

IA Clarington Strategic Corporate Bond 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 while simultaneously pushing yields higher in the U.S. Canada took the opposite approach as yields domestically went lower as the year progressed, with an aggressive rate cutting campaign by the Bank of Canada. During the fourth quarter, volatility returned as some semblance of doubts surfaced regarding disinflation and more rate cuts by the U.S. Federal Reserve. Meanwhile, in Canada the risks associated with housing, debt and lacklustre economic growth saw Canadian yields increase by much less than in the U.S. 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. While it’s far too early to measure the broad impact of these stated policies, we believe the more likely outcome of the change is for U.S. 10-year Treasury yields to decline but remain anchored above 4.0%, with Government of Canada 10-year yields to remain above 2.75%. We expect our investment stance to favour corporate credit with higher economic sensitivities within the higher-quality cohort of the high-yield bond market. We are most optimistic about the Fund’s allocations to higher-yielding bonds that are more aligned with economic growth instead of interest rates changes.

Over the last quarter, high-yield credit and leveraged loans have been some of the best-performing segments of the fixed-income market, while returns in investment-grade corporate debt and government bonds have been rather weak. Although spreads in the high-yield market remain close to historical lows, we are encouraged by the fact that fundamentals in this space remain quite robust, including improving average credit quality, historically low default rates and strong free-cash-flow-to-debt levels. In this context, we believe that historically tight spreads are justified and that any potential widening from current levels should be at least partially offset by the relative strength of fundamentals across the high-yield space. By extension, while the all-in yield offered in the high-yield market has declined over the last year, we believe the absolute level of yield still presents an exciting opportunity for investors to generate attractive risk-adjusted returns.

During the past quarter, our capital allocation within our Fund was “barbelled” with a large exposure to short-dated bonds with relatively high yields, coupled with longer-duration bonds. We expect this strategy to benefit our Fund by providing a lower level of volatility without sacrificing much yield. Our overall credit exposure remains squarely in the BB ratings bucket, providing our unitholders with the benefits of both higher yields and defensiveness in times of economic uncertainty. We believe this

IA Clarington Strategic Corporate Bond Fund

approach provides us with a soft hedge to unforeseen risks with lower-beta bonds at reasonable prices that will be relative beneficiaries in most economic scenarios. Cash levels within the Fund increased as the quarter progressed, in part owing to securities that were called away from us during the period. Not only has this enhanced the more-defensive positioning of the Fund, it is also providing us with an opportunity to allocate incremental capital towards the best opportunities to generate attractive risk-adjusted returns.

Our largest contributors to performance during the quarter came from the Fund's exposure to KeHE Distributors LLC 9.0% 2029 bonds, and Charter Communications Inc. 7.375% 2031 bonds. KeHE is a distributor of products to grocers across North America, and this secured bond generated outperformance through its attractive coupon, as well as appreciation of the U.S. dollar relative to the Canadian dollar, as this bond is denominated in U.S. dollars. Similarly, Charter Communications also generated outperformance owing to its attractive coupon, as well as appreciation of the U.S. dollar relative to the Canadian dollar.

Our largest detractors from performance during the quarter came from the Fund's exposure to Superior Plus Corp. and Enbridge Inc. 6.212% perpetual preferred shares. Superior Plus declined after the company had announced a reduction in its annual guidance on earnings before interest, taxes, depreciation and amortization (i.e., EBITDA) owing to warmer weather, and changed its capital return priorities by cutting its dividend to prioritize share repurchases. Our Enbridge perpetual preferred shares declined primarily as the result of a higher-yield environment that emerged throughout the quarter.

Fund and Benchmark Performance as at: December 31, 2024	1-year	3-year	5-year	10-year
IA Clarington Strategic Corporate Bond Fund – Series A	7.0%	2.2%	3.0%	3.1%
FTSE Canada Corporate Bond Index	7.0%	1.5%	2.3%	3.0%

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.

IA Clarington Strategic Corporate Bond Fund

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 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.

Trademarks displayed herein that are not owned by Industrial Alliance Insurance and Financial Services Inc. are the property of and trademarked by the corresponding company and are used for illustrative purposes only. The iA Clarington Funds are managed by IA Clarington Investments Inc. iA Clarington and the iA Clarington logo, iA Wealth and the iA Wealth logo, and iA Global Asset Management and the iA Global Asset Management logo are trademarks of Industrial Alliance Insurance and Financial Services Inc. and are used under license. iA Global Asset Management Inc. (iAGAM) is a subsidiary of Industrial Alliance Investment Management Inc. (iAIM).