

# IA Clarington Strategic Corporate Bond 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. Over the past year we reduced interest-rate sensitivity in the Fund by focusing primarily on higher-yielding corporate debt in lieu of investment-grade bonds. This shift in focus has played an important role in driving performance and has helped improve the experience for our unitholders. This allocation decision was predicated upon our belief that it wouldn't be before 2025 that inflation finally hit central banks target rate of 2%, and that economic growth would be strong during this period, helping to keep interest rates higher than widely expected. We have seen multiple pivots from U.S. Federal Reserve officials on the path of interest rates. It seems that the times are changing once again as economic growth looks primed to grind lower throughout the year and we believe inflation, although sticky, should follow suit as the year comes to a close. Despite these expected developments, we do not foresee a recession in the short-term owing to a number of factors, including money supply that is normalizing but still staying above trend, and fundamentals in the high-yield market segment that remain better than historical averages.

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 opportunistically added longer-duration fixed-income securities to the Fund over the past quarter and have continued to take advantage of the current higher-yield environment by replacing some of our fixed-income exposure with bonds refinanced at higher coupons. We expect favourable refinancing opportunities to continue throughout the remainder of the year. Our cash levels ended the quarter lower, while the Fund's currency exposure was mostly hedged to the U.S. dollar.

Our largest contributors to performance during the quarter came from the Fund's exposure to KeHE Distributors LLC 9.0% 2029 bonds and Nova Chemicals Corp. 9.0% 2030 bonds. KeHE is a distributor of products to grocers across North America, and this secured bond generated outperformance primarily through its attractive coupon. Nova Chemicals, much like the previously mentioned security, generated outperformance primarily owing to its attractive coupon. Both of these securities are U.S.-dollar denominated, which helped contribute to returns during the quarter.

Our largest detractors from performance during the quarter came from our Fund's exposure to Corus Entertainment Inc.'s 5.0% 2028 and 6.0% 2030 bonds. These securities underperformed as the company experienced operational issues, including its inability to grow its business following an advertising recession and the migration of some content to a rival network. Although we are confident the company will remain insulated from the impact of this content-related change until next year, this announcement had a negative impact on these bonds during the quarter.

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| Fund and Benchmark Performance as at: June 30, 2024           | 1-year | 3-year | 5-year | 10-year |
|---|--------|--------|--------|---------|
| <b>IA Clarington Strategic Corporate Bond Fund – Series A</b> | 7.1%   | 1.4%   | 2.4%   | 2.6%    |
| <b>FTSE Canada Corporate Bond Index</b>                       | 6.5%   | -0.1%  | 1.4%   | 2.7%    |

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 FTSE Canada Corporate Bond Index is based on the Corporate sector of the FTSE Canada Universe Bond Index. The Corporate sector is further divided into sub-sectors based on major industry groups: Financial, Communication, Industrial, Energy, Infrastructure, Real estate, and Securitization. The Fund 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 bonds domiciled both in Canada and outside of Canada while the benchmark only has exposure to 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. 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

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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.

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