

# IA Clarington Thematic Innovation Class

## Manager commentary – Q3 2024

The U.S. economy continued to normalize over the period. The pace of job creation has slowed since April, and historical revisions have shown that fewer jobs than initially reported have been created since the spring of 2023. While hiring has slowed down, the participation rate (estimate of an economy's active workforce) has continued to rise, leading to a higher unemployment rate. At the end of the third quarter, the U.S. economy was displaying more signs of stability than weakness, especially in terms of consumer spending, which remained robust. Inflationary pressures eased, indicating a shift towards a more sustainable growth path.

Globally, equities delivered highly favourable results during the period. The S&P 500 Index, returned 10.2% (in Canadian-dollar terms), led by the utilities, information technology and real estate sectors.

The Fund's underweight exposures to the consumer discretionary and energy sectors were the top contributors to performance. Individual contributors included the Fund's overweight positions in NVIDIA Corp. and Vistra Corp., as their stocks performed exceptionally well during the period.

The Fund's security selection mainly within the industrials sector, detracted from performance. Individual detractors included the Fund's underweight exposure to Tesla Inc., which delivered outstanding performance during the period.

New positions in the Fund included Tesla and Walmart Inc. Increased positions included Apple Inc., NVIDIA Corp. and Exxon Mobil Corp. Trimmed positions included Alphabet Inc., Mastercard Inc. and Uber Technologies Inc.

The Fund aims to deliver long-term capital growth through its exposure to U.S. companies that have dominant market positions and are poised to benefit from innovation trends. The fund manager's base-case scenario remains a soft landing for the economy, but supportive policies from major central banks in countries around the world are boosting the outlook for the year-end. A soft landing is a cyclical slowdown in economic growth that ends without a period of outright recession.

Although the fund manager still anticipates a volatile environment driven by the U.S. election, various industries appear to be benefiting from artificial intelligence (AI), automation and reshoring. Additionally, cyclical sectors appear to be benefiting from interest-rate cuts, which should be favourable, and the fund manager expects these companies to maintain or gain market leadership. Cyclical sectors or stocks are those whose values are largely correlated with the state of the economy.

Looking ahead to the final quarter of 2024, structural growth stocks are likely to remain in favour, underpinned by stabilized long-term interest rates and the potential for consistent below-average

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growth in gross domestic product. A structural growth stock refers to a company whose value (while not immune to economic conditions) is mainly driven by an underlying fundamental trend. These underlying forces are less related to or not driven by the state of the economy (e.g. disruptive technology, changing socio-demographics, climate change).

Technology shifts usually usher in new market cycles and regimes, and the fund manager foresees AI becoming the defining technological turning point of our generation. The fund manager expects to see a significant shift from the semiconductor industry to infrastructure and software as use cases emerge and are commercialized or monetized.

In line with the Fund's investment approach, the fund manager will continue working to identify potential market leaders among innovative firms, while concurrently ensuring the Fund's capital is allocated to dominant market players that stand to gain from the widespread permeation of innovation within the economy.

Fund and benchmark performance, as at September 30, 2024	1-year	3-year	5-year	10-year
<b>IA Clarington Thematic Innovation Class – Series A</b>	36.9%	8.6%	14.2%	8.4%
<b>S&amp;P 500 Index (CAD)</b>	36.2%	14.3%	16.4%	15.5%

For definitions of technical terms in this piece, please visit [iaclarington.com/glossary](http://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 Fund's benchmark is the S&P 500 Index (CAD). The S&P 500 Index (CAD) includes 500 leading companies in leading industries of the U.S. economy and is widely regarded as the best single gauge of the U.S. equities market. 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. Effective May 30, 2019, Taylor Asset Management Inc. was removed as sub-advisor and Industrial Alliance Investment Management Inc. remained as portfolio manager, and the Fund's investment strategies changed. Effective April 1, 2023, the portfolio manager changed to iA Global Asset Management Inc.

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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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