IA Clarington Strategic Income Fund

Manager commentary – Q4 2024

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. Within fixed income we are most optimistic about our allocations to higher-yielding bonds that are more aligned with economic growth instead of rates changes. 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. Our fixed-income exposure is following a similar approach by having a majority of our holdings in higher-quality high-yield bonds that have an increased sensitivity to the economy, while hedging our potential downside with increased duration by way of investment-grade bonds. 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. Our security selection in fixed income stood out during the quarter with a total return of almost 2.0%, compared to FTSE Canada Universe Bond Index that was flat during the quarter.

The Fund's top two contributors to performance during the past three months included our holdings in Air Canada and AtkinsRéalis Group Inc. 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. 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.

The largest detractors from performance during the quarter came from the Fund's exposure to The Toronto-Dominion Bank (TD) and Canadian Pacific Kansas City Ltd. 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. Canadian Pacific Kansas City experienced some weakness as a recovery in freight volumes has taken longer than expected to materialize, as well as concerns about slowing economic growth. These factors resulted in some weakness in the share price over the last quarter.

Fund and Benchmark Performance as at: December 31, 2024	1-year	3-year	5-year	10-year
IA Clarington Strategic Income Fund – Series Y	10.7%	2.5%	4.5%	4.4%
40% FTSE Canada Universe Bond Index, 60% S&P/TSX Composite Index	14.5%	5.0%	7.1%	6.1%

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 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 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.

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.