

IA Clarington Inhance Monthly Income SRI Fund

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. Interest rate-sensitive sectors, including real estate and financials, did particularly well as the Bank of Canada (BoC) announced three consecutive interest-rate cuts of 25 basis points (bps) each in June, July and September.

Global equities experienced 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 bps.

Government of Canada bond yields (the interest earned on a fixed-income securities) ended the period down anywhere from 21 to 126 bps across the yield curve (graphically illustrates the yields and maturities of bonds of similar credit quality), with the front end of the yield curve (shorter term yields and maturities) outperforming as markets priced-in more aggressive BoC interest-rate cuts amid growing signs of a weakening labour market. All sectors of the Canadian investment-grade (a high-quality debt security with a low risk of default. Ratings for investment grade instruments are BBB and above) fixed-income market generated positive total returns, with the FTSE Canada Universe Bond Index up 5.56%. Corporate bonds were the strongest-performing sector given higher yield and tightening credit spreads (the difference in yield between debt instruments with similar terms, but different credit ratings). Federal bonds were the weakest-performing sector but still generated strong absolute returns given the sharp decline in bond yields.

The Fund’s equity component performed well in both absolute and relative terms. The Fund’s overall security selection contributed to performance, particularly within the industrials, consumer discretionary and consumer staples sectors. The Fund’s exposure to international equities contributed to relative performance. The Fund’s zero-weight exposure to the energy sector contributed to performance, as did its overweight exposure to the real estate sector.

The Fund’s fixed-income component outperformed the fixed-income component of its benchmark. An allocation to preferred shares (A type of share ownership in a corporation. Preferred stock dividends are

IA Clarington Inhance Monthly Income SRI Fund

typically paid out before common share dividends. Preferred shareholders are also paid before common shareholders in the event of bankruptcy. Unlike common shares, preferred shares do not generally come with voting rights), particularly perpetual-style issues (a preferred share that pays a fixed dividend), contributed significantly to performance as the sharp drop in government bond yields caused these shares to outperform owing to their fixed coupon structure (fixed interest rate payment to shareholders).

The Fund's bond exposure was entirely focused in corporate bonds, with no allocation to government bonds. Corporate bonds were the strongest-performing fixed-income sector amid higher yield and modest credit-spread tightening.

In equities, the Fund's sector allocation detracted from performance. The Fund's underweight exposures to the materials and financials sectors detracted from performance, as did its overweight exposure to the health care sector. Individual detractors included DRI Healthcare Trust, which announced the sudden resignation of CEO Behzad Khosrowshahi in July following an investigation into irregularities related to consulting and other expenses.

While the Fund's fixed-income component generated a positive absolute return and outperformed its benchmark, it underperformed equities. The fixed-income component remained skewed towards short-maturity corporate bonds and therefore maintained a much shorter duration (lower interest-rate sensitivity) than the broader fixed-income benchmark. Given the dramatic decrease in bond yields, the short-duration positioning detracted from performance.

New positions include Games Workshop Group PLC, whose key asset is Warhammer, a fantasy tabletop game with a rich history dating back to the 1970s. The fund manager believes the company is attractive given the proven durability of its intellectual property, a loyal and growing fanbase, favourable societal trends that could fuel greater adoption of tabletop gaming and a recent dividend yield (a financial ratio that indicates how much a company pays out in cash each year to shareholders relative to its share price) above 4.5%. Intact Financial Corp is the largest provider of property and casualty insurance in Canada and a leading provider of specialty insurance in North America. The company benefits from superior market positioning, strong defensive characteristics, continued favourable market conditions and an experienced management team that continues to build on its exceptional track record. Wolters Kluwer NV provides professional information, software solutions and services that help professionals in health care, tax & accounting and legal & regulatory industries make critical decisions. The nature of the business is highly predictable and cash generative, making it a good fit for the Fund despite its low dividend yield.

IA Clarington Inhance Monthly Income SRI Fund

Decreased positions included Canadian Tire Corp. Ltd., Fiera Capital Corp. and Labrador Iron Ore Royalty Corp., which were trimmed to fund the purchase of higher-quality companies with good-to-acceptable dividend yields.

Eliminated positions included Fastenal Co. as its valuation (a measurement of how much an investment is worth. It is determined by analyzing a variety of factors, including financial statements and industry statistics) became too high and its outlook has become increasingly challenging.

Regarding ESG engagement activities, Vancity Investment Management Ltd. (VCIM) continued its climate and governance engagements with Canadian banks.

VCIM attended the annual general meetings (AGMs) of The Toronto-Dominion Bank (TD Bank), Bank of Montreal (BMO) and Royal Bank of Canada (RBC) to present shareholder proposals on disclosing CEO-to-median-worker-pay ratio. 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 both Bank of Nova Scotia and 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 a shareholder proposal at the Canadian National Railway Co. AGM. The proposal pushed the company to work with unions to negotiate paid sick leave policies and received 9.92% of the votes in favour, passing the threshold to refile.

As a part of the Nature Action 100 campaign, VCIM held a meeting with Nutrien Ltd. and multiple other investors to push the company to improve its biodiversity disclosure and practices.

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 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.

IA Clarington Inhance Monthly Income SRI Fund

With inflation now in its targeted range, the BoC's focus can shift to the strength of the economy.

The BoC's 4.25% policy interest rate remains quite restrictive relative to current and expected inflation levels, as well as to its own neutral (sustainable) interest-rate estimate of 2.25% to 3.25%. Weak productivity, high consumer debt and a wave of mortgage renewals set to significantly increase mortgage payments should encourage the BoC to swiftly reduce its policy interest rate to neutral levels.

The fund manager believes that the Fund's income-focused nature has positioned it to continue benefiting from declining interest rates.

Increasingly, the fund manager is finding companies, particularly in international markets, with good dividend/bond yields that demonstrate solid business quality, allowing the portfolio to be high-graded without significantly diluting its yield. The fund manager expects the Fund's resilience and overall quality to improve further.

Fund and benchmark performance as at September 30, 2024	1-year	3-year	5-year	10-year
IA Clarington Inhance Monthly Income SRI Fund – Series T6	21.3%	2.8%	5.1%	4.7%
30% FTSE Canada Universe Bond Index, 70% S&P/TSX Composite Index	22.5%	6.7%	8.0%	6.5%

Non-traditional fixed income asset classes may carry higher risk, but generally provide higher yield than traditional fixed income asset classes. 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. For definitions of technical terms in this piece, please visit 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 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

IA Clarington Inhance Monthly Income SRI Fund

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.

The information provided should not be acted upon without obtaining legal, tax, and investment advice from a licensed professional. Statements by the portfolio manager or sub-advisor represent their professional opinion and do not necessarily reflect the views of iA Clarington. Specific securities discussed are for illustrative purposes only and should not be considered a recommendation to buy or sell. Mutual funds may purchase and sell securities at any time and securities held by a fund may increase or decrease in value. Past investment performance may not be repeated. Unless otherwise stated, the source for information provided is the portfolio manager. Statements that pertain to the future represent the portfolio manager's current view regarding future events. Actual future events may differ.

Commissions, trailing commissions, management fees, brokerage fees and expenses all may be associated with mutual fund investments, including investments in exchange-traded series of mutual funds. The information presented herein may not encompass all risks associated with mutual funds. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

Trademarks displayed herein that are not owned by Industrial Alliance Insurance and Financial Services Inc. are the property of and trademarked by the corresponding company and are used for illustrative purposes only.

The iA Clarington Funds are managed by IA Clarington Investments Inc. iA Clarington and the iA Clarington logo, iA Wealth and the iA Wealth logo, and iA Global Asset Management and the iA Global Asset Management logo, are trademarks of Industrial Alliance Insurance and Financial Services Inc. and are used under license. iA Global Asset Management Inc. (iAGAM) is a subsidiary of Industrial Alliance Investment Management Inc. (iAIM).