

IA Wealth Enhanced Bond Pool

Manager commentary – Q2 2024

Interest rates moved slightly higher in the second quarter, with the U.S. 10-year yield increasing by around 20 basis points, leading to mostly flat returns for sovereign bond indices. Corporate bond spreads did not move much, staying at multi-year lows. The Canadian dollar depreciated against the U.S. dollar by approximately 1%.

We hold a relatively “dovish” view of future Bank of Canada interest rate moves, in the context of a slowing economy and a constrained household sector. We remain optimistic about the U.S. economy and continue to think the U.S. Federal Reserve (Fed) will not reduce interest rates as much as is currently priced into the yield curve. A relatively weak Consumer Price Index print in May indicated that disinflation is proceeding in a way that is relatively encouraging for the Fed and supports government bonds.

The Fund’s structural tilt towards the U.S. relative to Canadian fixed income detracted from performance compared to peers, as the U.S. market underperformed last quarter. The relative performance of underlying fund managers was also slightly negative overall compared to market indices last quarter. The largest detractor was PIMCO Monthly Income Fund.

The Fund is structurally positioned with a lower duration and an overweight position in corporate bonds versus its peer category (product design). However, we are slightly reducing these structural tilts from our tactical asset allocation by holding small tactical positions on long-term U.S. treasuries (TLT ETF) and by underweighting underlying funds more exposed to credit risk.

Fund and benchmark performance, as at June 30, 2024	1 year	3 year	Since inception (Jul. 2020)
IA Wealth Enhanced Bond Pool – Series B	3.3%	-2.0%	-1.4%
25% Bloomberg U.S. Aggregate Bond Index (CAD Hedged) ¹ , 75% FTSE Canada Universe Bond Index	3.2%	-2.2%	-2.3%

Non-traditional fixed income asset classes may carry higher risk, but generally provide higher yield than traditional fixed income asset classes. For definitions of technical terms in this piece, please visit iaclarington.com/glossary and speak with your financial advisor.

¹Source: Bloomberg L.P.

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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 25% Bloomberg U.S. Aggregate Bond Index (CAD Hedged) and 75% FTSE Canada Universe Bond Index. The blended benchmark presented is intended to provide a more realistic representation of the general asset classes in which the Fund invests. The Bloomberg U.S. Aggregate Bond Index (CAD Hedged) is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. This includes Treasuries, government-related and corporate securities, mortgage backed securities, asset-backed securities and collateralized mortgage-backed securities. 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 Fund's fixed income holdings may have different sector exposure, credit quality and interest rate sensitivity than the benchmark. The Fund may have currency risk exposure while the benchmark has none. 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.

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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