IA Clarington Inhance Global Small Cap SRI Fund

Manager commentary – Q4 2024

Global small-cap equities, as measured by the MSCI World Small Cap Index (CAD), returned 3.71% in the quarter. The positive return through the period was mainly owing to currency impacts, with the Canadian dollar weakening considerably relative to a strong U.S. dollar (as was the case with most global currencies vs. the U.S. dollar). In U.S.-dollar terms, the MSCI World Small Cap Index was down roughly -2.86% as the quarter was marked with volatility. Global equities retreated in October as uncertainty was heightened ahead of the U.S. presidential election. November saw a resurgence in both large- and small-cap equities. The anticipation of the Trump administration's pro-business policies fueled a market rally, with expectations of accelerating economic and earnings growth. The "risk-on" mood was mostly expressed by traders pushing on U.S. small caps, which helped the MSCI World Small Cap Index get a rare month of outperformance relative to the large-cap MSCI World Index. In December, we saw market sentiment cool as investors contemplated a myriad of factors such as a slower pace of interest-rate cuts by the U.S. Federal Reserve, lingering inflation, potential negative impacts of Trump's trade policies, on top of general profit taking and valuation concerns after a strong 2024.

IA Clarington Inhance Global Small Cap SRI Fund (the "Fund") underperformed its benchmark by 519 basis points, with a -1.48% return, with the bulk of the underperformance coming in October. Underperformance was driven mainly by security selection, and to a lesser extent foreign exchange. Sector allocation was slightly positive. Selection was weakest in the industrials, real estate and information technology sectors. Common negative themes were exposure to interest rates, housing and earning guidance disappointments during third-quarter earnings. We also saw a rebound in speculative growth technology names, which impacted security selection within the information technology sector. Consumer discretionary was the relative bright spot in terms of sector selection. In terms of allocation, the Fund benefited from an overweight sector position in information technology and an underweight position in materials, with a partial offset from an underweight position in financials (which had a strong quarter driven by U.S. small-cap banks). On an individual basis, the largest detractor was U.K. based storage REIT Safestore Holdings PLC (-88 bps), which was down amid weaker sentiment for U.K. housing-exposed names and general pressure on the REIT sector. Carl Zeiss Meditec AG was also a large detractor at -69 bps as the company continues to struggle with slow growth in its key China/Asia market, as well as pressured margins. Interest-rate-sensitive and housing-linked names were weak in the U.S. as well, with National Storage Affiliates Trust (-67 bps) and TopBuild Corp. (-61 bps) also being key detractors. Overall, our larger relative exposure to Europe was also a drag. Our largest positive contributors were Workiva Inc. (+108 bps) in the information technology sector, along with Five Below Inc. (+46 bps) and First Watch Restaurant Group Inc. (+4 7bps) in the consumer discretionary sector. Other solid positive contributors were Globant SA, Pan Pacific International Holdings Corp., and Stevanato Group SpA (around +30 bps each).

Over the quarter ,we initiated a new position in **Kinaxis Inc. (KXS CN),** while exiting our remaining small positions in **El.En SpA (ELN IM)** and **Intertek Group PLC (ITRK LN).**

- **Kinaxis** is a Canadian software business with a leadership position in supply-chain planning. While a niche application, it has gained critical importance with large enterprises, particularly after widespread supply-chain issues over recent years. Kinaxis's products are considered "best-in-class," and the company has won market share over the years with its leading research & development (R&D). Despite its competitive strength, Kinaxis has been marred by execution issues with an unoptimized sales motion, management turnover and poor foresight. However, Kinaxis remains well positioned within its structurally growing market and we believe public markets are applying too great of a discount on temporary hurdles while missing the long-term opportunity for Kinaxis or the potential for an acquisition (as some activist investors have suggested).

- **El.En SpA (ELN)** is an Italy-based manufacturer of specialty lasers for niche aesthetic and medical uses (skin treatments, hair removal etc.). In addition, they manufacture industrial cutting lasers in the Chinese market. While we believe ELN's medical and aesthetic laser products are a solid business, with high returns on capital driven by ELN's R&D focus, it is a competitive industry with a relatively high degree of change and dependent on often-uneven capital equipment sales. While we have exited our position, we may re-enter the name in the future given that ELN is in the process of divesting its low-margin, more commoditized industrial laser business.

- While we believe **Intertek** and its peers in the testing and inspection industry are generally high-quality businesses, the industry has struggled with organic growth over the last 10-15 years, which has weighed down margin expansion. At the same time, growth driven by mergers & acquisitions has not produced results as strong as investors had anticipated. In the near term, key industry drivers like expanding global trade and manufacturing have an uncertain backdrop and as such, we see potentially better risk/reward elsewhere in the portfolio and/or our watchlist.

In terms of shareholder engagement in the quarter:

- Vancity Investment Management attempted to initiate a conversation with TopBuild to encourage the setting of Net Zero targets, but was unable to coordinate a meeting.

Small-cap outperformance remained elusive in 2024, continuing a trend seen in recent years. The first half of the year was particularly challenging, with global small caps significantly lagging their large-cap counterparts. This underperformance stemmed partly from the concentrated market leadership of AI-driven mega-cap technology stocks. However, sentiment began to shift in the summer, with small caps showing signs of life. The third quarter brought a period of relative outperformance, driven mainly by a strong rotation trade in July. We saw an extension of this in November, fueled by a post-election "risk-on" rally that favoured U.S. small caps. However, December saw a reversal as market sensitivity to macroeconomic uncertainties and the path of interest rates reasserted itself.

Looking ahead to 2025, small caps continue to offer compelling opportunities, particularly if broader investor sentiment improves. However, investors should anticipate continued volatility as markets navigate still-evolving economic conditions, central bank policies and the shocks from unconventional trade polices stemming from Donald Trump's second U.S. administration. Overall, small-cap performance will continue to depend greatly on broad investor positioning/fund flows along with shifts in macroeconomic sentiment. As always, we don't pretend to be able to accurately predict when or if these inflections take place. We continue to focus on finding quality small caps with conservative balance sheets, pricing power, predictable revenue growth, and durable competitive advantages, which give them the ability to weather any short-term economic uncertainties and compound investor capital at high rates of return over the longer term.

Fund and benchmark performance as at December 31, 2024	1 year	Since inception (Feb 2023)
IA Clarington Inhance Global Small Cap SRI Fund - Series A	-1.7%	0,4%
MSCI World Small Cap Index (CAD)[1]	18.5%	11.6%

For definitions of technical terms in this piece, please visit iaclarington.com/glossary and speak with your investment advisor.

[1]Source: MSCI Inc. 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 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, The MSCI World Small Cap Index (CAD) captures small cap representation across 23 Developed Markets (DM) countries. With 4,139 constituents, the index covers approximately 14% of the free float-adjusted market capitalization in each country. The Fund holds 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 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.

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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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