IA Clarington Strategic Equity Income Class

Manager commentary – Q4 2024

The Fund invests substantially all of its assets in units of IA Clarington Strategic Equity Income Fund (“the Reference Fund”). Its performance therefore largely reflects the performance of that fund. All reference made to “the Fund” hereinafter reflects a discussion of the portfolio holdings and characteristics of the Reference Fund.

Overall, in the fourth quarter and for 2024 as a whole, things were good for investors. Outsized positive returns were gained in most asset classes, save for the hardship some investment-grade bond investments had to endure during the year. As the year progressed, it seems that the narrative of an economic recession to a “soft landing” underwrote the risk market’s bias upwards. A change in narrative and a secular revolution of sorts unfolding in all things AI have propelled market valuations and earnings expectations higher for many parts of the market, to levels not seen since the turn of the Millenium. During the fourth quarter, volatility returned as some semblance of doubts surfaced regarding disinflation, more rate cuts by the U.S. Federal Reserve (Fed), and the actual timing of when the benefits of artificial intelligence (AI) will be seen. We also had a change in the political guard in the U.S., and with it came expectations for pro-business policies, tax cuts and lower regulations to help spur the “animal spirits” of American business. It’s far too early to measure the broad impact of these stated policies; we believe the more likely outcome of the change is sector rotation from information technology to those industries like financials and utilities that have been somewhat hamstrung over the past several years.

We are expecting heightened volatility in the markets, good and bad, as the economic baton has officially been passed from the Fed to the new administration. We expect our investment stance to favour those sectors that have reasonable valuations and growth prospects with defensible business models, in lieu of more-cyclical businesses with high imbedded expectations for outsized and continued growth. At the same time, we are most cautious about technology being able to repeat last year’s return given extended valuations and growth rate expectations that may decline from the lofty levels achieved in the past two years.

During the past quarter, our capital allocation within the Fund was “barbelled” with a large exposure to high-quality defensive businesses that represent the value and defensive nature of our Funds coupled with exposure to more economically sensitive sectors that should continue to grow earnings at or above historical rates. We believe this approach provides us with a soft hedge to unforeseen risks with lower-beta stocks at reasonable prices that will be relative beneficiaries in most economic scenarios, while gaining exposure to economically sensitive securities. We believe the current macroeconomic situation and market dynamics are providing investors with an opportunity to reduce downside volatility without giving up much upside. Our positive return contributions during the quarter were weighted to the financials and consumer staples sectors, while our relatively lower sector allocation to energy and exposure to interest-rate-sensitive equity sectors detracted from relative performance.

The Fund's top two contributors to performance during the past three months included our holdings in AtkinsRéalis Group Inc. and Air Canada. Outperformance of AtkinsRéalis was driven by improvement in its core Engineering Services business, the continued wind-down of its historically problematic LSTK business, as well strong growth in its Nuclear business. Air Canada benefitted from strong quarterly results and the announcement of a share repurchase program. The company also ratified a new contract with its pilots during the period, which helped avert a strike and de-risked its operations.

The largest detractors from performance during the quarter came from the Fund's exposure to The Toronto-Dominion Bank (TD) and BCE Inc. TD's shares were negatively impacted following its settlement with regulators over money laundering allegations, which resulted in growth restrictions on its U.S. business. BCE shares declined following its announced acquisition of Ziply Fiber. This acquisition used capital that the market had expected would be used for debt repayment, and exacerbated concerns about the sustainability of the company's dividend.

Fund and Benchmark Performance as at: December 31, 2024	1-year	3-year	5-year	10-year
IA Clarington Strategic Equity Income Class – Series A	13.7%	3.9%	6.8%	5.7%
S&P/TSX Composite Index	21.7%	8.6%	11.1%	8.6%

Non-traditional fixed income asset classes may carry higher risk, but generally provide higher yield than traditional fixed income asset classes. A mutual fund's "yield" refers to income generated by securities held in the fund's portfolio and does not represent the return of or level of income paid out by the fund. 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 historical performance of the IA Clarington Strategic Equity Income Class as compared with historical performance of widely quoted market indices. As this fund invests substantially in its Reference Fund (IA Clarington Strategic Equity Income 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 Composite Index 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 invests in dividend paying stocks while the benchmark is comprised of companies which may not necessarily pay a dividend.

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The Fund may have exposure to equities domiciled both in Canada and outside of Canada while the benchmark only has exposure to equities domiciled in Canada. The Fund may have currency risk exposure while the benchmark has none. 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.