IA Clarington Inhance Monthly Income SRI Fund

Manager commentary – Q4 2024

Over the period, the S&P/TSX Composite Index increased +3.76% on a total-return basis, driven by the information technology (+22.2%), financials (+6.6%) and energy (+6.6%) sectors, while the remaining sectors underperformed the broader index. A weakening Canadian economy led to the Bank of Canada's (BoC) decision to cut rates by 50 basis points (bps) in October and December, reducing the policy rate from 4.25% to 3.25% during the quarter.

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 lowering interest rates in September by 50 bps, the U.S. Federal Reserve followed up with 25-bps cuts in November and December, taking its policy rate to 4.50%, down 100 bps since it started easing. The BoC, meanwhile 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 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.

IA Clarington Inhance Monthly Income SRI Fund (the "Fund") underperformed its blended benchmark[1] on a gross-of-fee basis in the fourth quarter by -306 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 Fund's overall performance, as equities outperformed fixed income.

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

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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 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 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 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 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 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 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 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 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.

In terms of portfolio activities, four new equity positions were added, while two existing equity positions were eliminated.

New Equity Position(s):

- **Greggs PLC** ("GRG") is the U.K.'s leading food-on-the-go chain with over 2,500 restaurant locations. Best known for their sausage rolls, Greggs is a beloved brand in the U.K. with a cult following. The chain offers value-for-money, consistency and high-quality products, a value proposition that is rooted in Greggs' well-oiled operations scale, and vertically integrated model (it owns and operates multiple stages of its supply chain). The company is also known for its savvy marketing, menu innovation and employee relations (e.g., profit-share plans). Despite Greggs' current position as a category leader, we believe there is sufficient growth runway ahead of the company as it drives average unit volumes higher (longer store hours to serve the evening day part, menu innovation, growth in delivery, etc.) and grow its store fleet past the near-term fiscal year 2026 target of 3,000 locations. Combined with operating leverage and cost management efforts, strong revenue growth should translate into healthy double-digit earnings growth and dividend growth for years to come. In addition, we believe management will continue to drive growth in a sensible manner through a focus on return on capital, a financial metric included in their incentive plans. In our view, Greggs is a quality business with a 3.5% current yield and a high probability of achieving double-digit growth in earnings for years to come, making this a compelling addition for the Fund.

- **Richards Packaging Income Fund** (“RPI”) is a business-to-business (B2B) health care (~50% of sales), food & beverage packaging (~30% of sales), and cosmetics packaging (~20% of sales) distributor with leading market positions in the U.S. and Canada. It focuses on small- and medium-sized customers (SMBs). A compelling valuation, a likely bottoming and recovery in the Food & Beverage segment, and an improving business quality attributable to a growing health care mix are the main reasons why we initiated a position in RPI.

- **Admiral Group PLC** (“ADM”) provides insurance services. The company offers car insurance products. Admiral Group serves customers worldwide, although its core market is the U.K. auto insurance market. Auto insurance is the largest component of the consumer Property & Casualty (P&C) industry. It is a "financial staple" and largely mandatory purchase. Hence, it attracts many competitors but while barriers to entry are low, barriers to long-term success are very high. Admiral Group is in rarefied air as a consumer-focused insurance company. We see elements of other P&C leaders like Intact Insurance, Progressive and GEICO in how they operate (culture and price discipline to lead the market as seen by Intact, direct distribution like GEICO & leading underwriting segmentation like Progressive). Underpinning all of this is corporate culture, domain expertise and willingness to invest in technology to remain a leader in a competitive industry. We believe ADM’s competitive advantage is evidenced in its wide gap in underwriting performance relative to the industry peers, market share gains and very strong capital returns.

- **LAMAR Advertising Co.** (“LAMR”) is the leading billboard operator in North America with a footprint of over 160,000 billboard displays in 45 U.S. states and in Canada. Billboards are a great business as there are significant barriers to entry, as evidenced by the static supply compared to a decade ago, given stringent local government regulations, allowing existing billboards to generate attractive economics. LAMR stands out amongst the public players owing to modest leverage, best-in-class margin profile (much of which is attributable to land ownership), family ownership, strong historical execution, and high exposure to local advertising as opposed to national advertising, as the latter has historically been more volatile (e.g., consumer packaging goods companies have been quick to turn off marketing dollars at the first sign of a slowdown). We believe LAMR has ample opportunities to grow, including through increased digital billboard penetration, bolt-on deals, and the occasional large M&A deal. Combined with operating leverage, sales growth should lead to even greater earnings and Funds From Operations (FFO) growth. With the yield currently at 4.7% and signs of a recovery in national ad spend, LAMR makes for an attractive addition to the Fund.

Exited Equity Position(s):

- **Fiera Capital Corp.** (“FSZ”) has seen consistent net outflows (22% of AUM on an annualized basis in the second quarter) and there doesn't seem to be any end in sight. Valuation has also recently re-rated, and although it has a high dividend yield, we have no insight into when net flows will turn positive and feel that there is higher probability of future negative surprises versus positive. This holding was also one of our lowest weights, and since we feel unsure about where net flows are headed and we have other names we have initiated and feel more comfortable with, we have sold our remaining position.
- **Roche Holding AG** (“ROG”) is a name we initiated in late 2022. The company has underwhelmed since, as there has been lacklustre productivity with respect to its R&D efforts, as well as its earnings erosion. Although there are seemingly positive catalysts in the horizon concerning Roche’s oral weight-loss drug (with the share price reflecting this in recent months), we have decided to sell out of our position as we have identified names – particularly non-Canadian names -- with profiles that better fit what we are looking for with regard to the Fund: less complexity, a good yield, attractive growth prospects, and a good-to-great business quality.

In terms of shareholder engagement in the second 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. 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.
- 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.

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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.

Fund and benchmark performance as at December 31, 2024	1 year	3 year	5 year	10 years
IA Clarington Inhance Monthly Income SRI Fund – Series T6	11.8%	0.7%	4.7%	4.6%
30% FTSE Canada Universe Bond Index, 70% S&P/TSX Composite Index	16.2%	5.9%	8.1%	6.8%

For definitions of technical terms, visit iaclarington.com/glossary or 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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