

IA Clarington Inhance Bond SRI Fund

Manager commentary – Q2 2024

The Canadian fixed-income market produced positive returns over the period, driven by the Bank of Canada (BoC) lowering its policy rate for the first time in four years. Bond performance in other major markets were mixed as the European Central Bank and its counterparts in Switzerland and Sweden also cut rates, while the U.S. Federal Reserve and the Bank of England remained on hold.

On June 5, the BoC reduced its policy rate by 25 basis points (bps), from 5.00% to 4.75%. With tepid economic growth and domestic inflation narrowing within the BoC's target range of 1% to 3%, officials determined that monetary policy no longer needed to be as restrictive. Officials also suggested that it is reasonable to expect further policy easing if inflation continues to moderate.

The Canadian economy improved modestly during the quarter but remains operating below potential, especially in the context of strong population growth. Labour market data continues to show businesses are still hiring, although employment has been growing at a slower pace than the working-age population, which has led to a gradual rise in the unemployment rate.

Government of Canada bond yields were mixed on the yield curve, with declines observed in shorter-dated maturities and increases for longer-dated terms. The Canada 2-year yield led the way by declining 18 bps, while the 30-year yield saw an increase of 4 bps. The benchmark Canada 5-year yield started the quarter at 3.53% and traded to a high of 3.91% and a low of 3.28%, before closing the quarter nearly unchanged at 3.51%.

The FTSE Canada Universe Bond Index posted a positive return of 0.86% during the second quarter. All sectors within short- and mid-term maturities posted gains, while returns among longer-dated bonds were mixed, with both federal and high-quality corporate bonds posting negative returns. Overall, corporate bonds continued to outperform government bonds on a total-return basis, despite credit spreads moving marginally wider owing to a large amount of supply.

With regard to IA Clarington Inhance Bond SRI Fund ("the Fund"), preferred shares were the largest contributor to performance over the period, led by the Fund's institutional holdings. These holdings benefitted from renewed interest after several Canadian banks issued capital securities (corporate issues that offer investors a combination of the features of corporate bonds and preferred shares) in the U.S. market at much lower spreads, highlighting the attractiveness of similar existing securities in the domestic market. Positioning within short- and mid-term corporate bonds, as well as long-dated provincial bonds, also contributed positively to performance.

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The Fund was quite active over the past three months, adding new issues from Glacier Trust and Videotron in the primary market, and strategically extending duration as yields moved higher. We also opportunistically rotated into a Province of Manitoba 2046 bond in a relative value trade versus Ontario. As well, we disposed of an existing First Nation Financing Authority bond holding amid ESG concerns regarding recently announced plans to finance a large fossil-fuel-based project.

The quarter ended with the Fund maintaining its relative overweight position in mid-term bonds and a slight underweight position in both short- and longer-dated bonds. We continue to maintain a strategic position in preferred shares and an overweight position in shorter-dated corporate bonds (although this was reduced during the quarter with spreads narrowing), which still offer attractive yield relative to government bonds. The Fund ended the period with a total positive impact bond weight of 24.8%.

Fund and benchmark performance as at June 30, 2024	1 year	3 year	5 year	Since inception (Dec. 2016)
IA Clarington Inhance Bond SRI Fund – Series B	3.4%	-2.7%	-0.8%	0.3%
FTSE Canada Universe Bond Index	3.7%	-1.8%	0.0%	1.4%

For definitions of technical terms in this piece, please visit iaclarington.com/glossary and 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.

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