IA Clarington Dividend Growth Class

Manager commentary – Q3 2024

In recent quarters, the global economy has continued its path toward normalization, with notable developments across key regions.

The Canadian economy has been in a precarious situation on a per-capita (average per person) basis, as its weak productivity (the ability to produce greater quantities of goods and services in better and faster ways) remained a challenge despite strong population growth. The housing market was at risk of more volatile conditions reemerging as the Bank of Canada rushed towards a neutral (sustainable) policy interest rate of about 3%, which is expected to be achieved by mid-2025.

The U.S. economy continued to normalize over the last 6 months ("the period"). The pace of job creation has slowed since April, and historical revisions have shown that fewer jobs than initially reported have been created since the spring of 2023. While hiring slowed, the participation rate (the ratio between the total labour force divided by the total working-age population) continued to rise, leading to a higher unemployment rate (the number of unemployed persons expressed as a percentage of the labour force). At the end of the period, the U.S. economy was displaying more signs of stability than weakness, especially in terms of consumer spending, which remained robust. Inflationary pressures eased, indicating a shift towards a more sustainable growth path.

For the last six months, the S&P/TSX Composite Index, representing the Canadian equity market, returned 10.0%, led by the materials, utilities and real estate sectors. Its U.S. counterpart, the S&P 500 Index, returned 10.2% in Canadian-dollar terms, led by the utilities, information technology and real estate sectors.

The Fund's security selection was positive overall, particularly within the communication services, information technology and materials sectors, which contributed to performance. The Fund's out-of-benchmark position in the health care sector also contributed to performance. Individual contributors included Enbridge Inc., a multinational pipeline and energy company, which benefited from excitement around the opportunity for natural gas to power artificial intelligence (AI) data centres. Additionally, as an interest-rate-sensitive company, Enbridge has benefited from favourable expectations for interest-rate cuts in Canada amid decelerating inflation. Loblaw Cos. Ltd. continued to benefit from incremental weakening of the Canadian consumer.

The Fund's security selection within the consumer discretionary sector detracted from performance. The Fund's overweight position in the industrials sector also detracted, as did its underweight position in the materials sector. The Fund's underweight position in banks detracted from performance as well.

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Individual detractors included Canadian National Railway Co., the Canadian Class I freight railway headquartered in Montreal, Quebec. The company faced rising earnings (profits) pressure owing to lower-than-expected volumes and sustained network performance challenges following the August conductor and engineer labour lockout. Open Text Corp. was affected by slower organic growth (growth resulting from increased productivity and sales, rather than, e.g., through acquisition of a competitor).

New positions in the Fund included multinational information technology company Amazon.com Inc. as it appeared to have a long runway for growth and should continue to benefit from the shift away from physical retail stores. Additionally, the company has benefited from the AI boom, driving growth in its cloud computing division.

Increased positions included Broadcom Inc. given present AI tailwinds (refers to favourable conditions for particular investments or the market as a whole) and the company's niche positioning in the value chain.

Decreased positions included UnitedHealth Group Inc. owing to its sensitivity to the political landscape, increased competition and high valuation (a measurement of how much an investment is worth. It is determined by analyzing a variety of factors, including financial statements and industry statistics).

Eliminated positions included home improvement company Lowe's Cos. Inc., which was sold given the fund manager's view that the stock price is pricing in higher short-term existing home sales.

The fund manager has low confidence in the path of performance going into the final quarter of 2024. The fund manager expects the market to be more volatile in the next few months as the cross-currents of a significant China reflationary impulse, election-related volatility and aggressive expectations for accommodative monetary policy (a central bank policy that seeks to stimulate economic growth by increasing access to credit through low or reduced interest rates) open up a wide range of outcomes for investors. The fund manager's goal is to remain focused on businesses that have strong multi-year horizons and are dominant in their respective value chains.

Fund and benchmark performance as at September 30, 2024	1-year	3-year	5-year	10-year
IA Clarington Dividend Growth Class – Series T6	24.6%	7.8%	7.5%	6.3%
15% S&P 500 Index (CAD), 85% S&P/TSX Composite Index	28.2%	10.3%	11.8%	9.2%

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For definitions of technical terms in this piece, please visit iaclarington.com/glossary and speak with your financial 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. There are various important differences that may exist between the Fund and the stated indices that may affect the performance of each. The Fund's benchmark is a blend of 15% S&P 500 Index (CAD), and 85% S&P/TSX Composite Index. The blended benchmark presented is intended to provide a more realistic representation of the general asset classes in which the Fund invests. The S&P 500 Index (CAD) includes 500 leading companies in leading industries of the U.S. economy and is widely regarded as the best single gauge of the U.S. equities market. The S&P/TSX Composite Index which is the premier indicator of market activity for Canadian equity markets, with 95% coverage of Canadian-based, TSX-listed companies. The index includes common stock and income trust units and is designed to offer the representation of a broad benchmark index while maintaining the liquidity characteristics of narrower indices. The Fund's market capitalization, geographic, and sector 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. Effective February 7, 2014, IA Clarington Dividend Growth Fund merged into the Fund. Effective December 30, 2014, the investment objectives and strategies of the Fund were changed.

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.

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