

IA Clarington Global Balanced Plus Portfolio

Manager commentary – Q3 2024

The Fund was launched on June 17, 2024. Performance data is not presented for a Fund that has been distributing securities for less than 12 consecutive months.

During the six-month period ending September 30, 2024, the global economy continued its path towards normalization with notable developments across key regions.

The U.S. economy continued to normalize. 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 has slowed down, the participation rate (estimate of an economy's active workforce) has continued to rise, leading to a higher unemployment rate. At the end of the third quarter, 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.

The Canadian economy appears to be in a precarious situation on a per-capita basis, as its weak productivity remains a challenge despite strong population growth. The housing market remains at risk as the Bank of Canada is rushing towards a neutral policy interest rate of about 3%, which is expected to be reached by mid-2025. The timing and pace of interest-rate cuts support a reacceleration of real Canadian economic growth in 2025, as well as an exit from the prolonged per-capita recession (when GDP per capita falls in two consecutive quarters). Real economic growth or real GDP is GDP adjusted for inflation or deflation (when prices fall).

Globally, disinflation (slowdown in the growth of prices) continued as supply-chain pressures eased and commodity prices stabilized. For instance, the eurozone reported that inflation had dropped to 1.8% in September, and inflation in emerging markets has generally trended downwards. This has opened the door to synchronized interest-rate cuts from global central banks, adding liquidity to the global economy.

Europe remains stuck in subdued growth, with Germany showing no real growth since early 2022. Challenges include weak demographics, lack of productivity growth (the growth of output not accounted for by the growth of an input or inputs), the absence of synchronized intra-eurozone fiscal policy and a weak Chinese economy. That said, the recent bottoming of the credit cycle points to an early sign of changing fortunes.

In China, a balance-sheet recession poses significant challenges. A balance sheet recession is a type of economic recession that occurs when important levels of private sector debt cause individuals or companies to collectively focus on saving by paying down debt rather than spending or investing,

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causing economic growth to slow or decline. Despite the government's fiscal stimulus and loose monetary policy, concerns about high debt levels and a struggling property market have hampered a robust recovery. China's current economic backdrop resembles Japan's 1990s experience, where a forced deleveraging (reducing debt) effort neutralized consumer spending and business investments, essentially leading to fire sales on assets as the private sector focused on reducing aggregate debt. In such an environment, loose monetary policy becomes ineffective as demand for loans crumble, while direct cash transfers to households, which was proposed in China in September, become a viable solution.

North American equities delivered highly favourable results during the six-month period ending September 30, 2024. The S&P/TSX Composite Index, representing the Canadian equity market, returned 10.0%, led by the materials, utilities and real estate sectors. Its U.S. counterpart, the S&P 500 Index, returned 10.2% (in Canadian-dollar terms), led by the utilities, information technology and real estate sectors. On the global front, the MSCI World Index and MSCI EAFE Index, returned 9.0% and 6.6% respectively, over the last six months (in Canadian-dollar terms).

Regarding fixed income, the FTSE Canada Universe Bond Index returned 5.6% for the period, assisted by the environment of declining interest rates.

The Fund was launched in June 2024 and is composed of four underlying funds: IA Clarington Strategic Corporate Bond Fund (2.5%), IA Clarington Strategic Income Fund (47.5%), IA Clarington Loomis Global Allocation Fund (47.5%) and IA Clarington Loomis Global Multisector Bond Fund (2.5%).

Since the Fund's inception date, top contributors to performance included its exposures to IA Clarington Strategic Income Fund and IA Clarington Loomis Global Allocation Fund, as they produced the highest absolute returns and made up over 90% of the portfolio. The Fund's exposure to IA Clarington Strategic Income Fund contributed to performance due to the underlying fund's exposure to defensive businesses with higher yields, which performed well given their perceived attractive valuations, yields, as well as their resiliency during periods of slow economic growth. Defensive businesses are companies whose movements are not generally linked to the ups and downs of the economy. The Fund's exposure to IA Clarington Loomis Global Allocation Fund's equity sleeve, particularly its security selection in the industrials sector, contributed to performance, as did its exposure to the financials, healthcare, consumer staples and energy sectors.

No underlying fund detracted from performance, but the position that contributed the least was an underweight exposure to IA Clarington Strategic Corporate Bond Fund.

By design, the Fund has a static target allocation among its underlying funds, which is rebalanced monthly by the fund manager. The Fund seeks to provide a combination of income and capital

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appreciation by investing primarily in equity and fixed-income securities from around the world, either directly or indirectly through investments in other mutual funds.

While most major economies may avoid recessions over the next year, market volatility could still increase. Meanwhile, inflation is likely to continue trending toward the U.S. Federal Reserve's 2% target. The fund manager expects economic growth to slow over the coming quarters, but believes that lower interest rates and ample liquidity should support an economic soft landing (a slowdown in economic growth that ends without a period of outright recession).

Elections have been a market-moving factor in 2024, and transitions of power and potential policy reforms will likely remain key considerations for investors. Neither U.S. presidential candidate appears focused on fiscal austerity, which may mean the U.S. government budget deficit is unlikely to improve over the near term. Increased government spending can boost economic growth and employment, but it can also widen budget deficits with more debt being issued at higher interest rates. For now, the fund manager thinks the global monetary policy easing cycle can keep interest rates trending lower.

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, visit iaclarington.com/glossary and speak with your investment advisor.

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