

IA Clarington U.S. Dollar Floating Rate Income Fund

Manager commentary – Q4 2024

The loan market saw another quarter of strong performance, once again buoyed by the high interest-rate component of floating rate loans. Loan prices continued to remain near par as investor sentiment remained positive and loan market technicals provided stability. B-rated loans outperformed BB-rated loans over the period, mainly driven by higher spreads, although the gap in average price between BB- and B-rated loans decreased during the quarter as B-rated loan prices advanced more than BB-rated loan prices.

Reflecting the high rate of refinancing seen in the market throughout 2024, 63% of the loan market remained priced over par at the end of the quarter, and 15% of the market was priced between 99 and par, which we believe reflects buyers' continued desire for exposure to the loan market. New issues in the loan market were a blend of BB-rated loans and B-rated loans, as companies across all credit qualities were able to access the market for funding.

The size of the U.S. leveraged loan market grew during the period, and now stands at roughly US\$1.42 trillion, a two-year high. Repricing and refinancing have been the main sources of loan issuance with US\$279 billion in the fourth quarter alone, resulting in shrinking maturity walls, although the pace of transactions led by mergers and acquisitions declined as the year came to an end.

The default rate by issuer has climbed modestly but remains below 2%.

As investors began to anticipate a slower path to interest rate cuts, retail loan funds flows turned positive and approximately US\$5.8 billion in subscriptions occurred during the quarter. Collateralized loan obligation (CLO) formation was record-setting at US\$59.5 billion for the period and eclipsed US\$200 billion for the year.

The largest, most-liquid loans outperformed the broader loan market in the fourth quarter. The interest rate move in the fourth quarter was the biggest driver of performance in fixed income away from loans, as the U.S. Federal Reserve (Fed) has grown more cautious on recent progress in getting inflation back to target.

The Fund underperformed the Credit Suisse Leveraged Loan Index in the fourth quarter. This underperformance was generally concentrated in a few legacy non-loan holdings. Within the leveraged loan allocation, a B+ rated cable satellite loan, a BB- rated retail loan, and a B+ rated automotive loan were modest detractors.

During the quarter, we focused on transitioning the portfolio, which was previously managed with a high-quality skew in the bank loan sleeve and a lower-quality skew for the non-loan holdings. We are

IA Clarington U.S. Dollar Floating Rate Income Fund

migrating the loan portfolio to build and maintain a yield advantage versus the index, but within the context of appropriate risk compensation.

The portfolio has seen a minor change in credit quality while increasing its interest income significantly. We have also expanded the number of loans held and decreased the average position size in each loan, thus lowering the specific risk in any single name. The portfolio also now contains loans in 12 additional industries.

The environment for loan credit quality has remained stable to firm, although earnings trends have become more mixed in some sectors. Loans have continued to perform strongly despite modest retail outflows. CLO issuance and new-issue loan scarcity were uplifting factors to loan performance, as the supply/demand imbalance for loans continues to be a technical tailwind for loan prices.

We agree with the market's concern that default rates could increase, but they have remained relatively low due to company-specific circumstances (ample liquidity, few loan maturities and successful cost-savings programs). The rise in defaults we saw in 2023 and into 2024 has abated, while the annual rate has actually ticked lower recently at historically low levels. That said, we note there is a modest subset of the category at the lowest end of the quality spectrum that still trades at a substantial discount to par and will need sustained economic support and healthy financial markets to manage through their specific issues. We do not expect this cohort to have a sizeable effect on total return for the category given our base case assumptions.

The base case of Loomis Sayles's Macro Team shows low odds of a downturn, as we have not seen the prerequisite decline in profits' decline and rise in unemployment. Their base case has shifted this year to an economic "soft landing" with an eye on the current trends in the labour market. We are cautiously optimistic but remain discerning when adding risk, as spreads have been ratcheting tighter and therefore compensation for stepping down in quality is being squeezed.

We still expect the Fed to continue its easing cycle, just at a more measured pace, which we anticipate will support healthy financial conditions and will help improve credit conditions in general. We believe current yields in the loan space will remain quite strong as the Fed continues to cut, and there is modest room for price improvement to boost total return. In the longer run, we think the economy may be entering a period of interest rate volatility that we have not seen since prior to the global financial crisis. We believe this favours loans as part of an asset allocation, as their risk-adjusted returns would be relatively appealing in such an environment.

Our goal is to construct a portfolio that can withstand many pressures without encountering significant credit losses.

IA Clarington U.S. Dollar Floating Rate Income Fund

Fund and benchmark performance as at December 31, 2024	1-year	3-year	5-year	Since inception (Dec. 2015)
IA Clarington U.S. Dollar Floating Rate Income Fund – Series A	0.6%	0.5%	0.7%	2.2%
Credit Suisse Leveraged Loan Index USD	9.1%	6.8%	5.7%	5.8%

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 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.

On September 4, 2024, the sub-advisor of the Fund changed. This change may have affected the Fund's performance.

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 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.

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

IA Clarington U.S. Dollar Floating Rate Income Fund

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).