

IA Clarington Loomis Global Multisector Bond Fund

Manager commentary – Q3 2024

Bonds delivered strong returns in the third quarter, building on their positive showing in the first half of the year. Fixed-income investors gained confidence from the backdrop of falling inflation and the gradual shift toward more accommodative monetary policy (steps taken by a country's central bank to influence the direction of the economy) by central banks. Most notably, in mid-September the U.S. Federal Reserve (the Fed) enacted its long-anticipated first interest-rate cut. The bond market was further supported by positive economic growth and generally healthy investor risk appetites, which helped support the credit sectors.

Investment-grade corporate bonds and high-yield bonds both produced robust absolute returns and outpaced government debt. These categories were supported by the combination of income and a compression in yields spreads (i.e. the yield advantage over Treasuries) that was near the lowest level of the past decade. Corporate bonds benefited from declining Treasury yields, as well as positive economic growth and steady corporate profit results. In addition, hearty investor risk appetites led to elevated demand for higher-yielding market segments. Bank loans lagged the broader fixed-income market as lower interest rates reduced demand for floating rate assets.

The Fund's security selection was the main contributor to performance for the six-month period ending September 30, 2024. The Fund's high-yield exposure also contributed to performance, led by higher-conviction positions in the communication services, consumer non-cyclical and information technology sectors. The Fund's bond selection in investment-grade corporate credits in the energy, information technology and basic industry sectors contributed, as did convertible bonds in select communication services companies.

The Fund's duration positioning (interest-rate sensitivity) detracted slightly from performance, and holdings of defensive, reserve-like positions were laggards.

Increased positions included select bank loans where the fund manager liked the credit, and the holding could pick up a little more spread (the difference in yield between debt instruments with similar terms but different credit ratings) compared to high-yield credit.

Decreased positions included a long-end exposure in key rate duration (the duration of a portfolio at a specific maturity), which had the net effect of reducing overall duration by approximately 1.5 years. This naturally led to a shorter total duration posture for the Fund.

Eliminated positions included non-U.S.-dollar exposure, namely positions in the New Zealand dollar and Latin American currencies such as the Brazilian real and Mexican peso.

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The Fed seems to be content that inflation is progressing closer to long-run target levels, moving away from its restrictive policy stance with a 50-bps rate cut in September. As we enter the fourth quarter of 2024, the market has priced-in approximately eight interest-rate cuts and a terminal interest rate of just under 3% by mid-2026. Further incoming economic data, along with the impact of the U.S. election and broader geopolitical events, will likely shape the speed and magnitude of future interest-rate cuts.

Recent economic data points to moderating U.S. economic growth but stops well short of signaling a potential recession. The U.S. labour market remains strong, but the average payroll gain in each of the past three months has declined and unemployment has edged higher from a very low level. Corporate fundamentals remain stable and supportive of economic activity.

European growth is gradually improving but inflationary risks persist, so the European Central Bank may make limited interest-rate cuts. The fund manager expects the Bank of Japan to show increased tolerance for higher yields if it is confident that 2% inflation can be achieved and sustained. The People's Bank of China announced an extensive monetary policy package to address economic challenges. Fiscal support quickly followed as policymakers reiterated their commitment to achieving annual economic goals, but the scale and effectiveness of such measures is uncertain.

In the fund manager's view, bond markets should be supported by strong demand as investors sit on record levels of cash that will be seeking yield as the Fed lowers interest rates. Challenges remain, such as geopolitical risk, trade protectionism, a growing U.S. deficit and upcoming U.S. and global presidential elections. The fund manager believes the best approach is to maintain the Fund's yield advantage rather than waiting for a risk-off environment (market conditions in which higher-risk assets tend to perform poorly) that might not materialize.

Fund and benchmark performance, as at September 30, 2024	1 year	3 year	Since inception (Jul. 2020)
IA Clarington Loomis Global Multisector Bond Fund – Series A	12.8%	-1.4%	-0.5%
Bloomberg U.S. Aggregate Bond Index (CAD Hedged) ¹	10.5%	-2.0%	-1.8%

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

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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 and speak with your investment advisor.

¹Source: Bloomberg L.P. The Bloomberg U.S. Aggregate Bond Index (CAD Hedged) is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. This includes Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and collateralized mortgage-backed securities.

The performance data comparison presented is intended to illustrate the Fund's historical performance as compared with historical performance of widely quoted indices. There are various important differences that may exist between the Fund and the stated indices that may affect the performance of each. The Fund's market capitalization, geographic, sector and credit quality exposure and interest rate sensitivity may differ from that of the benchmark. The Fund's currency risk exposure may be different from the benchmark. 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.

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