

# IA Clarington Strategic 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.

Within fixed income, we continue to believe that a barbell strategy, which combines longer duration bonds with high-yielding corporate debt, should provide investors with the right combination of yield and downside protection if, in fact, the last phase of the great liquidity unwind concludes over the next two quarters.

We have added longer-duration equity and fixed-income securities to our Fund over the past quarter as opportunities have presented themselves, while also increasing our foreign exposure, particularly 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. We also continued to take advantage of the current higher-yield environment by replacing some of our fixed-income exposure with bonds that have been refinanced this year at relatively higher yields. We expect favourable refinancing opportunities to continue throughout the remainder of the year. Our cash levels ended the quarter higher, while our currency exposure was mostly hedged to the U.S. dollar.

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The Fund's top two contributors to performance during the past three months included our 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.

The largest detractors from performance during the quarter came from the Fund's exposure to Magna International Inc. and Canadian Pacific Kansas City Ltd. Magna 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. Canadian Pacific underperformed during the quarter following financial results that showed the anticipated recovery in freight volumes has yet to materialize. Shares had appreciated sharply during the prior quarter but gave back some of these gains as evidence of this recovery was extended.

<b>Fund and Benchmark Performance as at: June 30, 2024</b>	<b>1-year</b>	<b>3-year</b>	<b>5-year</b>	<b>10-year</b>
<b>IA Clarington Strategic Income Fund – Series Y</b>	6.7%	2.2%	4.0%	3.6%
<b>40% FTSE Canada Universe Bond Index, 60% S&amp;P/TSX Composite Index</b>	8.8%	2.9%	5.7%	5.1%

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](http://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 benchmark is a blend of 40% FTSE Canada Universe Bond Index and 60% 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 FTSE Canada Universe Bond Index is comprised of Canadian investment grade bonds and has significantly different portfolio duration characteristics. The FTSE Canada Universe Bond Index consists of a broadly diversified selection of investment-grade Government of Canada, provincial, corporate and municipal bonds issued domestically in Canada. 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's fixed income component can invest in both investment

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grade and high yield bonds while the benchmark has exposure only to investment grade bonds. The Fund may have exposure to equities and bonds domiciled both in Canada and outside of Canada while the benchmark only has exposure to equities and bonds 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. Overall, the Fund's bond and equity exposure can differ, because the Fund does not use a fixed ratio similar to the benchmark. 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.

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