

# IA Clarington QV Canadian Small Cap Fund

## Manager commentary – Q2 2025

IA Clarington QV Canadian Small Cap Fund Series A returned 13.0%, relative to 11.8% for the S&P/TSX SmallCap Index over the past quarter. On a one-year basis, the return was 17.8% for the Fund, compared to 23.1% for the benchmark.

Equity markets have exhibited pronounced volatility year-to-date, with the Canadian Small Cap Index declining approximately 13% early in the quarter, only to fully rebound. While sentiment has improved, underpinned by increasing investor optimism and a continued compression in the risk premium, a range of macroeconomic and geopolitical risks persist. These include lingering uncertainty around trade negotiations and potential tariffs, escalating armed conflicts in several regions, and mounting pressure on fiscal balances to sustain growth. Volatility has also been a hallmark of global financial markets more broadly, impacting equities, bond yields, currencies and commodities. Notably, oil prices surged nearly 30% during the quarter amid heightened tensions between Iran and Israel, before retreating roughly 13% as the situation de-escalated. Likely owing to the high levels of uncertainty, the price of gold continued to appreciate over the quarter and, on a year-to-date basis, was the top-performing asset class globally.

Benchmark performance was broadly positive across all sectors during the quarter. The Fund's relative performance was primarily driven by strong stock selection in the consumer discretionary, real estate and health care sectors, which more than offset weaker contributions from the materials, industrials and utilities sectors. Top individual contributors to performance included Pet Valu Holdings Ltd., Aritzia Inc. and Andlauer Healthcare Group Inc., while the most significant detractors were PrairieSky Royalty Ltd, SECURE Waste Infrastructure Corp. and Knight Therapeutics Inc.

Andlauer Healthcare received a takeover offer from UPS at a 31% premium to its pre-announcement share price. While we are encouraged by the recognition of value reflected in the offer price, we are also disappointed to see a high-quality, long-term compounder exit the public markets.

The Fund increased its position in Telus Digital during the quarter, reflecting our conviction in its attractive risk/reward profile. Shortly afterwards, it received a preliminary acquisition proposal from its parent company, Telus Corp., at a 15% premium to its pre-announcement share price. However, the offer represents a significant discount to the company's IPO valuation and is below both its recent trading multiples and the acquisition multiples observed for comparable peers. We will monitor closely to see whether a revised proposal emerges.

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We continued to add to our position in Cargojet Inc. early during the quarter, as the share price remained under pressure given negative sentiment surrounding potential trade restrictions and their impact on air cargo volumes. While we recognize the possibility of near-term disruption in U.S.–Canada trade flows, we believe this risk may be offset by increased trade activity with other international markets to which Cargojet is also meaningfully exposed. In addition, the company is supported by long-term, minimum volume contracts with most of its customers, providing a degree of earnings stability and downside protection.

Despite the passage of time, the future economic visibility continues to be limited. The market remains fixated on the next rounds of global economic negotiations set to ensue. While the market has recovered quickly, the impacts of persistent uncertainty on the future have yet to be fully seen in the economy.

The lagged effects of these risks suggest that the market’s recovery (and resulting reduced compensation for risk) may be premature, or reflective of an elevated risk appetite. While markets have “led” the real economy, consumers and corporations seem to be waiting for clarity on upcoming trade negotiations and the impacts of potential Canadian fiscal policy and coordination to support the Canadian economy.

We believe that the Fund, on aggregate, continues to be in a sound position, with further capital deployments improving diversification and resilience. In conjunction, holdings have not been idle, with meaningful business expansions announced from Definity Financial Corp., Knight Therapeutics, Stella-Jones Inc., etc. Some holdings have announced corporate actions to sell to strategic acquirers (Andlauer and Parkland Corp.), while others have navigated seemingly “terrible” outlooks better than expected (Evertz Technologies Ltd. and Aritzia).

While the Fund may underperform in “risk-on” or narrow markets driven by lower quality, it is intentionally positioned for an “all weather” or resilient outcome across a range of different scenarios. As highlighted last quarter, the diversified cash generation of holdings provides flexibility to pay a 2.6% dividend, reduce financial risk, or reinvest in growth for the upcoming decades.

Fund and benchmark performance as at June 30, 2025	1-year	3-year	5-year	10-year
IA Clarington QV Canadian Small Cap Fund - Series A	17.8%	14.9%	15.8%	7.3%
S&P/TSX SmallCap Index	23.1%	14.1%	15.1%	7.2%

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For definitions of technical terms in this piece, please visit [iaclarington.com/glossary](http://iaclarington.com/glossary) and speak with your investment advisor.

This Fund changed its name from IA Clarington Canadian Small Cap Fund, effective June 16, 2025.

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 S&P/TSX SmallCap Index provides an investable index for the Canadian small cap market. It includes common stock and is calculated in real-time. To be eligible for inclusion in the index, the float-adjusted market capitalization and the total company market capitalization of a security must represent a minimum weight of 0.005% and maximum weight of 0.08% of the float and total market capitalization of the S&P/TSX Composite at the stock level on the reference date, based on the volume weighted average price (VWAP) of the security on the TSX over the last 10 trading days prior to the reference date. For the Fund's investment purposes, companies with a market capitalization of less than C\$ 3 billion are considered to be smaller capitalization companies. The Fund's sector and geographic 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.

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 for more than one year are historical annual compounded total returns while returns for one year or less are cumulative figures and are not annualized.

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