# IA Clarington Strategic Corporate Bond 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 higher-yield corporate bonds, we would be remiss to ignore the potential for elevated interest rates if economic growth proves to be too robust.

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.

Over the course of the second quarter, credit spreads in high-yield fixed income moved lower when adjusting for changes to government bond yields, 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 our exposure to investment-grade 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 BB 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.

The Fund's top two contributors to performance during the past three months included our holdings in North American Construction Group Ltd. 7.75% 2030 bonds, and Chemtrade Logistics Income Fund 6.375% 2029 bonds. North American Construction issued this bond during the quarter, and its attractive coupon and diversified business model resulted in price appreciation and outperformance during the quarter. Chemtrade Logistics generated outperformance following its earnings release where it introduced longer-term positive business targets focused on organic growth and high-return projects.

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The largest detractor from performance during the quarter came from the Fund's exposure to the U.S. Treasury 4.625% 2035 bond. This 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 Corporate Bond Fund – Series A** | 5.8% | 5.6% | 4.5% | 3.0% |
| **FTSE Canada Corporate Bond Index** | 8.2% | 6.3% | 1.7% | 3.0% |

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 FTSE Canada Corporate Bond Index is based on the Corporate sector of the FTSE Canada Universe Bond Index. The Corporate sector is further divided into sub-sectors based on major industry groups: Financial, Communication, Industrial, Energy, Infrastructure, Real estate, and Securitization. The Fund 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 bonds domiciled both in Canada and outside of Canada while the benchmark only has exposure to 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. 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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