

IA Clarington Loomis Global Multisector Bond Fund

Manager commentary – Q4 2025

Most segments of the global fixed-income market generated positive returns during the fourth quarter, further contributing to an already strong year. At the start of the quarter, the U.S. federal government began the longest shutdown in U.S. history, lasting 43 days until a resolution in mid-November. The prolonged shutdown created market volatility, caused economic data collection issues, and brought more uncertainty to the ensuing U.S. Federal Reserve (the Fed) policy decision. Despite lingering inflation concerns, the Fed followed its September interest-rate cut with 25-basis-point (bp) cuts in October and December, an approach aimed to stabilize growth as labour market data weakened. The Treasury yield curve steepened during the quarter as the front end of the curve declined given Fed cuts, while long-term yields were slightly higher, likely the result of inflation concerns, tariff uncertainty and a growing U.S. debt burden. In 2025, the 10-year U.S. Treasury fell 40 bps, from 4.57% to 4.17%, while demand for investment-grade and high-yield corporate issues remained strong, with spreads marginally tighter. Risk assets were supported throughout the year by the 75 bps of Fed rate cuts, continued strong earnings growth by corporates, and a surge in artificial intelligence (AI) investments.

The Fund's performance during the quarter was supported primarily by strong security selection. The allocation to non-U.S.-dollar exposure added value, with South African rand-denominated sovereigns generating notable excess returns. Emerging markets credit also contributed positively, led by issuers in the financials sector. Within high-yield corporate credit, security selection was a further tailwind, as names in the communications sector continued to deliver positive excess returns. In contrast, the allocation to securitized credit detracted from performance.

Looking ahead in 2026, we believe the U.S. economy will remain in the "Expansion to Late Cycle" phase of the credit cycle, supported by easing Fed monetary policy, fiscal stimulus from the One Big Beautiful Bill Act (OBBBA) and stable corporate fundamentals. We expect growth in the U.S. to remain resilient in 2026 and are currently not anticipating a recession; rather, our base case calls for trend-like growth. Positive wealth effects and solid aggregate consumer consumption, especially among mid-to-upper-tier households, have been supporting demand. While employment data has cooled, we don't anticipate widespread layoffs, provided that earnings and profitability remain strong. Productivity gains from AI implementation could lead to layoffs, but we do not see that as a near-term risk. Many companies have invested significant capital expenditures in AI and data centres, and we expect this spending to contribute to productivity gains and overall economic momentum globally. Outside the U.S., the U.S. administration's willingness to negotiate trade deals with its largest trading partners is a welcome development. In Europe, the lack of U.S. security assurances has pushed eurozone leaders, particularly in Germany, to recommit to more expansionary fiscal policy and massive borrowing for security.

IA Clarington Loomis Global Multisector Bond Fund

infrastructure, thus reviving European output (including manufacturing). In China, economic data still shows a continued slowdown across all core metrics, driven by a confluence of weak consumer confidence, real estate drag, and lacklustre investment. While we expect Chinese growth to muddle along at current levels, we still have questions about the quality and sustainability of growth moving forward. The tariff reprieve has been welcomed, but a more durable long-term resolution may be more challenging.

Our view on interest rates is predicated on the basis that U.S. inflation will persist, continuing to print above the Fed's 2% target, and structural factors are weighing on the U.S. fiscal deficit. Inflation is increasingly entrenched in behaviour supported by structural factors such as budget deficits, geopolitical fragmentation, increased defense spending and the reconfiguration of supply chains. On a cyclical basis, despite recent inflation readings that show lagged effects of shelter inflation easing, we caution that the combination of stimulus from OBBBA, mortgaged-backed securities (MBS) purchases and other factors could lead to an uptick in inflation later in the year. From a labour market perspective, although recent labour market data has cooled, we are not expecting a massive wave of layoffs, and view corporate health as the lynchpin behind the labour market. In this context, the Fed may be comfortable with inflation hovering above their 2% target, while easing monetary policy to help mitigate a further weakening of the labour market.

With regards to the U.S. fiscal deficit, large nondiscretionary spending – mostly related to entitlements and defense – has led to a deficit that is structural rather than counter-cyclical. Debt servicing costs have also risen significantly, as interest rates have risen and the overall debt burden has expanded. Currently, the fiscal deficit is unsustainable and has the potential to stimulate inflation, which in turn could raise borrowing costs across the economy, in our view. Unless growth moves significantly higher (which we believe is unlikely), expenditures are reduced or another large source of revenue materializes (tariffs), we do not see a stabilization or contraction in the deficit occurring in the near term. As a result, we believe there is a risk to a move higher in long-term interest rates. We believe Treasury supply will continue to be a topic of heavy discussion, which could increase interest-rate volatility and put a floor under long-term Treasury yields. We believe long-term fair value for the 10-year U.S. Treasury is approximately 4.00-4.50%, based on a 1.75-2.00% real rate and 2.25-2.50% breakeven rate; however, U.S. President Trump's policies could push the fair value target slightly higher.

Our investment process lends itself to constantly reassessing value through our risk premium framework. Our Credit Health Index (CHIN) suggest defaults/losses will be below historical averages for this part of the cycle. Bottom-up fundamentals have stayed robust despite slight weakening in leverage and interest coverage, while profit margins have continued to strengthen and the outlook for earnings

IA Clarington Loomis Global Multisector Bond Fund

growth remains positive. A combination of solid credit fundamentals and supportive technical backdrop have helped push spreads and risk premiums to tight levels, but it is difficult to see any real signs of credit deterioration. In our opinion, corporate balance sheets can weather potential volatility in the macroeconomic backdrop.

We are mindful of the risks going forward, such as sticky inflation and a growing U.S. deficit, either of which could force the market to reprice Fed expectations and potentially push rates back up. In addition, we continue to monitor the risk that AI investments do not deliver on optimistic revenue projections or large-scale productivity gains, the potential for further escalation in geopolitical risk and security concerns, as well as the impact of long-term structural trends like deglobalization, decarbonization and aging demographics. Each of these risks could further elevate market volatility and create additional buying opportunities in credit, interest rates and currencies, for which we would consider redeploying reserves faster.

We believe that long-term value has returned to fixed-income markets with a combination of discount-to-par (positive convexity) and favourable yields. As investors sit on record levels of cash, we expect strong demand will likely support bond markets. Given our expectation for a relatively benign loss environment, we believe the current backdrop supports an approach that moderately leaning into credit risk for any potential extra carry pick-up. Compressed credit spreads have led us to remain diversified in our credit exposure across the fixed-income markets. In today's environment, we believe maintaining flexibility with regard to interest rate and credit risk is important, considering the risk/reward of the intermediate part of the yield curve against the long-term risks associated with long-end curve exposures, while being selective in potential opportunities in investment-grade credit, high-yield credit, bank loans and securitized credit. Convergence between public and private credit markets is accelerating, creating opportunities for multi-sector investors. In addition, we believe diversifying portfolios across non-U.S.-dollar exposure is a worthwhile strategy as the current macroeconomic backdrop suggests a flight-to-safety bid is unlikely to buoy the U.S. dollar, in our view, and that the global environment may offer comparatively higher yields and potential for currency appreciation outside the U.S.

Fund and benchmark performance, as at December 31, 2025	1-Year	3-Year	5-Year	Since inception (Jul. 2020)
IA Clarington Loomis Global Multisector Bond Fund - Series A	6.1%	5.2%	-0.1%	0.4%
Bloomberg U.S. Aggregate Bond Index (CAD Hedged) ¹	5.5%	3.4%	-1.2%	-1.0%

IA Clarington Loomis Global Multisector Bond Fund

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, visit iaclarington.com/glossary and speak with your investment advisor.

¹Source: Bloomberg L.P. The Bloomberg U.S. Aggregate Bond Index (CAD Hedged) is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. This includes Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and collateralized mortgage-backed securities.

The performance data comparison presented is intended to illustrate the Fund's historical performance as compared with historical performance of widely quoted 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 market capitalization, geographic, sector and credit quality exposure and interest rate sensitivity may differ from that of the benchmark. The Fund's currency risk exposure may be different from 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.

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IA Clarington Loomis Global Multisector Bond Fund

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