

IA Clarington U.S. Dividend Growth Fund

Manager commentary – Q3 2024

In recent quarters, the global economy has continued its path toward normalization, with notable developments across key regions.

The U.S. economy continued to normalize over the last 6 months (“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 slowed, the participation rate (the ratio between the total labour force divided by the total working-age population) continued to rise, leading to a higher unemployment rate (the number of unemployed persons expressed as a percentage of the labour force). At the end of the period, 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.

For the last six months, the S&P 500 Index, representing the U.S. equity market, returned 10.2% in Canadian-dollar terms, led by the utilities, information technology and real estate sectors.

The Fund’s security selection strongly contributed to performance during the period, particularly within the information technology, health care and communication services sectors. The Fund’s underweight exposure to the energy sector also contributed, as did its overweight exposure to the utilities sector. Individual contributors included Apple Inc., the American technology company best known for consumer electronics, software and services, as it has been trending positively after a strong rebound in shipments in China. Strong quarterly earnings during the period helped boost its share price, and the market has viewed Apple’s partnership with OpenAI, L.L.C. positively. American semiconductor manufacturing company Broadcom Inc. experienced strong gains owing to strong revenue and earnings performance, driven by growth in key segments such as ethernet networking and custom accelerators for artificial intelligence data centres. Additionally, the company’s successful integration of VMware Inc. contributed to strong share price performance.

The Fund’s underweight exposure to the information technology sector detracted from performance, as did its slightly overweight exposure to the materials sector. The Fund’s cash position also detracted from performance as markets rose. Individual detractors included American discount store chain Dollar General Corp., which was negatively affected by a difficult environment for dollar stores in the U.S. owing to lower benefits, lower tax refunds and higher inflation, which have affected the company’s lower-income customers. This has made the operating environment difficult and created expectations for weaker operating results (refers to financial outcome after including expenses but excluding taxes and interest expenses). Target Corp., a general merchandise operator in the U.S., saw same-store sales

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(refers to a financial metric that companies in the retail industry use to evaluate the total dollar amount of sales in the company's stores that have been operating for a year or more) decline by 3.7%. The company has seen sluggish demand in discretionary (non-essential) categories as customers reduced their spending, and it plans to cut prices on thousands of items in response to inflationary pressures.

New positions included CME Group Inc., one of the world's leading financial derivatives (A financial instrument whose value and performance is dependent on the value and performance of an underlying security) marketplaces, as the company was well positioned to benefit from increased market and trading activity, which is a function of heightened market volatility. Aerospace manufacturing company TransDigm Group Inc. was added owing to its strong performance and expanded competitive positioning. The company had a strong third quarter and raised its full-year guidance (expected earnings for the full year), and it has improved profitability through tight cost management and enhanced labour productivity.

Increased positions included CMS Energy Corp., a Michigan-based energy company that has benefited from both realized and anticipated interest-rate cuts, which should boost business. The company reiterated its full-year guidance in the second quarter.

Decreased positions included Union Pacific Corp., a freight hauling railroad, which was trimmed owing to 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) and to take profits.

Eliminated positions included Target, which was sold owing to concerns around sluggish demand in discretionary categories.

The fund manager has low confidence in the path of performance going into the final quarter of 2024. The fund manager expects the market to be more volatile in the next few months as the cross-currents of a significant China reflationary impulse, election-related volatility and aggressive expectations for accommodative monetary policy (a central bank policy that seeks to stimulate economic growth by increasing access to credit through low or reduced interest rates) open up a wide range of outcomes for investors. The fund manager's goal is to remain focused on businesses that have strong multi-year horizons and are dominant in their respective value chains.

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| Fund and benchmark performance as at September 30, 2024 | 1-year | 3-year | 5-year | 10-year |
|---|--------|--------|--------|---------|
| IA Clarington U.S. Dividend Growth Fund – Series A | 32.6% | 13.8% | 12.5% | 10.4% |
| S&P 500 Index (CAD) | 36.2% | 14.3% | 16.4% | 15.5% |

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 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 invests in dividend paying stocks while the benchmark is comprised of companies, which may not necessarily pay a dividend. 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 November 26, 2012, McLean Budden Limited was removed as sub-advisor to the Fund.

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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