IA Clarington Core Plus Bond Fund

Manager commentary – Q3 2024

During the last 6 months ("the period"), the Canadian economy began presenting weaker economic data across points such as headline (refers to the total inflation, including all components) and core inflation (Refers to price inflation for goods and services, excluding food and energy), the unemployment rate (the number of unemployed persons expressed as a percentage of the labour force) and the labour market, which led the Bank of Canada (BoC) to progressively lower its policy interest rate from 5% to 4.25%.

Within Canada, sovereign (government) bond yields (the interest earned on a fixed-income security) dropped anywhere from 33 basis points (bps) to 141 bps, with the front end (shorter maturity and yields) of the yield curve (graphically illustrates the yields and maturities of bonds of similar credit quality) seeing the largest decline as markets priced in more BoC interest-rate cuts. The Canadian investment-grade (a high-quality debt security with a low risk of default. Ratings for investment grade instruments are BBB and above) fixed-income market saw positive returns across all sectors over the period, with the corporate fixed-income sector generating the strongest performance.

The U.S. also saw lower interest rates as the U.S. Federal Reserve (the Fed) cut its policy interest rate by 50 bps in September. The U.S. economy proved to be more resilient during late in the period, which led to a steepening yield curve (long-term interest rates rise more quickly than short-term rates) amid the increased probability of an economic "soft landing" (a cyclical slowdown in economic growth that ends without a period of outright recession).

Aside from an uptick in U.S. Treasury yields following the Fed's September meeting, yields across the yield curve declined anywhere from 32 bps to 107 bps over the period, with the long end (longer maturities) of the curve seeing the smallest yield drop and the front end seeing the largest, as the market priced in more aggressive interest-rate cuts.

Credit spreads (the difference in yield between debt instruments with similar terms but different credit ratings) in U.S. investment-grade credit modestly narrowed by 5 bps to 18 bps over 5-, 10-, 20- and 30-year maturities, whereas the 2-year investment-grade corporate spreads increased by 4 bps, suggesting that the U.S. economy remains stable, which benefited investment-grade corporate issuers.

The Fund's significant exposure to BBB-rated Canadian investment-grade fixed-income credit contributed to performance as lower-quality investment-grade bonds outperformed higher-quality counterparts. The Fund's underweight position in senior loans (In a senior loan arrangement, the lender has first claim on the borrower's assets in the event of bankruptcy. These loans have floating rates that are reset at regular intervals) also contributed as senior loans underperformed short-term investment-grade and high-yield (bond issuers with credit rating lower than BBB-) fixed-income holdings.

The Fund’s underweight exposure to high-yield fixed-income holdings detracted from performance, as did security selection in the sector, primarily owing to private credit exposure (a debt security or lending arrangement that is not accessible in the public markets). The Fund’s exposure to cannabis bonds also detracted from performance given price declines across the sector.

The Fund’s management transitioned to Agile Investment Management LLC from Wellington Square Advisors Inc. at the beginning of September 2024. Since Agile Investment has taken over, the Fund’s liquidity has been increased through the sale of more-distressed high-yield securities at times when the market was seeking to take on additional risk. Furthermore, the fund manager has been increasing the Fund’s overall credit quality (refers to the degree to which a borrower can be expected to meet its debt repayment obligations), reducing its overweight exposure to banking and energy companies, and adding more defensive positions.

From a geographical perspective, the Fund’s U.S. and emerging markets exposure has been increased to help improve liquidity and yield.

From a tactical perspective, the fund manager made slight adjustments to the Fund’s duration (interest-rate sensitivity) and currency hedging (A strategy some portfolio managers use when investing in foreign securities. The goal is to fully or partially negate the impact of exchange rate fluctuations on investment performance. An unhedged approach is often used when the portfolio manager believes exchange rate fluctuations will benefit investment performance or be neutral over time) to help mitigate risk and enhance returns.

Over time, the fund manager expects the Fund to become much more liquid, with stronger credit quality, enhanced yield and low duration, and to distribute risk among different sectors.

Anticipating an economic soft landing, the fund manager expects the federal funds rate to approach 3-3.5% in the coming period. The fund manager also expects interest rates across the yield curve to move within a tactical range, which will call for heightened strategic duration management. Regarding currency management, the fund manager anticipates a weaker U.S. dollar moving forward and will position the Fund’s currency exposure risk accordingly.

From a credit perspective, the fund manager remains focused on increasing liquidity and credit quality within the Fund’s fixed-income portfolio. The fund manager maintains a bias towards more defensive companies that can offer protection against the effects of higher volatility and uncertainty.

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Fund and benchmark performance as at September 30, 2024	1 year	3 year	5 year	10 year
IA Clarington Core Plus Bond Fund – Series A	8.7%	0.3%	1.4%	1.8%
50% Bloomberg Global Aggregate Corporate Bond 1-5Y (USD), 50% Bloomberg Global Aggregate Corporate Bond 1-5Y (CAD)	11.3%	1.8%	2.1%	2.6%

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, visit iaclarington.com/glossary or speak with your investment 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 50% Bloomberg Global Aggregate Corporate Bond 1-5Y (USD) and 50% Bloomberg Global Aggregate Corporate Bond 1-5Y (CAD). The blended benchmark presented is intended to provide a more realistic representation of the general asset classes in which the Fund invests. The Bloomberg Global Aggregate Corporate 1-5 Year Float adjusted Bond Index is based on the Bloomberg Global Aggregate Corporate Index, and to be eligible for the index, bonds must be issued by a Corporate issuer, and must have between one year and up to five years remaining until maturity. The Bloomberg Global Aggregate Corporate Index is a flagship measure of global investment grade, fixed-rate corporate debt. This multi-currency benchmark includes bonds from developed and emerging markets issuers within the industrial, utility and financial sectors. 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.

Agile Investment Management, LLC was appointed sub-advisor to the IA Clarington Core Plus Bond Fund effective September 4, 2024.

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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