

IA Clarington Canadian Leaders Class

Manager commentary – Q1 2025

As 2024 progressed, the world appeared to be slowly finding the right balance between encouraging growth and controlling inflation. Central banks throughout the world made concerted efforts to manage the cost of living and inflation challenges facing individuals and businesses.

The most recent quarter was dominated by U.S. President Trump's surprisingly aggressive stance on tariffs, particularly towards Canada. By the end of the period, Trump had implemented 25% tariffs on steel, aluminum and cars, with more tariff announcements expected in April.

U.S. growth was expected to be somewhat flat in the first quarter, as consumer and business confidence was increasingly shaken by political uncertainty. The U.S. Federal Reserve held its target interest rate steady at 4.50%.

In Canada, the economic recovery was going well, with interest-rate cuts taking the policy interest rate down to 2.75%. However, uncertainty related to trade policy caused household and business confidence to plummet, slowing the economy.

The U.S. equity market, as represented by the S&P 500 Index, returned favourable results in 2024 but regressed by 4.3% in the first quarter of 2025 given economic pressures. Over the 12-month period, this resulted in a return of 8.3% in U.S.-dollar terms and 15.1% in Canadian-dollar terms.

Canadian equities, as represented by the S&P/TSX Composite Index, fared better toward the end of the period, with a 1.0% return for the last quarter and a 15.8% return for the period.

The Fund's slightly overweight exposure to the consumer discretionary sector contributed to performance, as did its security selection within the communication services sector. Individual contributors included Royal Bank of Canada owing to its strong financial results, expansion initiatives, technological advancements and regular dividend increases. Apple Inc., the American information technology giant renowned for its consumer electronics, software and services, benefited from the strong rebound of shipments in China, which significantly boosted its earnings in the second and third quarters of 2024.

The Fund's security selection overall detracted the most from performance, particularly within the industrials and information technology sectors. The Fund's overweight exposure to the industrials sector also detracted, as did its underweight exposure to the materials sector. Individual detractors included Canadian National Railway Co. as the company experienced weaker freight volumes and increased operational costs, while regulatory challenges and competitive pressures dampened investor sentiment.

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New positions included AT&T Inc., as the telecommunications industry was going through an efficiency cycle and encroaching cable services as a catalyst for growth. Marsh & McLennan Cos. Inc. was added as the fund manager considered the insurance industry to be undervalued, and also believed that the sector was shielded from tariffs and positioned for growth owing to secular trends and consolidation benefits.

Increased positions included Canadian Natural Resources Ltd. as the Fund shifted incrementally toward more defensive positions. The company offered added energy exposure that should allow the Fund to benefit from inflation, and oil sands are one of the lowest full-cycle-cost ways to gain commodity exposure.

Decreased positions included Celestica Inc. as the valuation became very high and future demand prospects were dampened after the open-source release of the DeepSeek artificial intelligence model.

Eliminated positions included Precision Drilling Corp. owing to expected downward pressure on oil prices along with reduced drilling and fracking activities amid a weakening economic backdrop. ServiceNow Inc. was sold amid high valuation levels and expected cuts within the U.S. federal government.

While the tariffs imposed on Canada are not beneficial for the economy, they turned out to be less severe than initially anticipated. Given its relatively low valuation and sector composition, the Canadian market has the potential to outperform the U.S. market, continuing the trend observed since the start of the year.

Regarding cyclical sectors, China's export-driven economy has faced significant strain owing to the effects of tariffs, resulting in the potential for slower growth in gross domestic product. In response to these external economic pressures, the fund manager expects the Chinese government to bolster its own economy by increasing fiscal stimulus and easing monetary policy. These measures are likely to benefit the most economically sensitive sectors of the Canadian market.

Fund and benchmark performance, as at March 31, 2025	1-year	3-year	5-year	10-year
IA Clarington Canadian Leaders Class – Series A	11.2%	7.6%	15.8%	7.4%

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40% S&P 500 Index (CAD), 60% S&P/TSX Composite Index	15.8%	7.8%	16.8%	8.5%
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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 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 is a blend of 40% S&P 500 Index (CAD), and 60% S&P/TSX Composite Index. The blended benchmark presented is intended to provide a more realistic representation of the general asset classes in which the Fund invests. The S&P 500 Index (CAD) 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. equities market. 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 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. Effective February 7, 2014, IA Clarington Canadian Leaders Fund merged into the Fund.

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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