

# IA Clarington Inhance High Growth SRI Portfolio

## Manager commentary – Q3 2024

During the last 6 months (“the period”), the global economy continued its path toward normalization, with notable developments across key regions. Disinflation (reduction in the rate of inflation) continued as supply-chain pressures eased and commodity prices stabilized.

The U.S. economy continued to normalize. Hiring has slowed while 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 (refers to the number of unemployed persons expressed as a percentage of the labour force). However, consumer spending remained robust and inflationary pressures eased. In September, the U.S. Federal Reserve (the Fed) lowered its target federal funds rate (refers to the interest rate set by the U.S. Federal Reserve) by 50 basis points (bps).

The Canadian economy appeared to be in a precarious situation as weak productivity (The ability to produce greater quantities of goods and services in better and faster ways) remained a challenge despite strong population growth. The housing market remained at risk, even as the Bank of Canada (BoC) announced three consecutive interest-rate cuts of 25 bps each. Inflation finally hit the BoC’s target rate of 2% in August, which led to a renewed focus on growth.

Europe remained stuck in subdued growth amid challenges such as weak demographics, lack of productivity growth, the absence of synchronized intra-eurozone (transactions within Europe) fiscal policy (measures a government takes to influence the direction of the economy) and a weak Chinese economy.

The S&P/TSX Composite Index gained 10.0%, driven by outsized performance from the materials sector. Interest rate-sensitive sectors, including real estate and financials, did particularly well. Meanwhile, the U.S. S&P 500 Index returned 10.2% (in Canadian-dollar terms), led by the utilities, information technology and real estate sectors.

On the international front, the MSCI World Index and MSCI EAFE Index returned 9.0% and 6.6%, respectively, (in Canadian-dollar terms, including foreign-currency movements).

Global equities maintained the positive trajectory that started in early 2024, although the path was marked by volatility. Global small caps posted positive returns but lagged large caps early in the period.

Regarding fixed income, the FTSE Canada Universe Bond Index returned 5.6%, supported by interest-rate declines. 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

# IA Clarington Inhance High Growth SRI Portfolio

generated positive total returns (an investment return that includes any interest, capital gains, dividends and distributions). Corporate bonds were the strongest-performing sector, while federal bonds were the weakest. Government of Canada bond yields (the interest earned on a fixed-income security) ended the period down across the yield curve (graphically illustrates the yields and maturities of bonds of similar credit quality).

U.S. Treasury bond yields ended the period down across the yield curve as markets priced in more aggressive interest-rate cuts.

Global bond yields ended the period broadly lower as developed market central banks began easing their policy interest rates.

The Fund's allocation to fixed income slightly contributed to performance. Individual contributors included IA Clarington Inhance Bond SRI Fund and IA Clarington Inhance Monthly Income SRI Fund. IA Clarington Inhance Monthly Income SRI Fund led performance in terms of absolute return, but IA Clarington Inhance Bond SRI Fund, IA Clarington Inhance Canadian Equity SRI Class and IA Clarington Inhance Global Equity SRI Class/Fund also recorded positive returns.

IA Clarington Inhance Bond SRI Fund's allocation to preferred shares contributed strongly to performance as preferred shares (a type of share ownership in a corporation. Preferred stock dividends are 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) outperformed bonds significantly. The underlying fund's overweight allocation to corporate bonds and underweight allocation to federal bonds contributed, as the corporate sector outperformed the federal sector in the index. Duration positioning (sensitivity to interest rates) also contributed.

IA Clarington Inhance Canadian Equity SRI Class's underweight position in the energy sector contributed as the sector underperformed. The underlying fund's stock selection across the consumer discretionary, consumer staples, utilities, real estate, materials and communication services also contributed.

IA Clarington Inhance Global Equity SRI Class/Fund's lack of energy sector exposure contributed to performance, as did its overweight exposure to the information technology sector, which performed well. The underlying fund benefited moderately from its security selection in the real estate sector.

Within the IA Clarington Inhance Monthly Income SRI Fund, the underlying fund's overall security selection contributed to performance, particularly within the industrials, consumer discretionary and consumer staples sectors. The underlying fund's exposure to international equities contributed relative

# IA Clarington Inhance High Growth SRI Portfolio

to its Canada-only benchmark (S&P/TSX Composite Index). A zero-weight exposure to the energy sector contributed to performance, as did overweight exposure to the real estate sector.

IA Clarington Inhance Monthly Income SRI Fund's fixed-income component outperformed the fixed-income benchmark (FTSE Canada Universe Bond Index). The underlying fund's allocation to preferred shares (a type of share ownership in a corporation. Preferred stock dividends are 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) contributed significantly to performance as the sharp decline in government bond yields caused these shares to outperform. The underlying fund's bond exposure was entirely focused in corporate bonds, which were the strongest-performing fixed-income sector.

IA Clarington Inhance Global Small Cap SRI Fund's stock selection in the information technology and real estate sectors contributed to performance. The underlying fund's lack of exposure to the energy sector also contributed, as did its overweight position in the real estate sector.

Overall, the Fund's allocation among the underlying funds, particularly equity funds, detracted from performance. The Fund's exposure to IA Clarington Inhance Global Small Cap SRI Fund detracted. The Fund's underweight exposure to IA Clarington Inhance Global Equity SRI Class/Fund detracted from performance, as did the underlying fund's lack of exposure to NVIDIA Corp. IA Clarington Inhance Canadian Equity SRI Class also underperformed owing to its lack of exposure to the energy sector and overweight exposure to the industrials and health care sectors.

IA Clarington Inhance Bond SRI Fund's bias toward higher-quality corporate holdings detracted slightly from performance as BBB-rated (lower quality investment grade) corporate bonds outperformed higher-rated corporate bonds. Short-maturity bonds underperformed mid- and long-maturity bonds owing to their lower duration and the significant decline in interest rates during the period.

IA Clarington Inhance Canadian Equity SRI Class's overweight allocation to the industrials and health care sectors significantly detracted from performance. The underlying fund's underweight allocation to the materials sector also detracted amid higher commodity prices. Stock selection across the industrials, financials and health care sectors detracted as well.

IA Clarington Inhance Global Equity SRI Class/Fund's stock selection in the information technology and consumer discretionary sectors detracted from performance. The underlying fund's overweight allocation to the consumer discretionary sector also detracted, as did lack of exposure to the utilities sector.

# IA Clarington Inhance High Growth SRI Portfolio

IA Clarington Inhance Monthly Income SRI Fund's equity sector allocation detracted from performance. The underlying fund's underweight exposures to the materials and financials sectors detracted, as did overweight exposure to the health care sector.

The fixed-income component of IA Clarington Inhance Monthly Income SRI Fund underperformed equities. The underlying fund's positioning remained skewed towards short-maturity corporate bonds, which detracted from performance.

IA Clarington Inhance Global Small Cap SRI Fund's stock selection in the consumer discretionary, health care, consumer staples and industrials sectors detracted from performance. The underlying fund's underweight position in the financials sector also detracted, as did its overweight position in the information technology sector.

The Fund has a structural tilt towards U.S. equities. During the period, the Fund held a slightly underweight position in fixed income.

Regarding ESG engagement activity, Vancity Investment Management Ltd. (VCIM) sent a shareholder letter to Dollarama Inc. management requesting a meeting to better understand the company's wage practices and attended a group investor meeting with the company to discuss aspects of its ESG strategy.

VCIM held a call with Five Below Inc. to discuss the importance of living wages and ascertain the quality of its wage policy.

VCIM sent a letter to Amazon.com Inc. in support of the GMB Union in Coventry, U.K.

VCIM met with WSP Global Inc. to better understand how the company applies human rights due diligence in its operations.

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.

As part of the Investors for Paris Compliance group, VCIM sent a follow-up letter to TD Bank re-emphasizing expectations that the company begin disclosing more specifics regarding its climate transition activities.

# IA Clarington Inhance High Growth SRI Portfolio

On climate, VCIM reached a withdrawal agreement with both Bank of Nova Scotia and RBC, so we only presented a shareholder proposal at the TD Bank AGM. Almost one-third of shares were cast in favour of this proposal.

VCIM presented shareholder proposals at the AGMs for Canadian National Railway Co. and Canadian Pacific Kansas City Limited that pushed for work with unions to negotiate paid sick leave policies. Both proposals passed the threshold to refile.

VCIM continued working on the Carbon Disclosure Project's non-disclosure campaign with letters to Savaria Corp. and Exchange Income Corp.

VCIM signed a statement on plastic pollution to demonstrate support from the financials sector for an ambitious international legally binding instrument to end plastic pollution.

VCIM 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.

As a part of a World Benchmarking Alliance campaign, VCIM sent a letter to Broadcom Inc. to learn more about the company's ethical artificial intelligence (AI) practices and to begin a dialogue to help push them forward on this issue. Also as part of this campaign, VCIM held an investor group meeting with Microsoft Corp. to discuss the company's Responsible AI policy.

As a part of Climate Action 100+, VCIM continued its engagement with Trane Technologies, which continues to excel in climate work and preparing for the energy transition.

VCIM held an inaugural Nature Action 100 meeting with Costco Wholesale Corp. to introduce them to the initiative and familiarize them with the recently published benchmark. VCIM also 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. This statement 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 is participating in the 2024 Carbon Disclosure Project (CDP) non-disclosure campaign encouraging companies to report their environmental management information to the CDP. A total of 1,998 high-impact companies were asked to disclose their environmental impact data. VCIM has been designated as lead for SiteOne Landscape Supply Inc., Exchange Income Corp., Savaria Corp. and Toromont Industries Ltd. VCIM sent letters to all four companies encouraging them to disclose their climate metrics in line with the CDP's climate reporting module.

# IA Clarington Inhance High Growth SRI Portfolio

The current environment remains favourable for equities, growth remains at or slightly above trend levels, and inflation is receding. Thus, central banks can begin easing interest rates to more accommodative levels.

The BoC's 4.25% policy interest rate remains quite restrictive (high) relative to current and expected inflation levels. Weak productivity (the ability to produce greater quantities of goods and services in better and faster ways), high consumer debt and a wave of mortgage renewals should encourage the BoC to quickly reduce its policy interest rate to neutral levels.

While there remains some risk and uncertainty around the U.S. election, future economic growth and geopolitical tensions, the current environment of lower inflation, accommodative monetary policy (central bank policy that seeks to stimulate economic growth by increasing access to credit through low or reduced interest rates) and positive forecasts for economic and earnings growth should support equities.

The outlook for fixed income appears positive amid lower inflation, and the Fed and BoC could support the economy through interest-rate cuts.

Fund and benchmark performance as at September 30, 2024	1-year	Since inception (Jan 2022)
IA Clarington Inhance High Growth SRI Portfolio – Series A	22.1%	4.1%
55% MSCI World Index (CAD) <sup>1</sup> , 25% S&P/TSX Composite Index, 20% FTSE Canada Universe Bond Index	26.9%	9.0%

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](https://iaclarington.com/glossary) and speak with your financial advisor.

<sup>1</sup>Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI.

The Fund's strategy is to invest in other investment funds. The performance data comparison presented is intended to illustrate the Fund's historical performance as compared with historical performance of widely quoted

# IA Clarington Inhance High Growth SRI Portfolio

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 20% FTSE Canada Universe Bond Index, 25% S&P/TSX Composite Index and 55% MSCI World 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 MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index consists of 23 developed market country indices. The Fund has exposure to 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.

# IA Clarington Inhance High Growth SRI Portfolio

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).