

IA Clarington Inhance Bond SRI Fund

Manager commentary – Q4 2024

In the fourth quarter of 2024, IA Clarington Inhance Bond SRI Fund (Series I) generated a total return of -0.06%. The FTSE Canada Universe Bond Index had a total return of -0.04% over the same period.

Global fixed-income markets were modestly lower in the fourth quarter despite continued monetary policy easing by major developed market central banks. After commencing its cycle of easing interest rates in September with 50 basis points (bps), the U.S. Federal Reserve followed up with 25 bps cuts in November and in December, taking its policy rate to 4.50%, down 100 bps since it started easing. Meanwhile, the Bank of Canada (BoC) continued its aggressive easing campaign, slashing its policy rate 50 bps at both of its October and December meetings, but signalled at the December meeting that the pace of rate cuts would be slowing as it awaits the full impact of its cumulative 175 bps of cuts since June.

U.S. Treasury yields sold-off into the U.S. election in November on the back of increased deficit and government debt-issuance expectations, and pushed higher through December as resilient U.S. economic data drove the market to price fewer rate cuts in 2025. Government of Canada bond yields were also broadly higher, but outperformed U.S. Treasuries significantly, as diverging economic data between the two countries pushed the differential between their respective yields to all-time wide levels. The benchmark Government of Canada 10-year yield closed the quarter at 3.23%, up 26.8 bps from where it started the quarter and a historically wide 134 bps below the 10-year U.S. Treasury yield at 4.57%.

The FTSE Canada Universe Bond Index posted a return of -0.04% in the fourth quarter, but performance varied substantially by sector. The corporate sector was the only sector that generated a positive total return, as decent risk sentiment drove corporate credit spreads in Canada to their tightest (lowest) levels in more than three years, driving material outperformance of corporate bonds versus government bonds. The corporate sector generated a total return of 1.03% in the fourth quarter, compared to -0.44% for federals and -0.36% for provincials. By maturity tenor (the bond maturity term), the short segment was the strongest performer as the front end of the yield curve was supported by the aggressive BoC rate cuts during the quarter.

The Fund posted a return of -0.06%, underperforming the benchmark by 2 bps. Sector allocation was positive, with the Fund's overweight to the corporate sector and underweight to the federal government sector, contributing to performance relative to the index. The Fund's U.S. Treasury holding was the most notable detractor from relative performance, as U.S. Treasuries underperformed Government of Canada bonds.

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The Fund completely unwound its mid-term maturity overweight position in September and continued to shift exposure out of mid-term maturity bonds early in the fourth quarter to take advantage of yield curve steepening early in the period. On the credit side, the Fund was active with corporate extensions, extending several senior bank bonds from the one- to two-year area of the yield curve into the four- and five-year area of the curve after recent curve steepening made those extensions look quite attractive on a yield enhancement basis. During the quarter we opportunistically purchased a Government of Canada green bond in the secondary market with no greenium (i.e., no yield disadvantage versus Canada's conventional bond issues) and also topped up an existing City of Ottawa green bond holding.

The Fund ended the quarter with an underweight allocation to mid-term bonds and slightly overweight allocation to both short- and longer-dated bonds, with overall duration relatively neutral versus the index. The Fund continues to maintain a strategic position in preferred shares and an overweight allocation to shorter-dated corporate bonds, which still offer attractive yield relative to government bonds. The Fund ended the period with a total positive impact bond weight of 25.7%.

Fund and benchmark performance as at December 31, 2024	1 year	3 year	5 year	Since inception (Dec. 2016)
IA Clarington Inhance Bond SRI Fund – Series B	3.9%	-1.5%	0.0%	0.8%
FTSE Canada Universe Bond Index	4.2%	-0.6%	0.8%	1.8%

For definitions of technical terms, 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 Fund's benchmark is the FTSE Canada Universe Bond Index, which is comprised of Canadian investment grade bonds and has significantly different portfolio duration characteristics. The FTSE Canada Universe Bond Index consists of a broadly diversified selection of investment-grade Government of Canada, provincial, corporate and municipal bonds issued domestically in Canada. The Fund's geographic, sector and credit quality exposure may differ from 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

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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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