

IA Clarington U.S. Dollar Floating Rate Income 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.

For the six-month period ending September 30, 2024, the Fund's private credit allocation detracted from performance as smaller issuers struggled with higher borrowing costs and margin pressure from rising input costs. The Fund's cash position also detracted from performance as the Credit Suisse Leveraged Loan Index generated a positive return during the period.

The Fund's lack of exposure to CCC-rated credit contributed to performance, as returns from CCC-rated loans lagged those of the overall index.

The Fund transitioned to Loomis Sayles at the beginning of September 2024. At that time, the Fund was concentrated in approximately 65 loan positions, with additional allocations to bonds, collateralized loan obligations (CLOs), private credit and equity. Since then, the fund manager has begun repositioning the portfolio, as operational limitations permit, through the addition of leveraged loans that exhibit the desired fundamental and valuation attributes. Over time, the fund manager intends to expand the Fund to between 200 and 300 loan positions. Some of the Fund's loan positions will be trimmed or sold in order to rotate into holdings that better match the strategy, while CLO, equity and some bond holdings will be sold to redeploy cash into loans.

The environment for loan credit quality (the degree to which a borrower can be expected to meet its debt repayment obligations) has remained stable to firm, though earnings trends have become more mixed in some sectors. Loans continued to perform strongly despite modest retail outflows. CLO issuance and new-issue loan scarcity were uplifting factors to loan performance, as the supply and demand imbalance remains positive for loan prices.

Default rates (the percentage of bond issuers that have defaulted within a given period) could increase, but so far they have remained relatively low owing to company-specific circumstances, such as ample

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liquidity, few loan maturities, and successful cost-savings programs. Last year's rise in defaults has abated, and the annual default rate has actually fallen to historically low levels. That said, there is a modest subset of offerings at the lowest end of the quality spectrum that is still trading at a substantial discount to par (face-value) and will need sustained economic support and healthy financial markets as they work through their specific issues.

The fund manager's base case shows low odds of a downturn, as the prerequisite decline in profits and rise in unemployment have not materialized. Instead, an economic "soft landing" is expected. The fund manager is cautiously optimistic but discerning when adding risk given that spreads (the difference in yield between debt instruments with similar terms but different credit ratings) have been ratcheting tighter and, therefore, compensation for stepping down in quality is being reduced.

The Fed has embarked on its monetary easing cycle, which should further ease financial conditions and improve credit conditions in general. The fund manager believes that current yields in the loan market should remain strong as the Fed lowers interest rates, and there is room for price improvement to boost total return. In the longer run, the economy may be entering a period of significant interest-rate volatility. The fund manager believes this favours loans, as their risk-adjusted returns would be relatively appealing.

The fund manager's goal is to construct a portfolio that can withstand many pressures without suffering significant credit losses.

Fund and benchmark performance as at September 30, 2024	1 year	3 year	5 year	Since inception (Dec. 2015)
IA Clarington U.S. Dollar Floating Rate Income Fund – Series A	0.2%	0.0%	0.4%	2.0%
Credit Suisse Leveraged Loan Index USD	9.7%	6.3%	5.6%	5.7%

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, 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 the Credit Suisse Leveraged Loan Index USD which is designed to mirror the investable universe of the U.S. dollar-denominated leveraged loan market. The Fund's geographic, sector and credit quality exposure may differ from that of the benchmark. The Fund can invest in high yield corporate bonds and government bonds, which are

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not included in the benchmark. For this Fund, performance is reported in USD and any investments in non-U.S. based issuers (including Canadian issuers) may be purchased in currencies other than U.S. dollars. When these non-U.S. investments are purchased in a currency other than U.S. dollars, the value of the investment will be affected by the value of the U.S. dollar relative to the value of the other currency. If the U.S. dollar rises in value relative to the other currency but the value of the non-U.S. based investment otherwise remains constant, the value of the investment in U.S. dollars will have fallen. Similarly, if the value of the U.S. dollar has fallen relative to the other currency, the value of the U.S. Dollar Fund's investment will have increased. As the Fund's performance is reported in USD, the U.S. indices referenced within are also quoted in their native currencies of U.S. dollars to reflect the performance of the holdings. 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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