IA Clarington Loomis Global Equity Opportunities Fund

Manager commentary – Q2 2024

Global equities gained ground in the quarter, as stable global growth trends and healthy corporate earnings continued to support investor sentiment. The U.S. outperformed owing to persistent strength in mega-cap technology stocks, but the major mid- and small-cap indexes finished in negative territory. Europe performed well overall, but the region's markets closed well off their late-May highs following election results in France and other nations.

The MSCI All Country World Index ended the period up 4.02% (in CAD terms). The information technology sector outperformed, registering over 12% for the quarter. The communication services and utilities sectors also outperformed the broader market. The materials, real estate and industrials sectors posted negative results.

IA Clarington Loomis Global Equity Opportunities Fund Series A returned 2.81%, underperforming the MSCI All Country World Index, which returned 4.02% (also in CAD terms). The consumer discretionary sector was the largest detractor from relative results, followed by the information technology and health care sectors. The consumer staples, industrials and communication services sectors contributed on a relative basis.

The three largest detractors from performance were Salesforce Inc., Nike Inc. and LVMH Moët Hennessy Louis Vuitton SE.

Shares of Salesforce, a software company, underperformed after the company reported quarterly results that suggested demand for its front-office automation software decelerated after a strong end to 2023. Revenue growth, still respectable at 11% over previous year period, was weaker owing to a combination of macroeconomic uncertainty and growing pains as the company made changes to how it markets and sells products. We remain confident in Salesforce's ability to grow its intrinsic value, driven by its revenue growth and a steadily improving margin profile that we forecast to reach 30% or better this fiscal year.

Nike designs, develops and sells athletic footwear, apparel, equipment, accessories and services. Shares underperformed during the period as macro-level consumer challenges hampered revenue growth and anticipated margin expansion. Possible missteps in some categories relative to peers and a rebalancing of distribution also impacted shares.

LVMH is a global producer and distributor of luxury goods. Its products span fashion and leather goods; jewelry; wines and spirits; perfumes and cosmetics; as well as retail brands such as Sephora and DFS, the airport duty-free retailer. Shares underperformed during the period amid growing market concerns over a slowdown in the luxury space, after several years of high growth and above-average price increases. In our view, LVMH is strongly diversified across both product categories and geographies. With its meaningful scale and strong generation of free cash flow, it is uniquely positioned to continue executing on its strategy. The company is attractively valued based on our discounted cash flow (DCF) methodology.

The three most significant contributors to performance were Nvidia Corp., Alphabet Inc. and Taiwan Semiconductor Manufacturing Co. Ltd. (TSMC).

Shares of Nvidia outperformed over the period. The business has benefited from a rapid increase in artificial intelligence (AI) spending over the past 18 months, driven in large part by Nvidia's graphics processing units (GPUs). Nvidia's fiscal first-quarter 2025 report surpassed both our internal and consensus expectations given strength in its data centre segment and optimism surrounding the launch of its new Blackwell product line. Blackwell, Nvidia's next generation of graphics processing units (GPUs), brings a four-fold improvement relative to its predecessor Hopper chip for AI training, and a 30-times improvement for inference. Additionally, the Blackwell platform should bring a significant improvement energy consumption, which helps alleviate a major pain point given the very intense power demands to run these workloads. Concerns about a "demand gap" as the business transitions from Hopper to Blackwell have dissipated as demand for Nvidia GPUs continues to increase its breadth to hyperscalers, enterprises and sovereign nations. We continue to find shares of Nvidia attractive based on our DCF valuation framework.

Alphabet, via its Google property, dominates the global search market, with over 90% market share across geographies (outside of China and Russia). The company amasses consumer data from Google search and its other properties – YouTube, GooglePlay, Chrome and Maps – which increases its value proposition to advertisers. We believe Alphabet is positioned to benefit from growth in digital advertising, with few other companies offering the ability to reach desired audiences. Alphabet continues to grow its market share in the cloud business as well as gain traction in devices, where its efforts, while in the early days, appear promising. Shares of Alphabet outperformed as the market became more positive on Alphabet's positioning in generative AI. Earlier in 2023, the stock had lagged as investors assumed that Alphabet was behind competitors like Microsoft and OpenAI. We view Alphabet as one of the more attractive values in our investment universe.

TSMC was a top contributor for the period. As the world's largest foundry for leading-edge chips, TSMC has been a direct beneficiary of the rapid growth in AI spending, in particular around the demand for Nvidia GPUs. Additionally, TSMC has increased capacity in their most-advanced packaging called "CoWoS" (chip-on-wafer-on-substrate), which has resulted in better top-line growth as supply bottlenecks ease. Lastly, TSMC has indicated it plans to increase pricing, which further lifted shares. We continue to find TSMC attractive based on our DCF valuation framework.
Over the period, we initiated a position in CGI Inc. and eliminated our position in Vinci SA.

CGI is a Quebec-based global IT service provider offering expertise in consulting, systems integration, application maintenance, and business process outsourcing. It operates in several industries, with government agencies contributing roughly one-third of group revenues. CGI rates highly across our quality metrics; it has a client-centric operating model with a focus on proximity, which helps it form deep-rooted relationships with its clients. This, coupled with a strong track record of delivering work on-time and on-budget, supports customer satisfaction and loyalty. Switching costs are also high given the integrated and critical nature of the services CGI provides. The company has been shifting to a less capital-intensive business model with software as a service, and has been active in consolidating the IT services market, which we expect to continue. A strong backlog coupled with long-term contracts supports cash flow visibility. We expect intrinsic value growth to be driven by revenue growth, margin expansion, capital allocation and capital intensity. Shares of CGI are attractively valued on our DCF methodology.

We eliminated our position in Vinci, an infrastructure company, as we were identifying what we consider more interesting opportunities elsewhere in the portfolio.

Our investment philosophy is predicated on the belief that investing in companies with multiple alpha drivers, where the risks can be quantified, can help deliver outperformance. We follow a disciplined and repeatable process, investing only in opportunities that meet our three alpha drivers: quality, intrinsic value growth and attractive valuation. This bottom-up approach results in a concentrated portfolio of businesses where we fully understand and have quantified the risks associated with each investment. Our scenario analysis, under which we determine a range of business values, is an integral part of this process. Through this framework, we determine the relative attractiveness of our investments to assist in constructing an optimal portfolio.

In our view, the operating environment for corporations should remain positive, even with moderately lower economic growth. We acknowledge signs of financial strain in lower-income consumers, but generally believe positive U.S. consumption trends are likely to continue so long as the labour market remains in good standing. We believe capital expenditures will aid economic growth, largely driven by technology and research & development spending, which could rise at a strong pace over the next few quarters. As inflation moderates globally, we expect central banks to continue to, or to start, stepping away from restrictive policies. In the U.S., we think the U.S. Federal Reserve will likely cut rates in later this year.

While markets have been strong – in some cases near their 52-week or all-time highs – we believe there could be more upside. U.S. technology and communication services have been the leadership groups and we do not think that is likely to change near term. That said, we expect broadening participation in the rally as the underlying fundamental backdrop across sectors improves. From a risk perspective, while weaker economic data has recently been viewed favourably by markets, we are watchful for a “line in the sand” where recession risk creeps back into the market. Recession anxiety could return if consistently weak data comes through, which would place downward pressure on markets.

In this still-somewhat uncertain backdrop, our focus remains on investing in quality companies we believe have the ability to manage the current environment and generate value over the longer term. Periods of volatility can provide us with the opportunity to build positions in quality companies at more-attractive valuations.

IA Clarington Loomis Global Equity Opportunities Fund

Fund and benchmark performance, as at June 30, 2024	1 year	3 years	Since inception (Nov. 2019)
IA Clarington Loomis Global Equity Opportunities Fund – Series A	26.8%	7.1%	10.9%
MSCI AC World Index (CAD)[1]	23.4%	9.0%	11.6%

For definitions of technical terms in this piece, please visit iaclarington.com/glossary and speak with your investment 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 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 and sector 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. 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.

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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