# IA Clarington Loomis Global Allocation Fund

## Manager commentary – Q4 2024

Financial assets produced mixed results in the fourth quarter. Strong economic conditions in the U.S., together with an election result perceived to be market-friendly, supported risk assets but weighed on investments with a higher degree of interest-rate sensitivity. International markets — including equities, bonds and currencies — generally lagged owing to the broadly weaker economic outlook outside of the U.S.

Most segments of the U.S. bond market lost ground in the quarter. The U.S. Federal Reserve (Fed) reduced interest rates by a quarter point at its meetings in November and December, which followed a half-point cut in October. However, investors primarily focused on Fed Chair Jerome Powell's indication that the central bank may slow its pace of easing in the year ahead, in response to inflation that remains above the long-term target. Additionally, uncertainty about the economic impact of the new administration's policies prompted the Fed to take a less-accommodative stance. Whereas the Fed projected as many as four quarter-point rate cuts in 2025 at its September meeting, that number fell to two in December.

In this environment, longer-dated bonds experienced the weakest relative performance in the U.S. Rate-sensitive categories, such as Treasuries and mortgage-backed securities, lagged the headline investment-grade indexes. On the other hand, credit-oriented investments—including asset-backed securities, high-yield bonds and bank loans—held up better amid mounting optimism about the economy and strength in investor risk appetites.

The prospect of better relative growth in the U.S. and fewer rate cuts in 2025 helped fuel an impressive rally in the U.S. dollar, weighing on the returns of non-dollar assets for U.S. investors. All major G-10 currencies fell against the greenback, with the most pronounced weakness occurring in the New Zealand dollar, Australian dollar and Japanese yen. Most major emerging-market currencies also declined relative to the U.S. dollar.

Global developed-market bonds generally registered losses in local-currency terms amid a general uptrend in yields worldwide, but most outpaced the U.S. The modest outperformance largely reflected interest-rate differentials and the weaker growth prospects across Europe and Asia. However, non-dollar debt suffered a sizable loss in U.S.-dollar terms owing to the adverse effect of currency movements. U.K. gilts were particularly weak, as concerns about the nation's fiscal issues weighed on its fixed-income and currency markets. Emerging-market debt also recorded losses in U.S.-dollar terms, with currency translation acting as the primary driver of the shortfall.

During the quarter, the three largest contributors to fund performance in equities were Amazon.com Inc., Nvidia Inc. and Alphabet Inc.

Shares of Amazon rose in the quarter, with most of the outperformance concentrated in November. The higher share price was likely post-election hopes for the possibility of lower taxes and lighter regulation. Large technology companies like Amazon have faced regulatory scrutiny, so the prospect of a friendlier regulatory environment may have boosted Amazon more than most companies.

Nvidia was a top contributor over the three-month period as optimism over the company's revenue trajectory continued to mount. Nvidia will be ramping their Blackwell product line in 2025, which offers considerable power and compute advantages relative to its current Hopper line. Additionally, further developments in artificial intelligence (AI) models, including OpenAI's o3 model, continue to lend credence to the idea of continued model improvement with more compute and therefore better end-user outcomes. We continue to find shares of Nvidia attractive based on our scenario-based valuation framework.

Shares of Alphabet outperformed as market participants began to appreciate the company's strong position in the current investment cycle around generative AI, abandoning earlier perceptions that the company lagged behind competitors such as Microsoft Corp. and OpenAI. Alphabet has made significant R&D investments, most of which went into pioneering AI advances such as Transformer, the model architecture that created the framework for current leading chatbots, including OpenAI's ChatGPT and Google's Gemini. We are pleased to see the company increasingly incorporate more of these capabilities into its core products, delivering value to its customers. We believe Alphabet remains one of the more attractive values in our investment universe.

In fixed income, credit positioning contributed strongly to performance over the period. In particular, positioning in the communications, consumer cyclical and capital goods sectors contributed. Within communications, holdings of cable/satellite providers Echostar Corp. and CSC Holdings LLC contributed over the period. Holdings of cruise lines Carnival Corp. and Royal Caribbean Cruises Ltd. contributed within consumer cyclical. Within capital goods, holdings of Boeing Co. contributed strongly to performance over the quarter.

Although yield curve and duration positioning detracted as a whole over the period, underweight duration positioning in the Japanese yen, British pound sterling and euro-pay markets contributed to performance over the period as global yields rose over the period.

In equities, the three most significant detractors from performance were Atlas Copco AB, Nomura Research Institute Ltd. and Mettler-Toledo International Inc.

Atlas Copco shares fell in the quarter, following disappointing guidance from one of its customers, ASML, a manufacturer of semiconductor equipment. The semiconductor industry is an important market for Atlas, comprising nearly a third of its sales. However, Atlas' results remained strong; orders grew in the quarter, a sign that Atlas revenues may outperform ASML, at least in the near term. Shares further declined in December after the Fed meeting.

Shares of Japanese IT Services company Nomura Research Institute retracted some of their recent gains after the company's quarterly results missed expectations. The miss was largely owing to one-time items; namely, the company took a data centre impairment charge of 2 billion Japanese yen (~13 million

USD), as the strategic migration of its software from owned data centre to third-party cloud infrastructure is progressing more smoothly than expected. We view this development as a long-term positive, and adjusting for the charge, quarterly results were in line with our expectations. We are encouraged that more Japanese enterprises are choosing to partner with Nomura Research Institute as they re-invest in technology infrastructure. We continue to view the stock as attractive on our scenario-based valuation framework.

Mettler-Toledo shares underperformed despite strong quarterly results from the company and its industry peers. We believe demand for Mettler-Toledo's weights, pipettes and other laboratory tools is on the rebound, driven by the lapping COVID-19-related revenue streams and the essential nature of its products. We maintain that Mettler-Toledo is one of the best-executing companies in the life sciences tools industry and the health care space more broadly, as evidenced by consistent expansion of both gross and operating margins. At current valuation levels, we believe the risk/reward profile remains attractive.

In fixed income, yield curve and duration positioning detracted most significantly over the period. Overweight duration positioning in the U.S. dollar-pay market, along with underweight duration positioning in the Chinese renminbi-pay market, detracted from performance.

Currency allocation net of hedging costs also detracted over the quarter. Allocations to the Japanese yen and Chinese renminbi detracted most significantly.

We think the Fed will continue to cut interest rates, based on our view that the U.S. labour market is likely to soften somewhat. However, given that personal consumption expenditures are two-thirds of U.S. gross domestic product, record household net worth should help support demand. Overall consumer spending is healthy and should be additive to economic growth. Higher-income households have been spending at favourable rates, but lower-income households — a much smaller segment of total spending — have been showing weakness. While disinflationary trends appear likely to remain in place for the near term, policy shifts under the new administration may change the outlook. We expect the U.S. yield curve will continue to steepen as short-term rates continue to decline at a faster pace than those on longer-term debt.

We see the Bank of England as being in a position similar to the Fed. In contrast, euro-area inflation should fall faster than that of the U.S. owing to much slower demand. Conditions are different in Japan, where inflation is around 2.0% and small rate increases are possible. Yields across the global credit markets appear attractive, and we believe they could drift lower if central banks pursue rate-cutting cycles.

Credit-related investments have the potential to outperform U.S. Treasuries given the former’s higher yields and the possibility of further but limited spread tightening. Based on our bottom-up fundamental analysis, 93% of Bloomberg US Aggregate Index industries are in the expansion phase of the credit cycle, with improving expectations for profit margins and free cash flows. We expect the default rate will stay low, supporting tight spreads.

# IA Clarington Loomis Global Allocation Fund

The U.S. dollar may benefit from continued demand in the near term given the strong relative growth in the U.S. In addition, the dollar could be helped by its "safe haven" role if geopolitical risks intensify. The U.S. economy has attracted foreign capital owing in part to its exceptional degree of technological innovation. Post-election sentiment and the high relative yields in the U.S. bond market have contributed to robust capital inflows as well. With this said, the dollar's rich valuation versus many developed- and emerging-market currencies could lead to a reversal if the current trends shift.

Potential risks include a resurgence in inflation, slower-than-expected economic growth, geopolitical tensions, and the possibility that investors have priced in too much optimism regarding the incoming U.S. administration.

| Fund and benchmark performance, as at December 31, 2024 | 1 year | 3 years | 5 years | 10 years |
|---|---|---|---|---|
| IA Clarington Loomis Global Allocation Fund – Series T8 | 18.5% | 4.0% | 7.0% | 7.2% |
| 40% Bloomberg Global Aggregate Bond Index (CAD Hedged), 60% MSCI AC World Index (CAD)[1] | 17.3% | 5.5% | 7.4% | 7.6% |

Non-traditional fixed income asset classes may carry higher risk, but generally provide higher yield than traditional fixed income asset classes. For definitions of technical terms in this piece, please visit iaclarington.com/glossary and speak with your financial advisor.

[1]Source: MSCI Inc. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI.

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 a blend of Bloomberg Global Aggregate Bond Index (Currency Hedged) (40%) and MSCI AC World Index (CAD) (60%). The blended benchmark presented is intended to provide a more realistic representation of the general asset classes in which the Fund invests. The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty-eight local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. There are four regional aggregate benchmarks that largely comprise the Global Aggregate Index: the US Aggregate, the Pan-European Aggregate, the Asian-Pacific Aggregate, and the Canadian Aggregate Indices. The MSCI AC World Index (CAD) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 50 country indexes comprising 23 developed and 24 emerging market country indexes. The Fund's market capitalization, geographic, sector and credit quality exposure may differ from that of the benchmark. The Fund's currency risk exposure may be different than that of the benchmark. The Fund may hold cash while the benchmark does not. Overall, the Fund's bond and equity exposure can differ, because the Fund does not use a fixed ratio similar to the benchmark. It is not possible to invest directly in market indices. The performance comparison is for illustrative purposes only and does not imply future performance. Effective February 23, 2015, the sub-advisor of the Fund changed from Aston Hill Asset Management Inc. to Loomis, Sayles & Company, L.P. and IA Clarington Investments Inc. and the investment strategies of the Fund were changed. IA Clarington Loomis Global Allocation Fund was formerly IA Clarington Global Allocation Fund.

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.

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.

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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.