced out of market valuations. We continue to emphasize defensive positioning and dividends, aiming to provide predictability and downside protection while maintaining reasonable valuations. In our

view, our consistent focus on long-term fundamentals and valuation puts investors on solid footing in what remains an unstable investing climate.

Portfolio Highlights

The ClearBridge Canadian Dividend Strategy underperformed its S&P/TSX Composite TRI benchmark during the third quarter. On an absolute basis, the Strategy generated gains across all nine sectors in which it was invested (out of 11 sectors total). The top-contributing sectors were the financials and materials sectors.

On a relative basis, stock selection and sector allocation detracted. Stock selection in materials and energy, as well as an underweight to materials and an overweight to utilities, detracted. Conversely, stock selection in the IT and industrials sectors and a lack of exposure to the consumer discretionary sector proved beneficial.

In terms of individual securities, the top contributors to relative returns were Open Text, Franco-Nevada, Toromont Industries, an underweight to Constellation Software and not owning Thomson Reuters. The main relative detractors were TMX, Canadian National Railway and Metro, and not owning Shopify and Barrick Mining.

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