# IA Clarington Strategic Equity Income Fund

## Manager commentary – Q2 2024

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

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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 Fund – Series Y** | 8.2% | 4.3% | 6.1% | 5.1% |
| **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 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 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.

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.