

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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In accordance with securities regulatory requirements, the discussion and analysis which follows for Guardian Capital Group Limited and its subsidiaries and other controlled entities ("Guardian") pertains to the three and six-month periods ended June 30, 2020 and the comparative periods in the year 2019, as well as to certain other prior quarterly periods. Readers are encouraged to refer to the discussions and analyses contained in the 2019 Annual Report and 2019 Quarterly reports previously issued. This discussion and analysis has been prepared as of August 13, 2020.

Additional information relating to Guardian and its business, including Guardian's Annual Information Form, is available on "SEDAR" at [www.sedar.com](http://www.sedar.com).

**CAUTION CONCERNING FORWARD-LOOKING STATEMENTS**

Guardian may, from time to time, make "forward-looking statements" in annual and quarterly reports, and in other documents prepared for shareholders or filed with securities regulators. These statements, characterized by such words as "goal", "outlook", "intends", "expects", "plan", "prospects", "are confident", "believe" and "anticipate", are intended to reflect Guardian's objectives, plans, expectations, estimates, beliefs and intentions.

By their nature, forward-looking statements involve risks and uncertainties. There is a risk that the expectations reflected in such forward-looking statements will not be achieved. Undue reliance should not be placed on these statements, as a number of factors could cause actual results to differ materially from Guardian's objectives, plans, expectations and estimates reflected in the forward-looking statements. Factors which could cause actual results to differ from expectations include, among other things, the economic and global financial impact of COVID-19 pandemic, general economic and market conditions, including interest rates, business competition, changes in government regulations or in tax laws, and other factors.

**OVERVIEW OF GUARDIAN'S BUSINESS**

Guardian is a diversified financial services company, which serves the wealth management needs of a range of clients through its various business segments. The areas in which Guardian operates are: Investment Management, Financial Advisory, and Corporate Activities and Investments. The institutional investment management business is operated through the Toronto, Ontario-based Guardian Capital LP ("GCLP"), London, UK-based GuardCap Asset Management Limited ("GuardCap") and Salt Lake City, Utah-based Alta Capital Management, LLC ("Alta"). In addition, Private wealth management is operated through Guardian Capital Advisors LP ("GCA"), international private banking through Alexandria Bancorp Limited ("ABL"), and the recently-acquired digital-advisory business through Modern Advisor Canada Inc. ("Modern Advisor"). The financial advisory business is operated through IDC Worldsource Insurance Network Inc. ("IDC WIN") and Aurrea Signature Inc. ("Aurrea"), which was acquired on December 31, 2019, our insurance managing general agencies (together the "MGA"), and Worldsource Financial Management Inc. ("WFM"), a mutual fund dealer and Worldsource Securities Inc. ("WSI"), a securities dealer (together, the "Dealers"). Guardian is headquartered in Canada and operates in Canada, the United Kingdom, the United States and the Caribbean. As at June 30, 2020, Guardian had \$31.2 billion of assets under management ("AUM") and \$20.0 billion of assets under administration ("AUA"). In addition, Guardian has a diversified portfolio of securities which had a fair value of \$511 million at the end of the quarter.

**USE OF NON-IFRS MEASURES**

Guardian uses certain measures to evaluate and assess the performance of its business, which are not defined within International Financial Reporting Standards ("IFRS"). These measures are EBITDA, EBITDA per share, adjusted cash flow from operations, adjusted cash flow from operations per share, equity per share, and securities per share. Non-IFRS measures do not have standardized meanings prescribed by IFRS, and are therefore unlikely to be comparable to similar measures presented by other companies. However, Guardian believes that most shareholders, creditors, other stakeholders and investment analysts prefer to include the use of these measures in analyzing Guardian's results. On pages 26 and 27 of this report, a description of how these measures are defined by Guardian is provided, with reconciliations to their most comparable IFRS measures.

**COVID-19 UPDATE**

Guardian's second quarter 2020 Operating earnings benefited from the sharp rebound in the global financial markets, as they recovered from the significant declines in the first quarter of 2020, at the onset of the COVID-19 pandemic. In addition, the actions taken to de-risk the balance sheet, repay debt to raise liquidity and to manage costs prepared Guardian well to emerge from the market disruptions, which had occurred in the first quarter.

The sharp rebound in the global financial markets increased the fair value of Securities in the current quarter. However, the rebound was not as dramatic as the decrease in the first quarter. The Canadian equities market, to which the large holding in the Bank of Montreal ("BMO") shares are exposed, lagged the other equities markets in recovery. In addition, 800,000 shares of BMO were sold year-to-date to de-risk the balance sheet and to pay down a portion of the debt outstanding, in response to the pandemic. These two factors resulted in the fair value of securities being lower than they were at the end of Q1 2020 and at the end of 2019.

Guardian's Business Continuity Plan ("BCP") continues to operate effectively with substantially all of its Associates being able to work from their homes. Guardian has started to plan and allow certain Associates to return to their offices, if they chose to do so, but under strict safety protocols. Throughout the period, Guardian has been able to protect and retain substantially all of its Associates, who were instrumental in our successful operations during the disruptions caused by the pandemic. The retention of our Associates throughout the market disruptions better prepared Guardian to benefit from the rebound in the global financial markets and to weather any future market volatility.

## CONSOLIDATED FINANCIAL RESULTS

The comparative financial results of Guardian on a consolidated basis are summarized in the following table:

For the periods ended June 30 (\$ in thousands, except per share amounts)	Three months		Six months	
	2020	2019	2020	2019
Net revenue	\$ 50,124	\$ 45,963	\$ 100,025	\$ 90,254
Expenses	36,697	33,373	75,785	66,488
Operating earnings	13,427	12,590	24,240	23,766
Net gains (losses)	43,254	7,957	(118,035)	73,840
Net earnings before income taxes	56,681	20,547	(93,795)	97,606
Income tax expense	5,437	2,946	(10,128)	11,906
Net earnings	\$ 51,244	\$ 17,601	\$ (83,667)	\$ 85,700
Net earnings (loss) attributable to shareholders	\$ 50,486	\$ 16,838	\$ (85,882)	\$ 84,058
EBITDA	17,302	16,238	31,672	30,747
Adjusted cash flow from operations	15,403	12,524	28,723	23,028
Diluted per share amounts				
Net earnings (loss) attributable to shareholders	\$ 1.87	\$ 0.62	\$ (3.38)	\$ 3.06
EBITDA	0.64	0.60	1.18	1.12
Adjusted cash flow from operations	0.57	0.46	1.07	0.84
As at				
(\$ in millions, except per share amounts)	2020		2019	
	June 30	December 31	June 30	
Assets under management	\$ 31,196	\$ 31,147	\$ 30,090	
Assets under administration	20,010	20,248	18,784	
Shareholders' equity	596	683	648	
Securities	511	682	663	
Diluted per share				
Shareholders' equity	\$ 22.07	\$ 25.01	\$ 23.73	
Securities	18.92	24.99	24.29	

## RESULTS OF OPERATIONS

For the quarter ended June 30, 2020, Guardian's Operating earnings were \$13.4 million, a 24% improvement from the first quarter of 2020, and 7% from the \$12.6 million reported in the second quarter of 2019. The growth in AUM, and to a lesser extent the addition of Aurrea, which was acquired at the end of 2019, contributed to higher revenues and drove Operating earnings higher, compared to the same quarter in 2019, while the improvements from the first quarter of 2020 were also achieved through reduced discretionary and interest expenses.

With the tailwinds of the sharp recoveries in the financial markets and the significant net inflows of client assets during the current quarter, Guardian's AUM increased to \$31.2 billion as at June 30, 2020. This is a 13% increase during the quarter, bringing the AUM back to December 31, 2019 level, and a 4% increase from June 30, 2019. The net inflows of AUM were largely into the Fundamental Global Equities strategy, managed by the UK subsidiary, GuardCap, pushing its AUM to \$6.5 billion at the end of the quarter, a 60% increase from December 31, 2019 and a 183% increase from June 30, 2019.

The Operating earnings by segment are described below.

The Investment Management Segment's Operating earnings in the current quarter were \$6.9 million, a 12% increase from the same quarter in the prior year. While the global financial market recoveries benefited Guardian, another significant driver of the increase was the success of GuardCap, which increased its Operating earnings more than 300% since the second quarter of 2019. Partially offsetting the increased Operating earnings from GuardCap were lower Operating earnings in the Domestic business, the Operating losses incurred in the newly acquired Modern Advisor and by the Canadian Retail Asset Management unit, which is focused on providing investment solutions for the retail market. The Operating losses in these new businesses were \$1.1 million in the current quarter. As part of our multi-year strategic plan for these units, we expect these Operating losses to continue and likely increase in the near term before they generate meaningful revenues in future periods.

The Financial Advisory Segment's Operating earnings in the current quarter were \$4.3 million, a 12% increase from the \$3.9 million in the same quarter in the prior year. The increase can be attributed mainly to IDC WIN, our MGA business. Included in IDCWIN's increased Operating earnings were the contributions from Aurrea. The increased Operating earnings for the Segment were delivered while continuing to invest in the Dealers business. As discussed in prior periods, we expect elevated levels of expenses to continue in the near term, as we make enhancements to the technology platform and add additional resources to enhance advisor experience.

The Corporate Activities and Investments Segment's Operating earnings for the current quarter were \$2.2 million, compared to \$2.6 million during the same quarter in the prior year. Year to date, Guardian has sold 800,000 BMO shares, to de-risk the balance sheet and reduce debt. The resulting reduction of \$0.5 million in dividends received from the Bank of Montreal in the second quarter compared to the second quarter of 2019, plus the effect of lower interest rates and lower balance of interest-earning investments held during the current quarter, reduced the Dividend and interest income by \$0.8 million, compared to the second quarter of 2019. The lower Dividend and interest income was partially offset by lower interest expense, as the debt levels and interest rates decreased in the current quarter.

Net gains in the current quarter were \$43.3 million, compared to a Net gain of \$8.0 million in the same quarter in the prior year. The sharp recoveries in the global equities markets have partially reversed the significant Net losses recorded in the first quarter of 2020. The rebound in the second quarter was not as dramatic as the decrease in the first quarter, as the Canadian equities market, to which the large holding in BMO shares are exposed, lagged the other equities markets in recovery.

The Net earnings attributable to shareholders were \$50.5 million, compared to Net earnings of \$16.8 million in the prior year. The increase was due

largely to the significant Net gains in the current quarter and the improved Operating earnings, as described above.

EBITDA for the quarter was \$17.3 million, a 7% increase from \$16.2 million for the same period in 2019, in line with the increase in Operating earnings discussed above. Adjusted cash flow from operations for the quarter was \$15.4 million, a 23% increase from \$12.5 million in the same period in 2019. The increase in Adjusted cash flow from operations was due to the combination of improved Operating earnings and to lower income tax installments paid in the current quarter, compared to the prior year.

#### ASSETS UNDER MANAGEMENT AND ADMINISTRATION

The following is a summary of the assets under management and administration:

As at (\$ in millions)	2020 June 30	2019 December 31	2019 June 30
Assets under management			
Institutional			
Canadian equities	\$ 7,048	\$ 8,937	\$ 9,054
Global equities	13,632	11,528	10,525
Fixed income	7,253	7,465	7,407
	27,933	27,930	26,986
Private wealth and international private banking	3,263	3,217	3,104
Total assets under management	\$ 31,196	\$ 31,147	\$ 30,090
Assets under administration	\$ 20,010	\$ 20,248	\$ 18,784

Guardian's AUM at the end of the current quarter were \$31.2 billion, adding \$3.7 billion during the current quarter to return to December 31, 2019 levels of \$31.1 billion, and a 4% growth from the \$30.1 billion reported as at June 30, 2019. The current AUM level was achieved through a combination of market performance and successful addition of net new assets, especially in GuardCap. GuardCap's AUM at the end of the current quarter were \$6.5 billion, a 60% increase from December 31, 2019 and approximately three-times the balance at June 30, 2019. Global equities, which earn fees at higher rates, now represent just under 50% of our institutional AUM.

The AUA at June 30, 2020 was \$20.0 billion, a slight decrease from \$20.2 billion at the end of 2019 and a 7% increase from \$18.7 billion as at June 30, 2020. Included in the current quarter is \$0.5 billion of AUA provided by Aurrea. Adjusting for those assets, the AUA increase from June 30, 2019 would be approximately 4%.

#### REVENUES AND EXPENSES

##### Net Management Fees

Management fees, net of fees paid to referring agents ("Net management fees") earned by Guardian is generated by providing continuing investment management services to client AUM. Net management fees for the quarter ended June 30, 2020 were \$26.8 million, a 15% increase from the \$23.4 million in the same quarter in the prior year.

The following analysis of Net management fees should be read in conjunction with note 12 (a) – Business Segments in Guardian's second quarter Consolidated Financial Statements and the totals for the Segment quoted below are before inter-segment transactions. Institutional Net management fees earned in the current quarter were \$21.5 million, a 16% increase from \$18.6 million a year earlier. The increase in institutional Net management fees was driven largely by the growth in Global equities AUM, which generate higher rates of fees than the other classes of AUM. The proportion of AUM in Global equities has increased to 49% in the current quarter from 39% a year earlier, while the total institutional AUM grew by only 4%. Net management fees earned in Private Wealth and International Private Banking in the current quarter amounted to \$4.6 million, slightly higher than the \$4.3 million earned in the prior year. These include fees earned in the recently acquired Modern Advisor business.

##### Net Commission Revenue

Net commission revenue earned by Guardian results from the sale of life insurance products, mutual funds and other securities, as well as from continuing trailer and servicing commissions related to AUA and in-force life insurance policies, net of commissions paid to advisors. Net commission revenue generated for the current quarter was \$14.3 million, a 13% increase from the \$12.6 million a year earlier.

The following analysis of Net commission revenue should be read in conjunction with note 12 (a) – Business Segments in Guardian's second quarter Consolidated Financial Statements and the totals for the Segment quoted below are before inter-segment transactions.

Net commissions from the MGA, IDC WIN, in the current quarter were \$11.3 million, an 18% increase compared to \$9.5 million in the same quarter a year earlier. Included in the current quarter are \$1.8 million of Net commissions from Aurrea. The Premiums Sold were \$26 million in the current quarter, including \$4.1 million from Aurrea, compared to \$22 million in the same period in the prior year. IDC WIN continued to maintain strong sales levels, showing resiliency through the pandemic-induced slowdown in the economy. The prospect of continued strong levels of sales appears to be good, with a very healthy number and face value of new policies in the pipeline. Net commissions from the Dealers business in the current quarter were \$3.9 million, substantially unchanged from \$3.8 million in the same quarter of 2019.

##### Administrative Services Income

Administrative services income is comprised of registered plan administration and other fees earned in the Financial Advisory Segment, trust and corporate administration and other related fees earned in the International Private Banking business, and fund administration fees earned from managed investment funds in the Investment Management Segment. This income amounted to \$4.2 million for the current quarter, as compared to \$3.9 million in the prior year. Both the Investment Management and Financial Advisory Segments contributed to the increase in fee revenue.

## Dividend and Interest Income

The following is a summary of Guardian's dividend and interest income:

For the periods ended June 30 (\$ in thousands)	Three months		Six months	
	2020	2019	2020	2019
Dividends on Bank of Montreal shares	\$ 2,968	\$ 3,500	\$ 6,678	\$ 7,150
Other dividends	1,367	1,380	2,696	2,257
Dividend income	4,335	4,880	9,374	9,407
Operating activities	265	641	1,123	1,439
Investing activities	254	506	564	1,028
Interest income	519	1,147	1,687	2,467
	\$ 4,854	\$ 6,027	\$ 11,061	\$ 11,874

Dividend income declined in the current quarter by \$0.5 million, when compared to the same period one year earlier, largely due to lower dividend income being earned on BMO shares. Guardian sold 800,000 of its BMO share holdings to de-risk the balance sheet in response to the pandemic-induced market downturn in the first half of the year. In future quarters, dividend income on BMO shares will be lower due to fewer shares held, assuming the dividend rate does not change.

Interest income declined in the current quarter by \$0.6 million compared to the same period one year earlier. The Dealer business saw the biggest decline where lower interest rates reduced the interest spreads available on client cash balances. In the Corporate Activities and Investments Segment, the interest income was lower due to lower balances of interest earning investments being held in the current quarter, as half of 9% preferred share investment had been redeemed during the past year. As the balance of that investment was redeemed at the end of the current quarter, interest income is expected to further decline in future quarters.

## Expenses

During the current quarter, Guardian managed its expenses guided by the following priorities: firstly, continuing to make expenditures in strategically important investments for future growth; secondly, protecting our Associates' jobs during these difficult times; and lastly, selectively reducing discretionary expenditures. Guardian's expenses were \$36.7 million in the current quarter, compared to \$33.4 million in the same quarter in the prior year. Included in the current expenses were approximately \$2.8 million in new expenses, including expenses incurred by the recently-acquired Aurrea, Modern Advisor, and the recently-formed Canadian Retail Asset Management unit, including the costs associated with the pending launch of Guardian's initial line of ETFs. Without these new expenses, the increase would have been a modest \$0.5 million. This modest increase was the net result of the continued investments made in the Dealers business, as described in prior period reports, the increased compensation costs incurred in GuardCap as it continued to succeed in gathering new client assets, and partially offset by the reduction in certain discretionary expenditures, such as travel, entertainment and promotional expenses, and lower interest expenses due to lower debt levels.

## NET GAINS (LOSSES)

The following chart summarizes the main components of net gains (losses) during the current periods, with the prior periods as a comparison.

For the periods ended June 30 (\$ in thousands)	Three months		Six months	
	2020	2019	2020	2019
Bank of Montreal common shares	\$ 3,409	\$ (3,436)	\$ (103,656)	\$ 36,164
Other securities	37,215	9,803	(11,414)	34,657
Net gains (losses) on securities	40,624	6,367	(115,070)	70,821
Disposal of intangible assets	541	165	879	468
Foreign exchange gains (losses)	2,089	1,425	(3,844)	2,551
	\$ 43,254	\$ 7,957	\$ (118,035)	\$ 73,840

Equity markets rebounded significantly in the current quarter but the rebound did not fully offset the market declines in the first quarter of the year, especially in the Canadian equity market where Guardian has the greatest exposure through the holdings of BMO shares. Guardian recorded Net gains in the current quarter from its Securities of \$40.6 million, which are significantly higher than \$6.4 million reported in the same quarter in 2019. However, on a year-to-date basis the security values have not recovered to December 31, 2019 levels, resulting in Net losses of \$115 million. The Canadian dollar strengthened in the quarter compared to the US dollar and this resulted in Guardian recording a net gain on foreign exchange of \$2.1 million, largely on the US dollar loan outstanding.

## LIQUIDITY AND CAPITAL RESOURCES

The strength of Guardian's balance sheet has enabled Guardian to attract Associates; provide clients with a high comfort level; maintain appropriate levels of working capital in each of its areas of operation; make the necessary capital expenditures and investments to develop its businesses; and make appropriate use of borrowings, including financing the expansion of its businesses. We are confident that the strength of Guardian's balance sheet will continue to provide benefits in the future.

Guardian's balance sheet is supported by the substantial securities portfolio, as presented below:

As at (\$ in thousands, except per share amounts)	2020 June 30	December 31	2019 June 30
Securities, carried at fair value			
Proprietary investment strategies			
Short-term and fixed-income securities	\$ 24,776	\$ 18,049	\$ 18,132
Canadian equities	9,389	10,717	11,133
Global equities	224,041	243,703	225,920
Real estate	23,065	22,364	20,619
	281,271	294,833	275,804
Bank of Montreal common shares	194,130	351,750	345,450
Short-term securities	22,159	14,725	--
Equities	13,591	15,971	37,050
	511,151	677,279	658,304
Securities, carried at amortized cost	--	5,000	5,000
Securities	\$ 511,151	\$ 682,279	\$ 663,304
Total securities per share, diluted	\$ 18.92	\$ 24.99	\$ 24.29

Guardian's securities as at June 30, 2020 had a fair value of \$511.2 million, or \$18.92 per share, diluted, compared with \$682.3 million, or \$24.99 per share, diluted, at the end of 2019. Shareholders' equity as at June 30, 2020 amounted to \$596.3 million, or \$22.07 per share, diluted, compared to \$682.8 million, or \$25.01 per share, diluted, at the end of 2019.

In addition to its strong balance sheet, Guardian has, under various borrowing arrangements, total borrowing capacity of \$160 million. As at June 30, 2020, the total borrowings amounted to \$60.4 million, compared to \$113.7 million at the end of 2019. Guardian's Adjusted cash flow from operations for the current quarter was \$15.4 million, a 23% increase compared to \$12.5 million in the same quarter in 2019. Guardian uses its Adjusted cash flow from operations primarily to fund its working capital, quarterly dividends, share repurchases under its Normal Course Issuer Bid, capital expenditures and, when possible, debt repayments. From time to time, Guardian may use a combination of debt and partial disposal of Securities to help finance temporary working capital requirements or capital expenditures.

As the COVID-19 pandemic disrupted the global financial markets in the first quarter, Guardian began to de-risk the large equity exposure on the balance sheet and reallocated the proceeds into treasury bills. In the second quarter, the treasury bills were disposed of and the proceeds were used repay debt. Over \$71 million of debt was repaid during the quarter, using a combination of disposal of securities and Adjusted cash flow from operations. As a result, the fair value of Securities has decreased during the quarter.

Guardian currently has approximately \$100 million of borrowing capacity available under its various credit arrangements.

## CONTRACTUAL OBLIGATIONS

Guardian has contractual commitments for the payment of certain obligations over a period of time. A summary of those commitments, including a summary of the periods during which they are payable, is shown in the following table:

As at June 30, 2020 (\$ in thousands)	Total	Within one year	One to three years	Three to five years	After five years
Bank loans and borrowings	\$ 60,432	\$ 60,432	\$ --	\$ --	\$ --
Client deposits	67,741	67,741	--	--	--
Payable to clients	71,869	71,869	--	--	--
Accounts payable and accrued liabilities	49,680	49,680	--	--	--
Other liabilities	22,966	--	22,966	--	--
Investment commitments	25,403	25,403	--	--	--
Scheduled lease payments	13,990	2,766	4,894	3,559	2,771
Third party investor liabilities	14,014	14,014	--	--	--
Total contractual obligations	\$ 326,095	\$ 291,905	\$ 27,860	\$ 3,559	\$ 2,771

Guardian's contractual commitments are supported by its strong financial position, including its Securities, referred to above under the heading "Liquidity and Capital Resources". The Payable to clients, in Guardian's securities dealer subsidiary, which can fluctuate with client activities, is offset by the Receivable from clients and broker. Client deposits in the offshore banking subsidiary are supported by the Interest-bearing deposits with banks. The Third party investor liabilities are supported by Securities backing third party investor liabilities.

## SUMMARY OF QUARTERLY RESULTS

The following chart summarizes Guardian's financial results for the past eight quarters:

	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018
As at (\$ in millions)								
Assets under management	\$ 31,196	\$ 27,527	\$ 31,147	\$ 30,243	\$ 30,088	\$ 29,631	\$ 26,962	\$ 29,185
Assets under administration	20,010	18,152	20,248	19,040	18,784	18,745	17,385	18,096
For the three months ended (\$ in thousands)								
Net revenue	\$ 50,124	\$ 49,901	\$ 49,865	\$ 45,983	\$ 45,963	\$ 44,291	\$ 44,300	\$ 42,773
Operating earnings	13,427	10,813	13,030	12,105	12,590	11,176	12,137	12,444
Net gains (losses)	43,254	(161,289)	24,140	(1,274)	7,957	65,883	(89,001)	28,481
Net earnings (loss)	51,244	(134,911)	31,808	8,952	17,601	68,099	(69,652)	35,079
Net earnings (loss) attributable to shareholders	50,486	(136,368)	30,787	8,275	16,838	67,220	(70,449)	34,320
Net earnings (loss) attributable to shareholders: Per Class A and Common share (in \$)								
Basic	\$ 1.99	\$ (5.35)	\$ 1.20	\$ 0.32	\$ 0.65	\$ 2.57	\$ (2.63)	\$ 1.28
Diluted	1.87	(5.35)	1.13	0.31	0.62	2.43	(2.63)	1.21
Dividends paid (in \$)	\$ 0.160	\$ 0.150	\$ 0.150	\$ 0.150	\$ 0.150	\$ 0.125	\$ 0.125	\$ 0.125
As at								
Shareholders' equity (\$ in thousands)	\$ 596,265	\$ 562,821	\$ 682,777	\$ 653,983	\$ 647,983	\$ 656,167	\$ 599,311	\$ 670,382
Per Class A and Common share (in \$)								
Basic	\$ 23.50	\$ 22.18	\$ 26.73	\$ 25.49	\$ 25.26	\$ 25.14	\$ 22.85	\$ 24.98
Diluted	22.07	20.94	25.01	23.93	23.73	23.66	21.57	23.57
Total Class A and Common shares outstanding (shares in thousands)	27,758	27,758	27,839	27,956	27,956	28,405	28,405	29,012

Over the past 8 quarters presented above, Guardian's Net revenue has generally shown an upward trend, although it has fluctuated from time to time. These fluctuations have influenced operating earnings and have been driven largely by the factors described below.

Management fees earned in the Investment Management Segment and trailer commissions earned on mutual funds and segregated funds in the Financial Advisory Segment are highly correlated to the changes in AUM and AUA, which are affected by the volatility of the financial markets and additions and withdrawals of client assets. Offsetting this volatility is the significant insurance commissions earned in the MGA business, which are less correlated to the volatility of the financial markets. However, the volatility in the MGA revenue can also arise from the timing of large insurance policies being placed by the advisors. As IDCWIN has built a business with a significant number of top-producing advisors, and these advisors deal mainly in significantly larger and more sophisticated insurance policies, the timing of the placement of these policies can affect the timing and the level of the insurance commission revenue earned. In the Corporate Activities and Investments Segment, some fluctuations in dividend income can be seen in the second quarter and, to a lesser extent, in the fourth quarter of each year, due largely to dividends from foreign equities, which pay semi-annual dividends and some "special" dividends mid-year during those periods. In addition, the timing of consolidation or deconsolidation of certain investment funds can also have an impact on the level of dividend income recorded in the period.

Net revenue in the first quarter of 2020 increased although the AUM and AUA decreased, due to the timing of the AUM and AUA decrease impacting only one month of revenue for the quarter, offset by growth in higher-fee earning AUM in our GuardCap subsidiary during the quarter. In addition, the insurance commission revenue increased, due to the inclusion of Aurrea's commission revenue in this period for the first time. Net revenue in the fourth quarter of 2018 increased although the AUM and AUA decreased, due to the increase in insurance commission revenues offsetting the reduction in other revenues during the period. The most significant increase was in the annual service commission revenue which is not correlated to the financial markets. Net gains (losses) reflect changes in fair values of the securities during each period, driven by the volatility of the financial markets in which Guardian's securities trade. The volatility of Net gains (losses) also directly impacted Net earnings (losses) attributable to shareholders during those periods.

The quarterly fluctuations in shareholders' equity shown above are caused largely by Guardian's Net earnings (loss), less dividends paid and shares repurchased.

## RISK FACTORS

Guardian is exposed to a number of risk factors, including the key risk factors listed below. A key component of a successful business is its ability to manage its risk. Due to the nature of Guardian's businesses, its largest risk is tied to its exposure to financial markets. A significant portion of its revenue is derived from management of client assets or advisory on clients' wealth. During the current period due to the pandemic disruptions, many of the risks listed below are heightened and are more challenging to manage or mitigate. Readers are encouraged to refer to note 15 to Guardian's second quarter 2020 Consolidated Financial Statements for additional information on financial risk management.

## Market Risk

Market can have a significant effect on the value of both clients' portfolios and our earnings, since management fees, which make up a significant part of our revenues, are generally based on market values. In the Financial Advisory Segment, market fluctuations can significantly impact the amounts being invested by clients, thereby increasing or decreasing our commission revenues. We manage the risk of market fluctuations by having a diversified client base with different investment needs, and by having a variety of products and services, which may be attractive in different market environments and which have different correlations to equity and other financial markets and to each other. Guardian's securities holdings are managed independently of clients' assets, except for those of our assets that are invested in Guardian's investment funds.

### Portfolio Value and Concentration Risks

Guardian's securities are subject to risk of price fluctuations. The potential impact of market fluctuations on the value of Guardian's securities is quantified in Note 15 of Guardian's second quarter of 2020 Consolidated Financial Statements. Guardian manages this risk through professional in-house investment management expertise, which takes a disciplined approach to investment management. All securities are held by well-known independent custodians chosen by Guardian. As at June 30, 2020, Guardian holds \$194 million of BMO shares (December 31, 2019 – \$352 million), which represents 38% of Guardian's securities (2019 – 52%). Guardian has accepted this concentration risk, as the bank is a diversified company with a history of steady and growing dividend payments. However, Guardian has been reducing its concentrated exposure over several years, having sold 2.3 million shares, including 200,000 shares in the current quarter, since the second quarter of 2013. The remainder of Guardian's security portfolio is more diversified, from both an asset class and a geographical perspective. At June 30, 2020, the corporate holding of securities consisted of 46% Canadian equities (December 31, 2019 – 57%), primarily consisting of Bank of Montreal shares, 45% of non-Canadian equities (December 31, 2019 – 37%) and 9% short-term investments and fixed-income securities (December 31, 2019 – 6%).

The recent financial market disruptions and volatility caused by the COVID-19 pandemic has made valuing securities more challenging, especially those that are not traded on an active market. The assumptions and key inputs used in financial models to estimate fair values of those securities may not be appropriate or are not available. As a result, there is a higher risk that the estimated fair values may materially differ from actual amounts realized in an arm's length market transaction.

### Foreign Currency Risk

Guardian's investments in its foreign subsidiaries are subject to the risk of foreign currency exchange rate fluctuations. The effects of changes in foreign currency exchange rates on the values of these investments are not included in Net earnings (losses), but are recorded in the "Net change in foreign currency translation on foreign subsidiaries" in Guardian's Consolidated Statements of Operations and Comprehensive Income, and the cumulative effect is included in Accumulated Other Comprehensive Income in the Shareholders' Equity section of the Consolidated Balance Sheets. With the acquisition of Alta in 2018, Guardian now also recognizes obligations to non-controlling interests on its balance sheet, which are denominated in US dollars. As these are expected future transactions between equity interest holders, the changes in the value of these obligations, including changes resulting from foreign exchange rate fluctuations, are recorded directly in the Statements of Equity. This currency risk is managed in a manner similar to the investments in other foreign subsidiaries, in that they are not actively managed, due to the long-term nature of the investments, but are closely monitored by management.

As Guardian continues to expand into foreign jurisdictions and the revenue and earnings sources grow and diversify into other currencies, the operating results can fluctuate with the changes in the foreign currency exchange rates compared to the Canadian dollar. From time to time, Guardian may record certain foreign exchange gains (losses) in Net earnings, such as on the current US Dollar borrowings outstanding which were used to finance the acquisition of Alta. This risk is mitigated by an offsetting, similar amount being recognized on the investment in Alta as Net change in foreign currency translation on foreign subsidiaries, as discussed above. Guardian may also record gains (losses) in Net earnings on Canadian dollar cash balances held by foreign subsidiaries. These foreign exchange gains and losses result in similar offsetting Net gains (losses) being recorded in Other comprehensive income as discussed above. Readers are encouraged to refer to Note 15 in Guardian's second quarter 2020 Consolidated Financial Statements for further discussion and sensitivity analyses.

### Credit Risk

Guardian's credit risk is generally considered to be low. Because of the nature of Guardian's business, its receivables are mainly from large institutions, which are considered to pose a relatively low credit risk, or from individuals in the Dealers business, which are secured by marketable securities in margin accounts. Guardian periodically reviews the financial strength of all of its counterparties, and if the circumstances warrant it, Guardian takes appropriate action to reduce its exposure to certain counterparties. The credit risk associated with Guardian's investment in fixed-income mutual funds is managed by the monitoring of the activities of the portfolio manager who, through diversification and credit quality reviews of the funds' investments, manages the funds' credit risk. From time to time, advisors in the Financial Advisory segment may owe advances received or amounts resulting from reversal of commissions to the Dealer or the MGA. The credit risk associated with these amounts is mitigated by management's review of the advisors' abilities to repay the advances or the potential commission reversals, particularly in the MGA business, before amounts are paid to the advisors.

### Interest Rate Risk

Guardian's most significant exposure to interest rate risk is through its bank loans and borrowings. The interest rates on these borrowings are short-term, and Guardian's interest expense and net earnings will fluctuate with the changes in short-term rates. Guardian manages interest rate risk in its international banking operations, largely through matching the interest rates and maturity dates of client deposit liabilities with the assets, interest-bearing deposits with banks. The interest rate risk associated with Guardian's investment in fixed-income mutual funds is managed by monitoring the activities of the portfolio manager, who manages this risk by positioning the portfolio for various interest rate environments. The interest rate risk associated with the investment in amortized cost securities is not actively managed, as it is a long-term investment, but monitored by management.

### Liquidity Risk

Guardian manages liquidity risk through the monitoring and managing of cash flows from operations, by establishing sufficient cash borrowing facilities with major Canadian banks, which currently total \$160 million through three credit facilities, and leveraging the support of its significant security portfolio. The maturities of Guardian's contractual commitments are outlined under "Contractual Commitments" in this Management Discussion and Analysis. The combination of the cash flows from operations, the securities holdings and the borrowing facilities provide sufficient cash resources to manage its liquidity risk.

Certain financial market events may cause disruptions, as recently witnessed with the global COVID-19 pandemic, and cause a tightening of liquidity in the market, making it difficult or more expensive for Guardian to borrow under its facilities. Guardian's large portfolio of liquid securities can offset some of the risk of tightening of market liquidity.

### Product Performance Risk

Product performance risk is the risk that we will not perform as well as the market, our peers, or in line with our clients' expectations. The nature of this risk is both relative and absolute. We manage this risk by having a disciplined approach to investment management, and by ensuring that our compliance capabilities are strong. With respect to clients' expectations, we also seek to ensure that we are aware of those expectations, and that we properly communicate with our clients to develop, report on and comply with client mandates on a continuous basis.

### Competition Risk

Guardian operates in a highly competitive environment, with competition based on a variety of factors including investment performance, the type and quality of products offered, business reputation and financial strength. Loss of client assets to competition will result in losses of revenue and earnings to Guardian. Guardian attempts to mitigate this risk by developing and maintaining a competitive product line and competitive relative performance of its products, through the recruitment and retention of high quality investment professionals and a high quality management team. Our ability to compete is also enhanced by our large capital base, which provides Guardian with the financial strength to invest in the development or acquisition of businesses. It also provides existing and future clients with comfort, which allows Guardian to better compete in winning and retaining these clients.

### Regulatory and Legal Risk

Guardian and its subsidiaries operate in an environment subject to various laws and regulations. Given the nature of Guardian's and certain of its subsidiaries' operations, it may, from time to time, be subject to changes in regulations, claims or complaints from investment clients and sanctions from governing bodies. These risks are mitigated by maintaining relevant in-house competence in laws and regulations, compliance and product review oversight, adequate insurance coverage and, where appropriate, utilizing assistance from external advisors.

### Financial Advisory Risk

Because of the number of advisors who publicly represent each of the Worldsource operating entities, there are risks associated in their dealings with their clients. These risks are mitigated by the strong compliance and product review capabilities of the Worldsource organization, significant management oversight and insurance coverage carried by both Worldsource and the advisors.

### Key Personnel Risk

The success of Guardian is highly dependent on key personnel, including its senior management and investment professionals. The loss of any of these individuals, or an inability to retain these individuals and attract the best of the brightest talent, could have a negative impact on Guardian. To mitigate this risk, Guardian monitors the industry to competitively compensate these individuals, invests into the business to create an environment where both Guardian and these individuals can succeed, and evaluates, on an ongoing basis, the succession plans in place for these key individuals. Guardian's financial strength provides resources necessary to competitively compensate these individuals and to allow us to invest in the business.

### Information Technology and Cybersecurity Risk

Guardian uses information technology and the internet to streamline business operations and to improve client and advisor experience. However, the use of information technology can also introduce operational risk related to its use by employees, which may result in errors and lead to financial loss to Guardian. In addition, through the use of mobile devices or remote connections to internal data centres, Guardian is exposed to information security and other technology disruption risks that could potentially have an adverse impact on its business. Guardian actively monitors these risks and continues to develop controls to protect against such threats that are becoming more sophisticated and pervasive.

The cyber security risk has increased during the current period while the majority of Guardian's employees are working remotely and connecting to Guardian's data centres as part of its Business Continuity Plan. Guardian has heightened its monitoring of the internal network traffic and the monitoring of developments in latest known cyber threats.

### CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions which affect the reported amounts of assets, liabilities, contingencies, revenues and expenses. These estimates and assumptions are listed in note 2 (c) to Guardian's December 31, 2019, Consolidated Financial Statements. The most significant accounting estimates are related to the impairment assessment of goodwill and the determination of fair value of securities which are classified as level 3 within the fair value hierarchy. The valuation approach to level 3 securities is most sensitive to the level of AUM associated with the issuer of the security. The valuation approach to Financial Advisory Segment goodwill is most sensitive to the levels of AUA and annual service fees within the Segment. No changes to the valuation methodologies were made during the current quarter for these assets. For the Investment Management Segment, impairment assessment on goodwill was conducted in the first quarter of 2020 as the Segment's AUM declined along with the global equities markets. The assessment concluded that goodwill was not impaired at that time. With the significant recoveries in the global equities markets during the second quarter, Guardian concluded that there were no indications of impairment, and as a result, another assessment was not required this quarter. More detailed discussion of the impairment assessment is described in note 5 to Guardian's second quarter 2020 Consolidated Financial Statements.

### NON-IFRS MEASURES

#### EBITDA and EBITDA per share

Guardian defines EBITDA as net earnings before interest, income tax, amortization, stock-based compensation, and net gains or losses, less amounts attributable to non-controlling interests. EBITDA per share is calculated using the same method, which is used to determine net earnings available to shareholders per share, including any adjustment to the average number of shares outstanding, or to income, to calculate the dilutive effect. Guardian believe these are important measures, as they allow management to assess the operating profitability of our business and to compare it with other investment management companies, without the distortions caused by the impact of non-core business items, different financing methods, levels of income taxes, the amounts of net earnings available to non-controlling interests and the level of capital expenditures. The most comparable IFRS measures are "Net earnings" and "Net earnings available to shareholders per share, diluted", which are disclosed in Guardian's Consolidated Statements of Operations.

The following is a reconciliation of the IFRS measures to the non-IFRS measures:

For the periods ended June 30 (\$ in thousands)	Three months		Six months	
	2020	2019	2020	2019
Net earnings, as reported	\$ 51,244	\$ 17,601	\$ (83,667)	\$ 85,700
Add (deduct):				
Income tax expense (recovery)	5,437	2,946	(10,128)	11,906
Net (gains) losses	(43,254)	(7,957)	118,035	(73,840)
Stock-based compensation	676	639	1,314	1,162
Interest expense	373	1,129	1,295	2,255
Amortization	4,427	3,373	8,759	6,686
Non-controlling interests	(1,601)	(1,493)	(3,936)	(3,122)
<b>EBITDA</b>	<b>\$ 17,302</b>	<b>\$ 16,238</b>	<b>\$ 31,672</b>	<b>\$ 30,747</b>

Adjusted cash flow from operations and adjusted cash flow from operations per share

Guardian defines Adjusted cash flow from operations as net cash from operating activities, net of changes in non-cash working capital items and non-controlling interests. Adjusted cash flow from operations and the per share amount are used by management to measure the amount of cash, either provided by or used, in Guardian's operating activities available to shareholders, without the distortions caused by fluctuations in its working capital. The most comparable IFRS measure is "Net cash from operating activities", which is disclosed in Guardian's Consolidated Statements of Cash Flow. Adjusted cash flow from operations per share is calculated using the same method, which is used to determine Net earnings available to shareholders per share, including any adjustment to the average number of shares outstanding, or to income, to calculate the dilutive effect.

The following is a reconciliation of the IFRS measure to the non-IFRS measures:

For the periods ended June 30 (\$ in thousands)	Three months		Six months	
	2020	2019	2020	2019
Net cash from operating activities, as reported	\$ 24,817	\$ 19,268	\$ 29,067	\$ 13,941
Add (deduct):				
Net change in non-cash working capital items	(7,823)	(5,437)	3,477	11,827
Non-controlling interests	(1,591)	(1,307)	(3,821)	(2,740)
<b>Adjusted cash flow from operations</b>	<b>\$ 15,403</b>	<b>\$ 12,524</b>	<b>\$ 28,723</b>	<b>\$ 23,028</b>

#### Shareholders' equity per share

Shareholders' equity per share, diluted, is used by management to indicate the retained value per share available to shareholders which has been created by Guardian's operations. The most comparable IFRS measure is Shareholders equity, which is disclosed in Guardian's Consolidated Balance Sheet. Shareholders' equity per share is calculated by dividing shareholders' equity by the number of shares and dilutive shares outstanding as at period end.

#### Securities per share

Securities per share is used by management to indicate the value available to shareholders created by Guardian's investment in securities, without the netting of debt or deferred income taxes associated with the unrealized gains. The most comparable IFRS measure is Securities which is disclosed in Guardian's Consolidated Balance Sheet. Securities per share is calculated by dividing Securities by the number of shares and dilutive shares outstanding as at period end.

#### OUTLOOK

The COVID-19 pandemic has dealt a historic shock to the world economy, with the first quarter of 2020 decline alone comparable to or worse than the peak-to-trough decline in most of the recessions in the post World War II era. At the same time, the assumed cumulative decline for the G7 economies in the first half of this year can only be compared to the great depression 90 years ago. The fact is that the downturn, sharp as it is, is the result of an exogenous shock to the demand-side of the economy rather than structural issues impacting supply, making it very different from previous experiences. Typically, in scenarios of this kind, activity can normalize fairly quickly once those external forces subside, resulting in a rapid V-shaped rebound in momentum. Indeed, data covering everything from housing to consumer spending to construction to industrial production across the globe are exhibiting a sharp inflection from the lows registered amid widespread shutdowns in April. There is still plenty of ground to make up before we can consider things are 'good' in an absolute sense, but the worst case scenario for the economy has so far been avoided. How the recovery progresses from here depends on whether the rolling back of emergency measures to stem the spread of infection can continue unabated. This process is being complicated by the accelerating spread of infection in the US and major Emerging Market economies. Improving signs that a renewed, large-scale lockdown are being diminished would be positive for the outlook for risk assets. These could come, for example, by indications that the contagion is coming under control, or that there is progress on the development of therapeutics to fight the contagion. It appears that the balance of probabilities is tilted in this direction. As such, given ultra-low interest rates, and continued fiscal and monetary stimulus, risk assets appear primed to continue on their road to recovery from their crisis lows, as investors continue to pare the undue weight assigned to the worst-case scenarios.

There have been some very obvious winners as a result of the COVID-19 crisis; for example, companies who generate revenues largely online, and there have been industries such as Airlines that have been so disrupted that it will likely take many years, if not decades to find a new normal. Guardian is fortunate to operate in the investment and wealth management segments of the economy, and our operations have not been forced to shut down. Our revenues, earnings, and the value of our balance sheet will experience fluctuations based on prevailing asset prices but, absent the unlikely scenario of an enduring economic collapse, we will be fit to continue to operate. We are also fortunate that our sources of revenue are diversified. While changes in the levels of market valuations across assets may affect our revenue from AUM and AUA, it is not highly correlated with commissions we earn from insurance companies for business written in the past, nor does it necessarily mean that dividends and interest payments from our investment portfolio will suffer the same fate. That being said, management has taken the decision to moderately reduce our market exposure in order to reduce our bank lines and further de-risk our company. These times are unprecedented, and while we believe the global economy will be resilient when all is said and

done, we certainly do not rule out the possibility of further fluctuations in asset prices as the crisis continues to unfold. Our goal is to have the flexibility to continue prudently investing in our growth initiatives, our people, and our service level to our clients and partners, without being forced to make unpleasant decisions if things do temporarily get worse. We consider ourselves very fortunate at this stage that we have been able to keep our employees active; our clients well taken care of; execute the business continuity plan to keep our employees safe; and have the ability to provide some degree of stability and certainty to all of our stakeholders during this period of heightened anxiety. Clearly, the longer the disruption lasts the more difficult it will be. We are preparing for more challenges, but our healthy, liquid balance sheet gives us resilience, and while exogenous factors may come in to play, we expect to manage these headwinds to allow us to strive for continued positive operating earnings and free cash flow generation in future quarters.





Our history. Your future.

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