IA Clarington Loomis U.S. Dollar Floating Rate Income Fund

Manager commentary – Q2 2025

The loan market saw largely positive performance for the quarter, rebounding from tariff-related concerns early in the quarter to stabilizing conditions as the period ended. Average loan prices advanced by about three-quarters of a point from last quarter-end, with lower-quality loans seeing more of an increase. Given that, BB-rated loans underperformed B-rated loans, which is typical of a risk-on environment as lower-rated loans typically offer more interest income.

Over 40% of the loan market was priced above par at quarter-end, reflecting strengthening investor sentiment after starting the period with only 10% of the loan market priced above par. An additional 30% of the market was priced between 99 and par, demonstrating the generally lower volatility of the asset class and buyers' continued desire for exposure to the loan market. We continue to watch sectors that could face more pressure owing to tariffs and consumer sentiment, like building materials, consumer discretionary, and chemicals.

The size of the Morningstar LSTA US Leveraged Loan Index grew during the period, and now stands at a record high US$1.5 trillion. Despite this marginal growth, year-to-date loan issuance trails the pace seen in recent years, with a pause seen in April unlike any seen since early 2020. Nonetheless, activity returned in May and June with new money raised for dividends and acquisition financing, with volume exceeding US$100 billion.

The default rate by issuer has remained stable at 1.25%, although it remains above 4% when adjusted to include distressed exchanges.

Retail loan funds flows were negative in April but became modestly positive through the remainder of the period, totaling US$6.5 billion. Despite investor sentiment early in the quarter, collateralized loan obligation (CLO) formation remained strong at US$51.3 billion for the period, eclipsing the level seen during the first quarter of this year.

In the second quarter, IA Clarington U.S. Dollar Floating Rate Income Fund Series A returned 1.21%, while the Morningstar LSTA US Leveraged Loan Index (USD) returned 2.32%. This underperformance was generally concentrated in a few legacy non-loan holdings. Within the leveraged loan allocation, a B-rated media entertainment loan, a B-rated chemicals loan, and a technology loan rated B- were detractors.

During the quarter, we focused on building and maintaining a yield advantage versus the index, but within the context of appropriate risk compensation. This means we did not reach to the lowest credit quality stories for the sole goal of maintaining a heartier yield advantage. Instead, we balanced that yield advantage with more stable credit stories whose capital structures and liquidity positions enable them to weather shocks to the macro economy, in the event that any arise.

We endeavour to hold more solid credit stories that trade down less than the average of the asset class in the event of reignited inflation, tariff pressures or general macroeconomic weakening. We also steered away from those segments of the loan market that would come under the most fundamental and technical pressure in the event of a downturn in sentiment.

We expect GDP to slow into year-end as the U.S. administration's policies are creating an uncertain environment and putting a damper on corporate investment plans, but we do not view this as enough of a headwind to put the economy into a recession. We believe it will keep the U.S. Federal Reserve on hold as they wait and see how the new import taxes flow through to consumer prices.

As our outlook has become slightly more cautious into year-end, we will continue to invest in strong credits as the opportunities present via additional tranches of existing investments at discounts, and we will continue to apply our diligent credit analysis when choosing companies to add to the portfolio that generate fair returns for the risks presented, without reaching too far down the risk profile of the market.

If interest rates remain at current levels, companies at the highest-levered segment of the loan market will continue to see heavier interest burdens. However, absent an economic downturn (which we are not predicting), they should continue to show stable quarterly operational results. If that remains true, 2025 would be a year where loan funds earn their coupons and move along at par.

If less-exuberant markets prevail, companies carrying the heaviest interest burden, the ones who have benefited from low borrowing costs given the supply-and-demand imbalance of 2024, may find themselves in a place where operational strength starts to falter. Were that to happen, the pressure on those companies' loan prices would be greater than their better-capitalized counterparts. Our approach to a thoughtful yield-advantaged portfolio – with downside risk mitigation from choosing strong credits with properly levered balance sheets and appropriate coupons for the risk – should mute the downside pressure versus a strategy of reaching for yield at any cost.

Our goal is to construct a portfolio that can withstand many pressures without suffering significant credit losses.

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Fund and benchmark performance as at June 30, 2025	1 year	3 year	5 year	Since inception (Dec. 2015)
IA Clarington Loomis U.S. Dollar Floating Rate Income Fund – Series A	3.8%	2.4%	2.5%	2.1%
Morningstar LSTA US Leveraged Loan Index (USD)	7.3%	9.7%	7.5%	5.8%

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 or speak with your investment advisor.

On September 4, 2024, the sub-advisor of the Fund changed. This change may have affected the Fund's performance. The Fund was formerly IA Clarington U.S. Dollar Floating Rate Income Fund. The name change was effective June 16, 2025.

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 the Morningstar LSTA US Leveraged Loan Index (USD) which is designed to mirror the investable universe of the U.S. dollar-denominated leveraged loan market. The Fund's geographic, sector and credit quality exposure may differ from that of the benchmark. The Fund can invest in high yield corporate bonds and government bonds, which are not included in the benchmark. For this Fund, performance is reported in USD and any investments in non-U.S. based issuers (including Canadian issuers) may be purchased in currencies other than U.S. dollars. When these non-U.S. investments are purchased in a currency other than U.S. dollars, the value of the investment will be affected by the value of the U.S. dollar relative to the value of the other currency. If the U.S. dollar rises in value relative to the other currency but the value of the non-U.S. based investment otherwise remains constant, the value of the investment in U.S. dollars will have fallen. Similarly, if the value of the U.S. dollar has fallen relative to the other currency, the value of the U.S. Dollar Fund's investment will have increased. As the Fund's performance is reported in USD, the U.S. indices referenced within are also quoted in their native currencies of U.S. dollars to reflect the performance of the holdings. 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 while returns for one year or less are cumulative figures and are not annualized.

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