IA Clarington QV Canadian Small Cap Fund

Manager Commentary – Q2 2026

IA Clarington QV Canadian Small Cap Fund Series F returned 7.6% in the second quarter, outperforming the S&P/TSX Small Cap TR Index, which returned 5.9%. The Fund's absolute and relative performance were strong this quarter but still lagged over the past year (26.6% vs. 57.2% for the benchmark), while longer-term returns remain favourable (4.4% and 3.2% relative annualized outperformance over 15 and 20 years, respectively).

Second-quarter volatility echoed that of the first. A rally through the end of May carried the benchmark up 22.8% before a 4.0% decline in June, as de-escalation in the Middle East eased commodity prices and triggered a sell-off in energy. Consistent with its historical pattern, the Fund provided meaningful downside protection through the reversal, returning +1.8% in June.

Energy was the largest sector detractor from returns last quarter, but was the largest contributor this quarter. The Fund's lower relative exposure to the sector, together with an allocation toward more defensive names that are less sensitive to the commodity price, drove relative outperformance. This was partially offset by the information technology sector, where a single benchmark holding, BlackBerry Ltd., accounted for nearly 45% of the benchmark's quarterly return as enthusiasm for real-world artificial intelligence (AI) applications nearly quadrupled the stock price — mirroring moves across other AI- and semiconductor-related pockets of the market.

The Fund's top contributing investments in the quarter were Aritzia Inc., Mullen Group Ltd. and Knight Therapeutics Inc., while the main detractors were Pet Valu Holdings Ltd., Stella-Jones Inc. and Headwater Exploration Inc.

SECURE Waste Infrastructure Corp. and Information Services Corp. received takeout offers at 23% and 55% premiums, respectively. It is encouraging to see value being reflected in portfolio holdings in-line with our investment theses, but we are also mindful that the Canadian small-cap universe is shrinking as takeouts accumulate. The team, however, continues to find compelling opportunities to allocate capital towards, with the goal of improving collective risk/reward and diversification.

The Fund added to its position in Stantec Inc., an engineering consulting company that, along with its peers and other consulting companies, has seen its valuation re-rate lower from concerns that artificial intelligence will disintermediate knowledge workers resulting in less volume of work and less pricing power. The evidence to date runs the other way: organic growth remains strong, productivity and margins are improving, and they are generating incremental revenue from AI tools developed in-house. While we acknowledge the risk in more commoditized engineering work, Stantec is largely involved in the world's most complex engineering projects, and has the scale to invest in AI capabilities that benefit its clients, an advantage we expect to support market share and growth over time.

The Fund opportunistically added to Stella-Jones and Pet Valu as they reported weaker quarters that we do not believe derail our long-term theses on these businesses. This was partially funded by a trim of Aritzia as an expansion of multiples has made the risk/reward less compelling.

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The Canadian consumer entered 2026 in a fragile position, and the quarter added further pressure through higher oil prices. While tensions in the Middle East remain highly uncertain, the consumer remains stretched with inflationary pressures that may persist, soft-but-stable unemployment trends, and household balance sheets that are extended. In contrast, the upticks we have seen in government spending into areas like energy and defense, and from foreign investors that see the value in Canadian markets, give us reasons to be optimistic about the economy and underlying investment environment.

We believe the Fund is well positioned to benefit both directly and indirectly from nation-building activity, with exposure across the energy value chain in production (Headwater Exploration Inc.), servicing (Pason Systems Inc.), royalty (PrairieSky Royalty Ltd.), fuel distribution (SunocoCorp LLC), and processing and export (AltaGas Ltd.); in defence (Calian Group Ltd. and Evertz Technologies Ltd.); and in industrials spanning engineering consulting (Stantec) and logistics (Mullen Group). These economic tailwinds may benefit part of the Fund, but the core is still made up of resilient companies that we believe will perform well across a variety of macroeconomic outcomes. The resilience is grounded in a margin of safety across valuation, quality and balance sheet. Relative to the index, the Fund is roughly 8% cheaper on estimated P/E, carries a materially higher 4-year ROE, and holds approximately 7% lower long-term debt to equity.

Fund and benchmark performance as at June 30, 2026	Q2 2026	1-year	3-year	5-year	10-year
IA Clarington Canadian Small Cap Fund - Series F	7.6%	26.6%	20.0%	13.7%	11.1%
S&P/TSX SmallCap Index	5.9%	57.2%	30.3%	15.0%	11.1%

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