

# IA Clarington Global Equity Fund

## Manager commentary – Q2 2024

IA Clarington Global Equity Fund Series T6 returned -1.5% over the second quarter, compared to 3.8% for the MSCI World TR Net Index (\$CAD). The one-year return for the Fund was 10.9%, versus 24.3% for the benchmark.

In the second quarter, benchmark returns were driven by a small number of mega-cap stocks with high price/earnings ratios. These stocks are related to artificial intelligence in what has become the narrowest market rally since 1974. The S&P 500 Index rose 4.3% (in USD) in the quarter, with one stock, Nvidia Corp., accounting for 44% of the index's return as it added more than US\$1 trillion in market cap at one point in the quarter. Seven mega caps, including Nvidia, drove the entire return of the S&P 500 Index in the second quarter, while the remaining companies in the index cumulatively detracted 1%.

Benchmark performance was predominantly driven by the information technology sector and select businesses in the communication services sector. Selection effects in the consumer discretionary, health care, information technology and communication services sectors led to the Fund's underperformance, particularly among our North American holdings. Negative allocation effects were most prominent in the information technology sector, where the Fund maintained a significant underweight position.

During the quarter we initiated two holdings, Melexis NV and Instalco AB, and added to Solventum Corp., which was spun-out of our holding 3M Co. We increased the Fund's position in UnitedHealth Group Inc. and sold our holdings in SAP SE, Sandoz Group AG and BASF SE.

Solventum, formerly 3M's healthcare segment, was spun off into a separately listed company during the quarter. Solventum's stable profit margins and strong position in diverse, non-cyclical end markets have allowed the company to generate very consistent results over the last two decades. We believe the market's concerns over near-term earnings growth don't justify the forward-earnings multiple of less than 10x for this resilient franchise.

Melexis is a global semiconductor company that designs, develops, tests and markets integrated circuits and sensor solutions primarily for the automotive industry. It has high returns on invested capital and was purchased at a historically attractive valuation of roughly 15.5x forward earnings. Along with a 4.5% dividend yield, the potential for double-digit revenue growth offers attractive return prospects in future years.

Instalco is a leader in electrical, plumbing and HVAC installations and servicing of commercial premises in the Nordic countries. Instalco's decentralized, acquisition-focused model has generated a strong track

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record of consistent growth over the last decade. As an acquirer of small, accretive tuck-in acquisitions in the highly fragmented Nordic market, we believe Instalco has a long runway for growth.

We materially increased the Fund's weight in UnitedHealth Group as the valuation has de-rated in response to several short-term pressures, including a rise in medical benefit ratios, lower-than-expected rate increases, an anti-trust investigation and a cyber-attack in one of its business units. Despite these issues, we believe UnitedHealth continues to offer annual earnings growth potential over the next five to 10 years in the low to mid-teens.

We exited SAP as the multiple rose to a multi-year high of approximately 35x forward earnings, and we felt there were better opportunities elsewhere at more attractive valuations. We exited a small position in Sandoz, which was received as a spin-out from our holding in Novartis AG last year, preferring the franchise characteristics of our other healthcare holdings. BASF proved to be a challenging investment since our purchase in 2019, as the forces of de-industrialization in Europe and persistently higher cost of feedstock owing to the war in Ukraine have put BASF at a structural disadvantage. Coupled with an uncertain outlook, we chose to exit the business in favour of recent purchases with what we believe are better long-term prospects.

Valuations and investor sentiment remain historically extended despite what appears to be growing potential for high corporate earnings growth expectations to broadly disappoint. Conversely, strong earnings growth among the few expensive businesses related to artificial intelligence that are driving market returns so far in 2024 seems likely to continue fueling upward index momentum in the near term, despite aggregate valuations that suggest weak long-term market return prospects. In contrast, the fund exhibits resilient characteristics and a meaningful margin of safety in an environment where it may become increasingly important in coming quarters.

Fund and benchmark performance as at June 30, 2024	1-year	3-year	5-year	10-year
IA Clarington Global Equity Fund - Series T6	10.9%	8.0%	8.1%	7.4%
MSCI World Index (CAD) <sup>1</sup>	24.3%	10.5%	12.8%	11.9%

For definitions of technical terms in this piece, please visit [iaclarington.com/glossary](https://iaclarington.com/glossary) and speak with your investment advisor.

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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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