# IA Clarington Strategic Income Fund

## Manager commentary – Q2 2025

Our 2025 economic and markets outlook was predicated upon three main expectations and one reality. Our expectations assumed the economy was not going to fall into a recession. However, economic growth would slow but remain relatively strong, corporate earnings would continue to grow positively given this backdrop, and inflation would continue to grind lower as the year progressed. We have received confirmation on these predictions at this point in the year and have no reason to believe that these positive trends will change as the year progresses. Although this economic backdrop is positive for both equity and high-yield bond investment allocations, we would be remiss to ignore current elevated valuations in equities and the potential for increased volatility as the year progresses.

As investors, we had our challenges during the second quarter of the year, mostly instigated by the U.S. administration's "Liberation Day" tariff proposals. Markets scrambled to quantify the potential negative impact to the economy and markets. We reminded our unitholders that while the quantum of the initial analysis was negative, there were likely positive future macroeconomic developments to offset many of those potential outcomes. In particular, we highlighted the new budget and fiscal bill expected to pass by the end of second quarter that would likely add to earnings growth and investment expectations from corporations as the year progressed.

Our changes to the Fund during the second quarter of the year have been marginal and generally opportunistic. Within our equity exposure, we added to some technology and U.S. bank-related securities after U.S. tariff announcements contributed to a significant correction in parts of the equity market. The largest contributors to the Fund's performance during the second quarter came from our exposure to securities in the financials and industrials sectors, as they contributed 1.61% and 1.57% to the Fund's quarterly performance, respectively.

Within fixed income, credit spreads in high-yield fixed income have moved lower when adjusting for changes to government bonds, suggesting that even with recent market turmoil, expectations for higher-yielding bonds remain favourable. During the quarter and in response to the potential negative impact of outsized tariffs, we increased the Fund's exposure to government bonds and cash, while simultaneously reducing exposure to corporate bonds that are more economically sensitive than longer-duration government debt. The Fund's overall credit quality remained squarely in the BBB average rating bucket during the quarter. We expect to increase our exposure to corporate debt and reduce duration as the year progresses and more evidence of a stronger economy emerges. We continue to expect that the Canadian dollar will strengthen against the U.S. dollar, and as such we remain almost fully hedged to our U.S.-dollar exposure within the Fund.

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The Fund's top two contributors to performance during the past three months included holdings in AtkinsRéalis Group Inc. and Stantec Inc. AtkinsRéalis has benefitted from increasing nuclear power demand given the rapid build-out of artificial intelligence capabilities, as well as its continued progress in exiting its historically problematic fixed-price contract business. Stantec has continued to benefit from strength in the engineering and construction sectors following stimulus packages passed over the last few years, as well as acquisitions that have helped drive incremental growth.

The largest detractors from performance during the quarter came from the Fund's exposure to Waste Connections Inc. and U.S. Treasury 4.125% 2032 bond. Waste Connections underperformed following speculation that costs at its Chiquita Canyon landfill could rise amid elevated temperatures. The U.S. Treasury bond underperformed as yields generally rose following Liberation Day, as capital broadly rotated towards riskier assets and away from relatively safer government bonds.

| Fund and Benchmark Performance, as at June 30, 2025 | 1-year | 3-year | 5-year | 10-year |
|---|---|---|---|---|
| **IA Clarington Strategic Income Fund – Series Y** | 12.5% | 7.2% | 8.0% | 5.0% |
| **40% FTSE Canada Universe Bond Index, 60% S&P/TSX Composite Index** | 18.0% | 11.4% | 8.8% | 6.6% |

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, please visit iaclarington.com/glossary and speak with your financial 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 benchmark is a blend of 40% FTSE Canada Universe Bond Index 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 FTSE Canada Universe Bond Index is comprised of Canadian investment grade bonds and has significantly different portfolio duration characteristics. The FTSE Canada Universe Bond Index consists of a broadly diversified selection of investment-grade Government of Canada, provincial, corporate and municipal bonds issued domestically in Canada. 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 fixed income component can invest in both investment grade and high yield bonds while the benchmark has exposure only to investment grade bonds. The Fund may have exposure to equities and bonds domiciled both in Canada and outside of Canada while the benchmark only has exposure to equities and bonds domiciled in Canada. The Fund may have currency risk exposure while the benchmark has none. The Fund may hold cash while the benchmark does not. Overall, the Fund's bond and equity exposure can differ, because the Fund does not use a fixed ratio similar to the benchmark. 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.

The information provided should not be acted upon without obtaining legal, tax, and investment advice from a licensed professional. Statements by the portfolio manager or sub-advisor represent their professional opinion and do not necessarily reflect the views of iA Clarington. Specific securities discussed are for illustrative purposes only and should not be considered a recommendation to buy or sell. Mutual funds may purchase and sell securities at any time and securities held by a fund may increase or decrease in value. Past investment performance may not be repeated. Unless otherwise stated, the source for information provided is the portfolio manager. Statements that pertain to the future represent the portfolio manager’s current view regarding future events. Actual future events may differ.

Commissions, trailing commissions, management fees, brokerage fees and expenses all may be associated with mutual fund investments, including investments in exchange-traded series of mutual funds. The information presented herein may not encompass all risks associated with mutual funds. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.