IA Clarington Inhance Growth SRI Portfolio

Manager commentary – Q4 2024

IA Clarington Inhance Growth SRI Portfolio achieved positive result over the fourth quarter and saw areas of strong absolute performance that were led by the global equity and Canadian equity components. On a relative basis, however, the underlying IA Clarington Inhance SRI Funds trailed their respective benchmarks.

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.

In the fourth quarter of 2024, **IA Clarington Inhance Bond SRI Fund** (the "Bond Fund") generated a total return of -0.06%. The FTSE Canada Universe Bond Index had a total return of -0.04% over the same period. Sector allocation was positive, with the Bond Fund's overweight allocation to the corporate sector and underweight allocation to the federal government bond sector contributing to performance relative to the index. The Bond Fund's U.S. Treasury holding was the most notable detractor from relative performance, as U.S. Treasuries underperformed government of Canada bonds.

The Bond Fund completely unwound its mid-term maturity overweight 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 Bond 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. The Bond Fund ended the period with a total positive impact bond weight of 25.7%.

From a global standpoint, the U.S. presidential election dominated the headlines over the period, leading to equities taking a pause in October as uncertainties mounted ahead of the election. However, it quickly rebounded in November following the outcome of the election as investors cheered the potential boost in corporate earnings from Republican policies such as tax cuts and deregulations. The rally was temporary, as stocks retreated once again in December amid concerns around the potential impacts the changing U.S. trade policy may have on global economic and inflation growth rates. Nevertheless, 2024 was a remarkable year for the stock markets. U.S. stocks outperformed the rest of the world, fueled by robust earnings, healthy economic growth, ongoing momentum from the artificial intelligence (AI) trade, and central bank easing.

IA Clarington Inhance Global Equity SRI Fund/Class (the "Global Equity Fund") gained 4.60% on a gross-of-fee basis in the fourth quarter of 2024, but trailed the MSCI World Index (CAD), which advanced 6.29%. Security selection was the primary driver of underperformance, led by the information technology (IT), financials and health care sectors. Within IT, the Global Equity Fund's position in CDW Corp. was the biggest detractor. Not holding Broadcom Inc., as well as our underweight position in NVIDIA Corp., also negatively impacted relative returns. In the financials sector, many of the Global Equity Fund's holdings, such as S&P Global Inc., Brown & Brown Inc., and Marsh & McLennan Cos. Inc. underperformed, while another detractor was not holding bank stocks that strongly performed given prospects of banking deregulation in 2025 following Donald Trump's re-election. Lastly, weak security selection in the health care sector was attributable to Elevance Health Inc., Danaher Corp., and Novo Nordisk AS. In contrast, the Global Equity Fund benefited from strong selection in the communication services sector, specifically Nintendo Co. Ltd. and Alphabet Inc. that posted double-digit returns over the period. Dino Polska SA and Costco Wholesale Corp. in the consumer staples sector, in addition to Copart Inc. and Wolters Kluwer NV in the industrials sector, also contributed positively. Sector allocation, meanwhile, helped partially offset disappointments at the stock level. The main contributions came from the Global Equity Fund's underweight allocation to health care and materials, overweight allocation to financials, and zero weight in utilities.

IA Clarington Inhance Global Small Cap SRI Fund (the "Global Small Cap Fund") underperformed its benchmark (MSCI World Small Cap Index (CAD)) by 519 bps, with a -1.48% return over the quarter, with the bulk of the underperformance coming in October. Underperformance was driven mainly by security selection, and to a lesser extent foreign exchange. Sector allocation was slightly positive. Selection was weakest in the industrials, real estate and information technology sectors. Common negative themes were exposure to interest rates, housing and earning guidance disappointments during third-quarter earnings. We also saw a rebound in speculative growth technology names, which impacted security selection within the information technology sector. Consumer discretionary was the relative bright spot in terms of sector selection. In terms of allocation, the Global Small Cap Fund benefited from an overweight sector position in information technology and an underweight position in materials, with a partial offset from an underweight position in financials (which had a strong quarter driven by U.S. small-cap banks). On an individual basis, the largest detractor was U.K. based storage REIT Safestore Holdings PLC (-88 bps), which was down amid weaker sentiment for U.K. housing-exposed names and general pressure on the REIT sector. Carl Zeiss Meditec AG was also a large detractor at -69 bps as the company continues to struggle with slow growth in its key China/Asia market, as well as pressured margins. Interest-rate-sensitive and housing-linked names were weak in the U.S. as well, with National Storage Affiliates Trust (-67 bps) and TopBuild Corp. (-61 bps) also being key detractors. Overall, our larger relative exposure to Europe was also a drag. Our largest positive contributors were Workiva Inc. (+108 bps) in the information technology sector, along with Five Below Inc. (+46 bps) and First Watch Restaurant Group Inc. (+4 7bps) in the consumer discretionary sector. Other solid positive contributors were Globant SA, Pan Pacific International Holdings Corp., and Stevanato Group SpA (around +30 bps each).

In Canada, the S&P/TSX Composite Index increased +3.77% on a total-return basis, driven by information technology (+22.2%), financials (+6.6%) and energy (+6.6%), while the remaining sectors underperformed the broader index. Higher valuations were supported by the BoC's decision to cut rates by 50 bps in October and December, reducing the policy rate from 4.25% to 3.25% during the quarter.

IA Clarington Inhance Canadian Equity SRI Class (the "Canadian Equity Fund") returned +1.60% on a gross-of-fee basis but underperformed the benchmark (S&P/TSX Composite Index) during the period. Although the Canadian Equity Fund held an overweight allocation to the information technology sector, we didn't own Celestica Inc. (+91.9%) and Blackberry Ltd. (+53.4%), and the Canadian Equity Fund had a marginally underweight position in Shopify Inc (+41.2%). The energy and financials sectors were also a drag on performance. Other drivers of underperformance were poor selection within the industrials sector and a decline in the share price of DRI Healthcare Trust, which remains a top-five active weight (the difference between the weight in the portfolio versus the benchmark). On an absolute basis, the

Canadian Equity Fund had several stand-out performers, including Shopify (+41.2%), Lumine Group Inc. (+30.2%), Exchange Income Corp. (+15.8%), Bank of Montreal (+15.7%), Mastercard Inc. (+13.7%) and ATS Corp. (+11.7%). We continue to see quality businesses delivering strong earnings, and believe share price performance will follow in the years ahead.

IA Clarington Inhance Monthly Income SRI Fund (the “Monthly Income Fund”) underperformed its blended benchmark[1] on a gross-of-fee basis in the fourth quarter by -291 bps. The Fund’s overall allocation to fixed income (bonds and preferred shares) averaged 25.4% during the reporting period, maintaining the strategic underweight allocation relative to the benchmark. The underweight allocation to fixed income and overweight allocation to equities contributed positively to the Monthly Income Fund’s overall performance, as equities outperformed fixed income. On a relative basis, the equity component underperformed the S&P/TSX Composite Index by -500 bps. This underperformance was driven by both sector allocation and security allocation. The Monthly Income Fund’s underweight position in real estate – the weakest-performing sector during the period – was the primary driver behind negative sector allocation effect. Despite falling interest rates, the real estate sector continued to underperform the broader index as a weakening economy and unfavourable immigration policies further dampened investor sentiment and interest in the sector. The Monthly Income Fund’s underweight sector positions in energy, health care and consumer discretionary also hurt relative returns, though to a much lesser extent compared to the Monthly Income Fund’s overweight exposure to the real estate sector. Security selection effect hurt relative performance as well. Security selection had a pronounced negative impact, particularly within the information technology sector. The Monthly Income Fund’s position in Enghouse Systems Ltd. and Texas Instruments Inc., coupled with its zero exposure to Shopify Inc., were the primary culprits behind weak security selection effect within the sector. In terms of individual names, Broadcom Inc., Games Workshop Group PLC, and Exchange Income Corp. were the top contributors to relative performance, while DRI Healthcare Trust, Enghouse Systems, and Northland Power Inc. were the top detractors during the period. The Monthly Income Fund’s fixed-income allocation remains tilted towards high-quality corporate bonds less than five years in term. As a result, the duration of the Monthly Income Fund’s fixed-income allocation is significantly shorter than the FTSE Canada Universe Bond Index’s duration, while yield curve exposure is all in the short end, which was positive for relative performance in the fourth quarter given the outperformance of shorter-maturity bonds on the yield curve. The Monthly Income Fund’s preferred shares, which averaged a 6.06% weight over the quarter, outperformed bonds and also contributed to performance. Ongoing redemptions in the preferred share market, including the announced redemptions of a couple held by the Monthly Income Fund – Loblaw Cos. Ltd. (L.pr.B) and Fairfax Financial Holdings Ltd. (FFH.pr.C) drove a continued strong bid in the preferred share space.

[1] Based on 70% S&P/TSX Composite Total Return Index and 30% FTSE Canada Universe Bond Index

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In terms of shareholder engagement in the fourth quarter:

- We filed shareholder proposals with RBC, TD Bank, BMO and CIBC requesting the disclosure of how vertical pay metrics are used in setting executive compensation. This proposal broadens our previous request for the disclosure of the CEO to median pay ratio, to focus on the process rather than specific figures. Following our submission, we have also had initial meetings with RBC, BMO and CIBC to share thoughts. A meeting with TD Bank is scheduled for the next quarter.

- Working with the investor group Investors for Paris Compliance and Green Century Capital Management, we co-filed a proposal with TD Bank calling for an independent review of TD's board governance policies and director selection criteria, specifically with regards to expertise on climate matters.

- We also filed a climate proposal with CIBC asking for disclosure of industry specific client transition plans with procedures to ensure alignment with the CIBC's 2030 interim targets to reduce financed emissions.

- In light of changes to Unilever's plastic strategy, we met with the company this quarter to discuss updates. The company shared with us their progress, explained the challenges they faced that prevented them from achieving their interim targets, and their efforts to resolve these challenges. This engagement is a follow-up from our initial discussion with Unilever on plastics, which was held in the fourth quarter of 2023.

- We had an initial meeting with Dollarama to better understand the wage practices of the company. We encouraged the company to consider being a living wage employer. The company was receptive to doing more research and requested further information to be shared, which we provided.

- As a part of a World Benchmarking Alliance campaign, we also met with Broadcom along with other investors to learn more about the company's ethical AI practices. We expect further conversations with Broadcom as the company's response did not meet expectations.

We continue to remain aware of the ever-changing macroeconomic environment, as interest rates, inflation and other macro data points like housing sales and employment levels remain in focus. We expect investors to stay focused on companies with business models that can withstand the fluid economic environment. Companies with high barriers to entry that provide mission-critical services and/or products should continue to remain in focus for investors in a market where earnings growth is expected to remain muted and consumer spending starts to abate.

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As always, we will remain true to our process of investing in ESG-focused companies with sustainable and growing competitive advantages.

Fund and benchmark performance as at December 31, 2024	1 year	3 year	5 year	10 years
IA Clarington Inhance Growth SRI Portfolio – Series A	0.6%	5.2%	5.1%	0.6%
35% FTSE Canada Universe Bond Index, 30% MSCI World Index (CAD)[2], 35% S&P/TSX Composite Index	6.1%	8.3%	7.5%	6.1%

For definitions of technical terms, visit iaclarington.com/glossary or speak with your investment advisor.

[2]Source: MSCI. 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 Fund's strategy is to invest in other investment funds. 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 benchmark is a blend of 35% FTSE Canada Universe Bond Index, 35% S&P/TSX Composite Index and 30% MSCI World Index. The blended benchmark presented is intended to provide a more realistic representation of the general asset classes in which the Fund invests. The FTSE Canada Universe Bond Index 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 S&P/TSX Composite Index 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 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 has exposure to 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, sector exposure and credit quality 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. Overall, the Fund's bond and equity exposure can differ, because the Fund does not use a fixed ratio similar to the benchmark. 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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