

IA Clarington U.S. Equity Currency Neutral Fund

Manager commentary – Q2 2024

Over the second quarter of 2024, IA Clarington U.S. Equity Currency Neutral Fund Series A returned -2.0%, versus 4.1% for the S&P 500 TR Index (\$CAD Hedged). Within the S&P 500, top-performing sectors for the quarter included information technology, communication services and utilities. Lagging sectors included materials, industrials and energy.

The Fund's relative underperformance in the quarter was mainly driven by its underweight position in the information technology sector and unfavourable security selection in the consumer discretionary and health care sectors. Strong security selection in the financials sector provided a modest offset. On an individual security basis, top contributors to the Fund's performance during the period included Alphabet Inc., Micron Technology Inc. and Unilever PLC. Top detractors from performance included Centene Corp., Starbucks Corp. and The Walt Disney Company.

As at June 30, 2024, the Fund held 40 positions across eight market sectors, with a cash balance of approximately 5.7%. During the quarter, net weighting increases were completed within the health care and consumer staples sectors. Net trims were completed within the financials, information technology, communications services, consumer discretionary and industrials sectors. One new holding was added to the portfolio and there were no eliminations during the quarter.

Within the health care sector, shares of Solventum Corp. were added to the Fund. This franchise, formerly composed of 3M Co.'s health care segment, was spun off into a separately listed company during the quarter. The business exhibits stable profit margins and benefits from a strong competitive position in diverse, non-cyclical end markets, allowing it to generate consistent results over the last two decades. We believe the market's concerns over near-term earnings growth don't justify the forward-earnings multiple of less than 10x for this resilient franchise.

Additionally, we increased our weight in UnitedHealth Group Inc. as the valuation has de-rated in response to several short-term pressures, including a rise in medical benefit ratios, lower-than-expected rate increases, an anti-trust investigation and a cyber-attack in one of its business units. Despite these issues, we believe UnitedHealth continues to offer annual earnings growth potential over the next five to 10 years in the low to mid-teens.

Within the consumer staples sector, we increased exposure to both Unilever and PepsiCo Inc. on constructive outlooks for underlying sales growth driven by both volume and modest pricing gains. Improved valuation levels also imply competitive risk-adjusted returns going forward. Within the industrials sector, the Fund acquired additional shares of 3M during the quarter.

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Within the financials sector, shares of Bank of America Corp., JP Morgan Chase & Co. and Wells Fargo & Co. were trimmed following strong gains over the past several quarters. Within the information technology sector, shares of Micron Technology were also trimmed on strength. The business continues to benefit from a strong cyclical recovery leading to a materially improved earnings outlook; however, strong share price gains during the quarter have also led to increased valuation risk. Additional trims were also completed within the communication services sector (Netflix Inc., Verizon Communications Inc.), consumer discretionary sector (Thor Industries Inc., Amazon.com Inc.) and industrials sector (PACCAR Inc., Lennox International Inc.).

Valuations and investor sentiment remain historically extended despite what appears to be growing potential for high corporate earnings growth expectations to broadly disappoint. Conversely, strong earnings growth among the few expensive businesses related to artificial intelligence that are driving market returns so far in 2024 seems likely to continue fueling upward index momentum in the near term, despite aggregate valuations that suggest weak long-term market return prospects. This narrow leadership and concentration within the U.S. market remains an ongoing source of risk for equity investors going forward. Against this backdrop, the current portfolio continues to offer a diversified mix of high-quality and resilient franchises, possessing a reasonable margin of safety for a variety of outcomes.

Fund and benchmark performance as at June 30, 2024	1-year	3-year	5-year	10-year
IA Clarington U.S. Equity Currency Neutral Fund - Series A	14.6%	8.6%	10.8%	5.5%
S&P 500 Index (CAD Hedged)	23.3%	9.0%	13.8%	11.8%

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 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 Hedged) 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. equity market. The Fund's market capitalization and sector exposure may differ from that of the benchmark. The Fund's currency risk exposure may differ from 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, the sub-advisor of the Fund was changed from Sarbit Advisory Services Inc. to QV Investors Inc., and the Fund's investment strategies changed.

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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.

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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