IA Clarington Canadian Small Cap Class

Manager commentary – Q4 2024

IA Clarington Canadian Small Cap Class Series A returned 0.7%, in line with the S&P/TSX Small Cap Index, which also returned 0.7% over the past quarter. On a one-year basis, the return was 13.6% for the Fund compared to 18.8% for the benchmark.

Equity markets in the U.S. and Canada continued to rally this past quarter, buoyed by the U.S. election results. The incoming Trump administration is expected to stimulate economic growth in the U.S. and, as a close neighbour, Canada may indirectly benefit. Returns continue to be skewed in favour of large-cap companies, with small-cap indices generally underperforming. Commodity prices were mixed over the quarter, with higher prices for energy but flat-to-lower prices for precious metals. Performance in the benchmark was mixed as well, with double-digit declines in the utilities and real estate sectors balanced by double-digit gains in the financials and energy sectors. The Fund outperformed over the quarter in the real estate, materials and financials sectors, while underperforming in the energy, industrials and information technology sectors. In a year dominated by gold equities, the Fund's performance differential was partially offset by holdings executing well and by security selection, as several holdings became more interesting to external acquirers (e.g., Sleep Country Canada Holdings Inc. was recently acquired by Fairfax Financial Holdings Limited).

The Fund's top-contributing investments in the quarter were Secure Waste Infrastructure Corp., iA Financial Corporation Inc., and Canadian Western Bank. The largest detractors were Stella-Jones Inc., Cargojet Inc., and Enghouse Systems Ltd.

The Fund initiated a position in A&W Food Services of Canada Inc. by retaining ownership in A&W Royalties Income Fund, which converted to this new trading entity during the period. We actively added to our position after the company started trading. The new corporate structure provides shareholders with the opportunity to participate more fully in the growth prospects of the oldest and now second-largest burger franchise in Canada. Growth is expected to come from a commitment to open at least 90 stores at Petro-Canada gas stations, and higher store penetration in eastern Canada where per-store density is much lower than in the western part of Canada. This is in addition to healthy growth of same-store sales that has been resilient through economic downturns.

We also added to Parkland Corp. as the valuation has become more attractive owing to a cyclical slowdown in the refinery business, despite resilience in its core Canadian fuel and convenience operations. The company remains on track to pay down debt. Leverage should improve as it continues to divest non-core assets alongside cyclical recovery in the refinery business.

IA Clarington Canadian Small Cap Class

The risk/reward profile of the portfolio was further improved by adding to our positions in Pet Valu Holdings Ltd. and Mullen Group Ltd., and trimming other positions to manage weights. These additions enhance the Fund's recurring cashflow base and growth potential. Overall, we continue to see attractive opportunities for capital deployment given the market's focus on larger companies.

As each year passes, the futility of short-term market prognostications are reinforced. Looking back, few would have predicted a second consecutive year of 25% returns in the S&P 500, only to be bested by gold and digital assets. Scanning the road ahead, on one side we're seeing potential Canadian elections, tariffs and trade noise, while geopolitical conflicts also loom. On the other side, we're seeing benign employment levels, rosy corporate earnings expectations and easing financial conditions. Irrespective of the current economy or whether this bull market will extend, it is worth bearing in mind that intra-year market declines are normal. In the S&P 500's case, declines have been, on average, approximately 14% over the past 45 years.

The Fund is positioned to be prepared for a range of near-term scenarios and is aims to continue generating resilient long-term returns. This view is informed by our internal risk controls and current margin of safety. We believe the Fund's economic prospects are attractive with above-average profitability (around 14% 4-year ROE), reflecting strong reinvestment and growth opportunities. The Fund's pricing (13.5x P/E) indicates a discount to the market multiple and its own trading record. The Fund also maintains strong alignment, as many company insiders are significant owners or even founders who are incented to carefully grow the businesses we hold. Finally, should unexpected inflation emerge, franchises within the portfolio are well-positioned to adapt to inflationary pressures.

The Fund currently provides a dividend of approximately 2.4%, supported by resilient excess cash generation from many holdings. While the Fund reflects sound risk characteristics, there is no guarantee against temporary market dislocations. Capital allocation decisions in the upcoming year will be directed at further improving the economic prospects and value offered by the mandate, while reducing risk through improved diversification.

Fund and benchmark performance as at December 31, 2024	1-year	3-year	5-year	10-year
IA Clarington Canadian Small Cap Class - Series A	13.4%	8.1%	9.4%	6.2%
S&P/TSX SmallCap Index	18.8%	4.1%	8.9%	6.0%

IA Clarington Canadian Small Cap Class

For definitions of technical terms in this piece, please visit iaclarington.com/glossary and speak with your investment advisor.

The performance data comparison presented is intended to illustrate the Fund's historical performance as compared with historical performance of widely quoted market indices. As this fund invests substantially in its Reference Fund (iA Clarington Canadian Small Cap Fund), the differences discussed are those of the Reference Fund. There are various important differences that may exist between the Fund and the stated indices that may affect the performance of each. The S&P/TSX SmallCap Index provides an investable index for the Canadian small cap market. It includes common stock and is calculated in real-time. To be eligible for inclusion in the index, the float-adjusted market capitalization and the total company market capitalization of a security must represent a minimum weight of 0.005% and maximum weight of 0.08% of the float and total market capitalization of the S&P/TSX Composite at the stock level on the reference date, based on the volume weighted average price (VWAP) of the security on the TSX over the last 10 trading days prior to the reference date. For the Fund's investment purposes, companies with a market capitalization of less than C$ 3 billion are considered to be smaller capitalization companies. The Fund's sector and geographic exposure may differ from that of the benchmark. The Fund's currency risk exposure may be different than that of the benchmark. The Fund may hold cash while the benchmark does not. It is not possible to invest directly in market indices. The performance comparison is for illustrative purposes only and does not imply future performance.

Indicated mutual fund rates of return include changes in share or unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Returns are historical annual compounded total returns.

The information provided should not be acted upon without obtaining legal, tax, and investment advice from a licensed professional. Statements by the portfolio manager or sub-advisor represent their professional opinion and do not necessarily reflect the views of iA Clarington. Specific securities discussed are for illustrative purposes only and should not be considered a recommendation to buy or sell. Mutual funds may purchase and sell securities at any time and securities held by a fund may increase or decrease in value. Past investment performance may not be repeated. Unless otherwise stated, the source for information provided is the portfolio manager. Statements that pertain to the future represent the portfolio manager's current view regarding future events. Actual future events may differ.

Commissions, trailing commissions, management fees, brokerage fees and expenses all may be associated with mutual fund investments, including investments in exchange-traded series of mutual funds. The information presented herein may not encompass all risks associated with mutual funds. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.