

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

Manager commentary – Q4 2025

The loan market saw modest return of 1.22% over the fourth quarter, marking the second-weakest performance of 2025. Pressure from declining secondary prices, coupon compression and lower base-rates contributed to a reduction in interest income that negatively impacted overall returns. BB-rated loans slightly outperformed B-rated loans, and both significantly outperformed CCC-rated loans, showing a break from the typical trend where lower-rated loans outperform their higher-rated cohorts. The past year was the first year since 2022 in which BB-rated loans outperformed both single-B and CCC-rated loans, as the incremental interest income that lower-rated loans typically offer was insufficient to offset steeper declines in market value.

Approximately 58% of the loan market was priced above par at quarter-end, up from 37% at the start of the quarter, as sentiment improved across the credit quality spectrum. Roughly 71% of loans rated B+ or higher were priced at or above par at quarter-end, up from 20% in mid-October. On the other end of the spectrum, the share of loans priced below 90 reached its highest level (10%) since April, indicating a trend of increased bifurcation in the loan market. The share of loans priced below 80 reached 4.5% at the end of the period, up from 3% at the beginning of the year.

The size of the Morningstar LSTA US Leveraged Loan Index grew during the period and now stands at a new record high of US\$1.54 trillion, beating the record last quarter. New issuance decreased to US\$155 billion in the fourth quarter, compared to a record US\$400 billion in the third quarter, as some deals were pulled amid secondary market weakness. However, a sharp decline in repayments resulting from slowed refinancing activity offset the decrease in new issuance and translated into net expansion of the asset class.

The default rate by issuer declined to 1.18% in December, compared to 1.47% in the third quarter. When adjusted to include distressed exchanges, the default fell from 4.4% in the third quarter to 3.35% in the fourth quarter, the lowest since October 2023.

Retail loan funds flows were negative for the quarter, with outflows occurring in 16 of the last 23 weeks of 2025, and redemptions intensifying in the last weeks of December. Fourth-quarter retail outflows totaled roughly US\$3.97 billion, up from approximately US\$0.77 billion in the previous three months. Moderating retail demand resulting from increased outflows was slightly offset by elevated CLO issuance, which reached US\$55.34 billion this past quarter, compared to US\$53 billion in the previous quarter.

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Within the Fund's leveraged loan allocation, B-rated loans helped drive performance in the fourth quarter. A B-rated consumer cyclical services loan was the largest contributor. An automotive loan that had defaulted earlier in the year was the biggest detractor.

Outside of the leveraged loan allocation, an ETF holding was the main contributor to the fund's performance. The account began holding the ETF this quarter in order to maintain adequate liquidity while providing a better return in times where the secondary market is particularly rich.

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 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

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

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 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

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

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 (Dec. 2015)
IA Clarington Loomis U.S. Dollar Floating Rate Income Fund – Series A	2.4%	2.5%	1.5%	2.2%
Morningstar LSTA US Leveraged Loan Index (USD)	5.9%	9.4%	6.4%	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.

Loomis, Sayles & Company, L.P. was appointed sub-advisor to the IA Clarington Loomis U.S. Dollar Floating Rate Income Fund effective September 4, 2024. This Fund changed its name from IA Clarington U.S. Dollar Floating Rate Income Fund, 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, which is designed to deliver comprehensive, precise coverage of the US 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

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

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 for more than one year are historical annual compounded total returns while returns for one year or less are cumulative figures and are not annualized.

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