

IA Clarington Canadian Small Cap Fund

Manager commentary – Q1 2025

On a one-year basis, IA Clarington Canadian Small Cap Fund Series A returned 5.7% compared to 11.1% for the S&P/TSX SmallCap Index.

During the period, key economic themes included moderating inflation, decreasing interest rates, political change and greater economic uncertainty. Campaign promises of tariffs from the U.S. materialized against Canada and other Western allies, and there were concerns that the deepening trade conflict may place significant economic stress on an already-fragile Canadian economy. Equity markets broadly rose while favouring U.S. large market-cap indexes. The commodity-oriented Canadian market also fared well with higher gold and copper prices driving double-digit positive returns for the Canadian small-cap benchmark.

The Fund's security selection in the financials sector contributed to performance, as did its defensive positioning in the health care sector. Individual contributors included Canadian Western Bank, which benefited from an acquisition offer by National Bank of Canada at a premium of 110% from pre-announcement levels and subsequently received regulatory approval for the acquisition. iA Financial Corp. Inc. has successfully continued expanding its return on equity targets, guiding towards earnings-per-share growth of 10% or more, and growing its excess capital.

The Fund's underweight exposure to and defensive positioning in the materials sector detracted from performance, as did its overweight exposure to and security selection in the industrials sector. Individual detractors included TELUS International (CDA) Inc., which faced macroeconomic challenges from cost-cutting efforts by customers and uncertainty about the impact of artificial intelligence developments on its core digital customer service offering. National Research Corp.'s turnaround efforts have taken longer than expected to materialize.

New positions included A&W Food Services of Canada Inc., as shares were gained by converting the Fund's existing shares of A&W Revenue Royalties Income Fund to those of the parent company as part of their acquisition offer. TELUS International provides digital information technology services like customer service. The franchise has improved over time by diversifying its customer mix away from parent company TELUS Corp. and diversifying its service lines away from legacy call centre operations.

Increased positions included Richelieu Hardware Ltd., a distributor of specialty hardware that has been relatively resilient in previous economic downturns owing to its focus on repair and replacement rather than new construction. Pet Valu Holdings Ltd. is the largest specialty pet retailer in Canada, with most of

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its sales coming from consumables. The company is largely a franchise operator and has identified a long runway ahead for store openings, especially in eastern provinces like Quebec.

Decreased positions included Canadian Western Bank, iA Financial Corp. and Stella-Jones Inc. as their risk/reward profiles were less attractive relative to additions in the portfolio.

Eliminated positions included Sleep Country Canada Holdings Inc., which benefited from an acquisition offer by Fairfax Financial Holdings Ltd. at a 28% premium to the pre-announcement price. While the offer was reasonable, it curtailed returns from the compounding potential of a dominant retailer. Both A&W Revenue Royalties and Canadian Western Bank were converted into shares of their acquirers, A&W Food Services and National Bank of Canada, respectively.

Future market visibility remains cloudy and limited. The fund manager anticipates rising volatility as new rules of global economic engagement solidify.

The fund manager believes that market volatility could be a healthy development as the market may have been too complacent about the building concentration and valuation risks of the past few years. Increased uncertainty has led to a heightened appreciation of risk, which has driven an expansion in riskier asset premiums demanded, along with a renewed focus on fundamentals, safety and predictability. Importantly, the fund manager believes that the volatility should open up opportunities to strategies, including the Fund, that have been built to perform in all market conditions.

The fund manager believes the Fund is better positioned today than it was in recent quarters. Its earnings power has increased based on the rising profitability of holdings, while underlying risk has been diminished through broadening economic diversification and a stronger margin of safety. While the short-term outlook seems dark and unclear, the Fund's long-term prospects appear relatively bright. The Fund's portfolio provides a well-supported dividend yield of about 3%, with potential for earnings per share to grow through countercyclical acquisitions, share buybacks or debt reduction owing to the resilient cash generation of many holdings.

Fund and benchmark performance as at March 31, 2025	1-year	3-year	5-year	10-year
IA Clarington Canadian Small Cap Fund - Series A	5.7%	6.0%	16.8%	6.1%
S&P/TSX SmallCap Index	11.1%	1.7%	20.1%	6.1%

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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 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 are historical annual compounded total returns.

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