

# IA Clarington Inhance Canadian Equity SRI Class

## Manager commentary – Q3 2024

During the last 6 months (“the period”), the S&P/TSX Composite Index gained 10%, driven by outsized performance from the materials sector as commodities performed well.

The Bank of Canada (BoC) announced three consecutive interest-rate cuts of 25 basis points each in June, July and September. This fuelled interest-rate-sensitive sectors, such as real estate, which was the top-performing sector for those months. Inflation finally hit the BoC’s target rate of 2% in August, which led to a renewed focus on growth ahead of October’s central bank meeting.

The Fund’s underweight position in the energy sector contributed to performance as the sector underperformed during the period. Stock selection across the consumer discretionary, consumer staples, utilities, real estate, materials and communication services sectors also contributed. Individual contributors included a significant position in Element Fleet Management Corp. owing to the company’s opportunity to win new fleet business and increase the number of services it offers to existing clients. Aritzia Inc. delivered exceptional U.S. results with payback periods (length of time it takes to recover the cost of an investment) on new store openings as low as 12 months. The company also improved its inventory management, and new product lineups were well received. Shares of Savaria Corp. traded near all-time highs as the company was approaching its 2025 target of \$1 billion in sales with 20% margin on earnings before interest, taxes, depreciation and amortization (measures the earnings a company is generating before interest, taxes, depreciation and amortization, as a percentage of revenue).

The Fund’s overweight allocation to the industrials and health care sectors significantly detracted from performance as these were the only two sectors to generate negative performances. An underweight allocation to the materials sector also detracted from performance as mining stocks soared amid higher commodity prices. The Fund’s stock selection across the industrials, financials and health care sectors detracted as well. Individual detractors included Boyd Group Services Inc. amid continued near-term challenges related to margin pressure (refers to a cut in company profits in relation to cost) and consumers delaying auto repairs owing to inflationary costs. DRI Healthcare Trust announced the immediate resignation of CEO Behzad Khosrowshahi in July following an investigation into irregularities related to consulting and other expenses.

New positions included Badger Infrastructure Solutions Inc. owing to a strong growth trajectory, inflecting returns on capital (the amount of profit generated per dollar of invested capital) and an attractive valuation (a measurement of how much an investment is worth). A small position in BRP Inc. was added despite a challenging environment for the powersports industry as the company has a top-

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tier management team with a long history of prudent capital allocation. A small position in Kinaxis Inc. was added back after the position was sold in 2023 owing to expensive valuation relative to earnings and free cash flow (refers to the cash a company generates after accounting for capital expenditures). Since then, revenues have grown while the shares are cheaper. The Fund added Osisko Gold Royalties Ltd. as the fund manager has experience with royalty businesses and believes they offer more attractive exposure to commodities than producers.

Increased positions included quality industrial companies ATS Corp. and BYD Co. Ltd. These companies underperformed owing to short-term challenges, but as the macroeconomic situation stabilizes, earnings should normalize. Positions in Moody's Corp., TMX Group Ltd., Topicus.com Inc. and Waste Connections Inc. were increased as these companies continued to grow at above-average rates. Jamieson Wellness Inc. was increased after a meeting with management as the company appears to be on the right path to executing on its growth strategy.

Decreased positions included Agnico Eagle Mines Ltd., Nike Inc., Exchange Income Corp., Pet Valu Holdings Ltd., Andlauer Healthcare Group Inc. and Boralex Inc., and the proceeds were allocated to new and increased positions in the Fund.

Eliminated positions included WSP Global Inc. owing to environmental, social and governance (ESG) reasons related to the engineering firm's involvement in a project in the Middle East. Sleep Country Canada Holdings was sold after the leading mattress seller received a takeover offer from Fairfax Financial Holdings Ltd. for \$35 per share. The Fund also sold its position in TELUS Corp. owing to the current competitive environment.

Regarding ESG engagement activities, as part of the Investors for Paris Compliance group, Vancity Investment Management Ltd. (VCIM) sent a follow-up letter to The Toronto-Dominion Bank (TD Bank) re-emphasizing expectations that the company begin disclosing more tangible specifics regarding its climate transition activities. This letter followed a meeting held between TD Bank and VCIM's investor partners earlier in the year.

VCIM sent a shareholder letter to Dollarama Inc. management requesting a meeting to better understand the company's wage practices. Additionally, VCIM attended a group investor meeting with Dollarama to discuss aspects of the company's overarching ESG strategy.

VCIM continued its climate and governance engagements with Canadian banks.

VCIM attended the annual general meetings (AGMs) of TD Bank, Bank of Montreal (BMO) and Royal Bank of Canada (RBC) to present shareholder proposals on disclosing CEO-to-median-worker-pay ratio.

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At TD Bank, RBC and BMO, votes received in favour of the proposals were at 12.6%, 11.41% and 10.86%, respectively.

On climate, VCIM reached a withdrawal agreement with RBC, so only presented a shareholder proposal at the TD Bank AGM. VCIM was pleased with the results, as almost one-third of shares were cast in favour of this proposal.

Additionally, VCIM presented shareholder proposals at the AGMs for Canadian National Railway Co. (CN Rail) and Canadian Pacific Kansas City Limited (CPKC). The proposals pushed for work with unions to negotiate paid sick leave policies and received 13.37% of the votes in favour at CPKC and 9.92% at CN Rail. Both proposals passed the threshold to refile.

VCIM continued our work on the Carbon Disclosure Project's non-disclosure campaign with letters to Savaria and Exchange Income Corp.

VCIM became a signatory of the 2024 Global Investor Statement to Governments on the Climate Crisis, which launched recently. This statement, coordinated by the Investor Agenda, urges governments worldwide to enact the critical policies needed to free up private financial flows for the just transition to a climate-resilient, nature-positive net-zero economy.

VCIM signed a statement on plastic pollution to demonstrate support from the financials sector for an ambitious international legally binding instrument to end plastic pollution, and to set out what a robust agreement would include from the sector's perspective.

VCIM also became a founding signatory of the World Benchmarking Alliance's Investor Statement on Nature, which urges companies to assess and disclose their impact and dependencies on nature.

With cooling economic data, investor focus has shifted away from inflation and towards economic growth. Over the last year, the fund manager has been increasing the Fund's weight in businesses that stand to benefit from a growth environment and distance the Fund from competitors.

While there remains some risk and uncertainty around the U.S. election, future economic growth and geopolitical tensions, the current environment of lower inflation, monetary policy easing cycles (the lowering of interest rates by central bankers) and positive forecasts for economic and earnings growth should support equities.

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Fund and benchmark performance as at September 30, 2024	1-year	3-year	5-year	10-year
IA Clarington Inhance Canadian Equity SRI Class – Series A	23.7%	2.8%	6.6%	5.1%
S&P/TSX Composite Index	26.7%	9.5%	10.9%	8.1%

For definitions of technical terms in this piece, please visit [iaclarington.com/glossary](http://iaclarington.com/glossary) and speak with your financial 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 S&P/TSX Composite Index, which is the premier indicator of market activity for Canadian equity markets, with 95% coverage of Canadian-based, TSX-listed companies. The index includes common stock and income trust units and is designed to offer the representation of a broad benchmark index while maintaining the liquidity characteristics of narrower indices. The Fund holds securities of companies which meet the fund manager's socially responsible investment principles, while the holdings in the benchmark may not align with these principles. 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.

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