

IA Clarington Inhance Global Equity SRI Class

Manager commentary – Q3 2024

During the last 6 months (“the period”), global equities maintained the positive trajectory that started in early 2024, with the MSCI World Index gaining 9.0% in Canadian-dollar terms. However, the path was marked by volatility, particularly in the latter part of the period amid a sell-off sparked by the unwinding of yen carry trades (involves borrowing money to invest, where the rate of interest on the borrowed amount is expected to be lower than the return on, or interest earned from, the securities purchased with the borrowed funds) by investors who used the low and stable interest-rate environment in Japan to raise capital for investment, as well as by concerns over a slowing economy and the response from the U.S. Federal Reserve (the Fed).

In September, the Fed joined other central banks in cutting interest rates, lowering its target federal funds rate (refers to the interest rate set by the U.S. Federal Reserve) by 50 basis points.

Shortly after the Fed cut its policy interest rate, China announced expanded efforts to revive economic growth and support the troubled property market. The announcements from the Politburo led to a quarter-end rally in Chinese stocks.

The Fund’s lack of exposure to the energy sector contributed to performance, as did its overweight exposure to the information technology sector, which performed well. The Fund benefited moderately from its security selection in the real estate sector. Individual contributors included Trane Technologies PLC, which performed strongly amid high demand for commercial heating, ventilation and air conditioning in data centres and education and life sciences buildings. S&P Global Inc. continued to perform well and exceeded expectations, particularly in its ratings segment. Costco Wholesale Corp. posted double-digit returns as it sustained strong sales momentum bolstered by its compelling value proposition to consumers.

The Fund’s stock selection in the information technology and consumer discretionary sectors detracted from performance. An overweight allocation to the consumer discretionary sector also detracted from performance, as did a lack of exposure to the utilities sector. Individual detractors included the Fund’s lack of exposure to NVIDIA Corp., which performed exceptionally well given demand for and enthusiasm about developments in artificial intelligence (AI). Shares of payment company Adyen NV pulled back amid concerns over lower take rates (refers to fee’s collected) and intensifying competition over pricing in the U.S. The share price of Copart Inc. declined after the company reported an earnings miss on weaker revenue and gross-margin (the percentage of revenue left over after you subtract direct costs) pressures.

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New positions included multiple holdings that reflect the fund manager's strategy of building a resilient portfolio of high-quality companies with a narrow range of outcomes. Swedish industrial serial acquirer AddTech AB buys high-quality, typically founder-run, small-sized industrial businesses with the intention of operating them for the long term. French luxury design house Hermes International which has tremendous pricing power. Industrial gas company Linde PLC has a proven track record of cash generation and margin expansion (an increase in the rate of profit a company makes on a product). Insurance broker Marsh & McLennan Cos. Inc. which has defensive characteristics and produces consistent results underpinned by high return on invested capital (the amount of profit generated per dollar of invested capital) and margin improvement. Serial acquirer Topicus.com Inc. focuses on European vertical market software (addresses the needs of a given business with a specific industry), which appears attractive at this time. Waste Connections Inc. operates in a stable, profitable and fragmented (a sector or industry in which there is no dominant company or group of companies) solid waste management industry. Wolters Kluwer NV provides mission-critical information and software solutions and services to their customers.

Increased positions included existing long-term core holdings such as Brown & Brown Inc., Constellation Software Inc., S&P Global and Visa Inc.

Decreased positions included Alphabet Inc., Charles Schwab Corp., CarMax Inc. and Xylem Inc., to reflect lower conviction levels.

Eliminated positions included those where valuations (a measurement of how much an investment is worth) were elevated or conviction levels were dwindling, such as Adyen, Autodesk Inc., Enphase Energy Inc., Home Depot Inc., Lululemon Athletica Inc., Salesforce Inc., Sony Group Corp., Starbucks Corp., Waste Management Inc. and West Pharmaceutical Services Inc.

Regarding Environmental, social and governance (ESG) engagement activity, as a part of a World Benchmarking Alliance campaign, Vancity Investment Management Ltd. (VCIM) had an investor group meeting with Microsoft Corp.'s Director of ESG Engagement to discuss their Responsible AI policy. The topics raised included their relationship with Open AI and the scope of Microsoft's policy.

As a part of Climate Action 100+, VCIM continued its engagement with Trane Technologies, which continues to excel in climate work and prepping for the energy transition.

VCIM sent a letter to Amazon.com Inc. in support of the GMB Union in Coventry, U.K.

VCIM held an inaugural Nature Action 100 meeting with Costco to introduce them to the initiative and familiarize them with the recently published benchmark.

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VCIM became a signatory of the 2024 Global Investor Statement to Governments on the Climate Crisis, which recently launched. 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 a moderated inflationary environment (less pronounced rise in prices of goods and services) and cooling economic data, investor focus has shifted away from inflation and towards economic growth. Markets are expected to remain reactive to data that increases or decreases the probability that central banks can help achieve a "soft economic landing" (a cyclical slowdown in economic growth that ends without a period of outright recession).

The upcoming U.S. presidential election is of significant interest to investors. While some try to position portfolios around potential outcomes, it is difficult to say with any certainty what will happen, regardless of who wins. While volatility is likely to increase, the fund manager is not advocating for any changes to equity allocations. Looking back over the last 15 U.S. presidential elections, the average price return of the S&P 500 Index one year prior to the election and one year after the election has averaged about 9.6% and 8.8%, respectively.

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

Fund and benchmark performance as at September 30, 2024	1-year	3-year	5-year	10-year
IA Clarington Inhance Global Equity SRI Class – Series A	27.2%	4.1%	11.4%	9.8%
MSCI World Index (CAD) ¹	32.3%	11.4%	13.5%	12.1%

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

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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, the MSCI World Index, is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index consists of 23 developed market country 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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