

IA Clarington Strategic Equity Income Class

Manager commentary – Q2 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.

We came into this year postulating that the direction of both equities and fixed-income markets would be decided almost exclusively by the direction of the U.S. 10-year bond yield. Correlations between equities and bond prices were at multi-decade highs, suggesting that, from a tactical perspective, lower yields would have as much impact on the path of equities as earnings, at least over the medium term. This past quarter it became obvious that lower rates were associated with higher equity prices. So, this begs the question: At what point will lower rates be associated with a slowing economy and lower earnings expectations to offset the positive effects of a lower discount rate? We believe that through the remainder of this year and into early 2025, we will experience a slow grind lower in economic growth and inflation, which will likely push interest rates lower and slow earnings growth as aggregate demand declines. We view moving up the quality spectrum in equity exposure as the most appropriate way to allocate our investors’ capital as this phase of the coming cycle unfolds.

Equity markets remained somewhat bifurcated over the past quarter. A small number of stocks related to artificial intelligence (AI) momentum drove a large share of the market’s earnings growth and higher equity valuations, while the majority of the remaining market was more reasonably priced. We expect the second half of the year to be defined by peaking growth expectations for AI-related stocks, which could produce a favourable environment for a pull-back in their share prices. Lower overall bond yields without a pronounced recession should produce a favourable environment for undervalued stocks with higher yields and defensive business models, making such stocks an attractive place to allocate capital over the coming quarters.

We have added longer-duration equity securities in our Fund over the past quarter as opportunities have presented themselves, while also increasing our foreign exposure, particularly to U.S. utilities. We believe this sector has enhanced growth prospects as the demand for electricity increases owing to manufacturing growth and data centre demand, thereby supporting outsized yields. Our cash levels ended the quarter higher, while our currency exposure was mostly hedged to the U.S. dollar.

The Fund’s top two contributors to performance during the past three months included holdings in Alphabet Inc. and Royal Bank of Canada. Alphabet announced its first regular dividend payment during the quarter, and the company has participated in the AI-fueled rally that has driven the market to new all-time highs. Royal Bank of Canada is our largest equity position and was one of the most significant

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contributors during the quarter, given its strong earnings results and the integration of HSBC Canada, which is progressing in-line with initial expectations.

The largest detractors from performance during the quarter came from the Fund's exposure to Magna International Inc. and Russel Metals Inc. Magna has underperformed following its earnings results when it announced an impairment to its business following the bankruptcy of Fisker, a customer of Magna's complete vehicles segment. Russel Metals declined primarily as the result of a lower market price for steel through the quarter; however, we are encouraged by the company's strong balance sheet, which should support acquisition-related growth moving forward.

Fund and Benchmark Performance as at: June 30, 2024	1-year	3-year	5-year	10-year
IA Clarington Strategic Equity Income Class – Series A	7.9%	4.0%	5.9%	4.8%
S&P/TSX Composite Index	12.1%	6.0%	9.3%	6.9%

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. 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. Effective October 3, 2013, the investment objective 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

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payable by any securityholder that would have reduced returns. Returns are historical annual compounded total returns.

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