

IA Clarington Inhance Monthly Income SRI Fund

Manager commentary – Q2 2024

The S&P/TSX Composite Index posted a -0.53% return (on a total-return basis) during the second quarter, bringing down the index's year-to-date return to +6.1%. It was a challenging period for Canadian equities despite strong first-quarter earnings results from many of the companies and an interest rate reduction of 25 basis points (bps) by the Bank of Canada (BoC). Only four of 11 sectors ended in positive territory, with materials (+7.4%) leading the way, followed by consumer staples (+4.1%). Materials performed strongly, reflecting a rise in the prices of precious metals. The consumer staples sector fared well broadly, with Loblaw Companies Ltd., and its controlling shareholder George Weston Ltd. leading in sector contribution, as shares of both companies rose in response to a 15% dividend hike announcement. The energy sector (+0.9%) closed the period essentially flat, as oil prices remained stable through the quarter. The health care sector (-18.6%) performed the worst among the sectors, but had a negligible impact on the index's overall return given the sector's small weighting, while the financials sector (-1.1%), despite posting a relatively small loss, had an outsized impact on the index given its large weighting.

The Canadian fixed-income market produced positive returns over the period, driven by the 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 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.

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.

IA Clarington Inhance Monthly Income SRI Fund's (the "Fund") overall allocation to fixed income (bonds and preferred shares) averaged 24.96% during the period, maintaining the strategic underweight relative to the benchmark. The underweight allocation to fixed income and overweight allocation to equities detracted from the Fund's overall performance, as equities lagged fixed income.

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The equity component outperformed the S&P/TSX Composite Index as a result of the positive contribution from strong security selection more than offsetting negative contribution from weak sector allocation, aided by a positive effect from currency. Security selection was strongest in the health care and information technology sectors. In terms of individual holdings, owning Broadcom Inc., Element Fleet Management Corp., Canadian National Railway Co. and Texas Instruments Inc., as well as not owning Canadian Pacific Kansas City Ltd. and Shopify Inc., contributed the most to our relative performance during the quarter.

The Fund's fixed-income allocation remains tilted towards high-quality corporate bonds with terms of less than five years. As a result, the duration of the 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 second quarter given the outperformance of shorter-maturity bonds on the yield curve. The Fund's preferred shares averaged a 5.6% weight over the quarter and outperformed bonds, which also contributed to performance. Ongoing redemptions in the rate-reset preferred share market continued to fuel expectations of further redemptions, putting a strong bid on existing issues.

During the quarter the Fund eliminated one and added five new equity positions:

- Exited position(s)
 - Fastenal Co. (FAST): While FAST has been a great addition to the income fund, valuation has become quite stretched with an increasingly difficult outlook for the company. As such, we eliminated the position from the Fund.
- New position(s)
 - Intact Financial Corp. (IFC): IFC is the largest provider of property & casualty insurance in Canada. IFC has almost a two-decade history of annual dividend increases, typically growing alongside net earnings, which have historically grown in the 8-10% range.
 - Starbucks Corp. (SBUX): Recent challenges notwithstanding, we believe SBUX to be able to sustain its yield and continue to grow its earnings consistently, albeit at a more modest pace.
 - Wolters Kluwer NV (WKL): WKL is a professional information, software solutions and services provider that helps professionals in areas like health care, tax & accounting, and legal & regulatory make critical decisions every day. The company's solutions are highly necessary and high value-add, as reflected in the company's recurring revenue mix of more than 80%; a retention rate of greater than 90% for its core solutions, which represent just over half of total revenues; and an EBITDA margin above 30%. Moreover, the demand for the company's solutions has been resilient during past downturns, with organic revenue declining 3% in 2009 and showing positive growth during the pandemic. This reflects the critical and embedded nature of the company's products and solutions, which is a competitive advantage that we believe will be sustained long into the future

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as the company continues to diligently reinvest in product innovation. In addition to company's highly predictable nature, the highly cash generative nature of this business renders this name an ideal fit for the Fund. Low yield notwithstanding, we believe the fundamentals of this business justifies the dilution to overall yield as it allows us to significantly increase the overall quality of the Fund.

- Games Workshop Group PLC (GAW): GAW's key asset is Warhammer, a fantasy tabletop game with a rich history dating back to the 1970s. GAW hires creatives and writers to build and expand the Warhammer (Warhammer 40k, Warhammer: Age of Sigmar) universe in order to drive sales of miniatures. Although Warhammer remains a niche hobby, GAW and broader societal trends have consistently led new fans toward the hobby over the years, with many newcomers picking up the hobby for a mix of reasons, including the social aspect, painting aspect and gameplay aspect. Warhammer has proven itself to be durable, considering its longevity and the consistent growth it has seen over a period spanning decades. Warhammer is not alone in this regard, with other veteran tabletop gaming/card game IP assets such as Magic the Gathering and Dungeons & Dragons boasting a loyal and growing fanbase to this day, as well as an impressive financial track record. GAW's outlook for future growth looks favourable, given the broader societal trends that are driving more people (including women) toward hobbies like Warhammer, the opportunities for IP licensing that will drive greater awareness (e.g., Amazon Prime show on Warhammer), and a focused management team. The company has an impressive financial profile, with free-cash-flow margin and return on capital exceeding 30% and 50%, respectively. We believe the proven durability of the IP, the growth runway, the asset-lite and highly cash-generative model, and a dividend yield north of 4.0% makes Games Workshop a suitable addition to the Fund.
- Premium Brands Holdings Corp. (PBH): PBH is a manufacturer of branded specialty foods and distributor of premium foods with operations across Canada, Nevada and Washington State. If you buy charcuterie, sandwich meats or seafood in a grocery store, or purchase a breakfast sandwich at Starbucks on the drive home, you're likely a customer, yet you'll never see the Premium Brands logo on the package. The company owns a wide portfolio of leading food brands including Harvest Meats, Oberto, McSweeney's and Belmont Meats, as well as a collection of high-quality foodservice and distribution businesses. The company's history is a decentralized acquisition story whereby it seeks talented established entrepreneurs with good food businesses and provides them the resources to grow stronger. Shares have struggled over the past year owing to rising rates and inflation (it sells premium-priced products) and is currently trading at its lowest valuation in more than a decade, making it an attractive entry point for a Canada-listed, yield-focused company that has compounded at a rate of almost 16% per annum over the past 10 years. The company pays out about 40-50% of its free

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cash flow in the form of dividends, currently has a dividend yield of approximately 3.8%, and has consistently grown the dividend at about 10% annually over the past 10 years, which is a trend we expect to continue.

In terms of shareholder engagement in the second quarter:

- The second quarter saw the continuation of Vancity Investment Management Ltd.'s (VCIM) climate and governance engagements with the Canadian banks:
 - We attended the annual general meetings (AGM) of The Toronto-Dominion Bank (TD), Canadian Imperial Bank of Commerce (CIBC), Bank of Montreal (BMO) and Royal Bank of Canada (RBC) to present our shareholder proposals on disclosing CEO to median worker pay ratio. At TD, 12.6% voted in favour of our proposal, at RBC 11.41% of shares were cast in our favour, at CIBC we received 10.5% and at BMO that figure was 10.86%.
 - On climate, we reached withdrawal agreements with both The Bank of Nova Scotia and RBC. As such, we only presented a shareholder proposal at the TD AGM. We were pleased with the results as almost one-third (28.6%) of shares were cast in favour of this proposal.
- An engagement with Nutrien Ltd., was initiated on biodiversity and nature as a part of the Nature Action 100 (NA100) campaign. We are working with multiple other investors to push the company to improve on biodiversity disclosure and practices.
- 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 perspective of the financials sector.
- We continued our work on the Carbon Disclosure Project (CDP) non-disclosure campaign with a letter to Exchange Income Corp. The letter pushed them to disclose emissions with CDP.
- Russel Metals Inc. reached out to VCIM to discuss their most recent say on pay vote and how to improve executive compensation practices.

We continue to remain cautious on the macroeconomic environment, as the major risks outlined at the start of the year remain in place. We expect investors to stay focused on companies with business models that can withstand the current 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.

As always, we will remain true to our process of investing in high-quality ESG-focused companies with attractive yields and a history of dividend growth. We are also turning over as many rocks as possible looking for new additions to our portfolios by focusing on industries that are being neglected by investors owing to what we believe to be temporary issues.

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Fund and benchmark performance as at June 30, 2024	1 year	3 year	5 year	10 years
IA Clarington Inhance Monthly Income SRI Fund – Series T6	4.6%	-0.3%	3.6%	3.7%
30% FTSE Canada Universe Bond Index, 70% S&P/TSX Composite Index	9.6%	3.7%	6.6%	5.6%

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 benchmark is a blend of 30% FTSE Canada Universe Bond Index and 70% S&P/TSX Composite 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 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, 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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