IA Clarington Loomis Global Allocation Fund

Manager commentary – Q2 2025

After a difficult start to the second quarter, most asset categories recovered to finish with positive total returns. The first week of April brought significant disruptions across the financial markets, as U.S. President Donald Trump's "Liberation Day" trade plan levied tariffs well in excess of what investors had been anticipating. Risk assets initially plunged on expectations that the protectionist policy shift would lead to rising inflation and slower economic growth. The downturn proved short-lived, however, as President Trump responded to market turmoil by placing a 90-day pause on new tariffs within a week of the initial announcement. The markets quickly stabilized following the pivot, and volatility remained subdued until mid-June amid a favourable environment of modest growth and low inflation. While conflict in the Middle East briefly roiled markets late in the period, a quick resolution to the hostilities limited the overall impact on performance.

Incoming data continued to show slow but steady growth across the globe, raising hopes for a potential "Goldilocks" scenario of continued economic expansion with interest-rate cuts by major central banks. The European Central Bank, Bank of England and Swiss National Bank were among those that lowered interest rates in the quarter, and expectations were for the U.S. Federal Reserve (the Fed) to resume its policy easing in the second half of 2025.

These conditions proved highly supportive for the fixed-income markets, with positive total returns for developed market government debt and outperformance for credit sectors such as U.S. investment-grade corporates, U.S. high yield, and the emerging markets. While the credit sectors sold off in the initial turmoil surrounding tariffs, yield spreads tightened throughout the remainder of the quarter as investors regained their appetite for risk.

Worries about the unstable policy outlook, together with the prospect of Fed rate cuts in the second half of the year, led to pronounced weakness in the U.S. dollar. All G-10 currencies gained ground versus the U.S. dollar over the course of the quarter, led by the Swiss franc, as did the majority of emerging markets currencies.

After a brief but pronounced downturn in early April, equities recovered to post robust total returns for the full three-month period. Performance was broad based, with domestic equities, developed market international stocks, and the emerging markets all participating in the rally. European stocks performed particularly well, building on their strong gain of the first quarter. Global information technology stocks also delivered impressive gains behind renewed enthusiasm about the artificial intelligence (AI) theme.

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IA Clarington Loomis Global Allocation Fund Series T8 posted returns of 2.5% for the second quarter, underperforming its benchmark (60% MSCI All Country World Net (in CAD)/40% Bloomberg Global Aggregate), which returned 3.9%. The equity component of the Fund lagged its benchmark, while the Fund's U.S. and non-U.S. fixed-income components outperformed the fixed-income benchmark.

In equities, the three most significant contributors to performance were NVIDIA Corp., Taiwan Semiconductor Manufacturing Co. Ltd. (TSMC) and Halma PLC.

NVIDIA was a top contributor for the three-month period as its data centre business continued to grow. Notably, the company's Blackwell platform has been released, continuing with the one-year product cycle cadence that allows for continued market leadership. Global AI usage has gained traction and NVIDIA remains the preferred compute provider, driven by its leadership in both its hardware and software capabilities. Shares of NVIDIA remain attractive based on our scenario analysis framework.

Shares of TSMC outperformed over the period; the company holds over 90% market share in the production of leading-edge semiconductors. Notably, TSMC announced an incremental US$100 billion in U.S. capital expenditures to expand its geographical footprint for chip production, reducing reliance on Taiwan. Shares of TSMC remain attractive based on our scenario analysis framework.

Shares of Halma outperformed as exceptional performance in the Photonics business augmented strong results in the rest of the portfolio. Photonics, or the use of light to transfer data, has been a strong part of Halma's portfolio as it has leveraged a position in the data centre to help develop co-packaged optics (CPO) for future semiconductor networking. The balance of the portfolio, including Safety and Healthcare, has performed remarkably well as the company's niche, non-discretionary products continue to grow within their markets.

In fixed income, credit positioning contributed to performance over the period. In particular, positioning in the consumer cyclical, communications, and consumer non-cyclical sectors contributed. Within consumer cyclical, holdings of Carnival Corp. and Uber Technologies Inc. were top drivers of returns. Holdings of EchoStar Communications Corp. and Altice France Holding SA contributed within the communications sector. Lastly, holdings of Teva Pharmaceutical Industries Ltd. and Bausch Health Companies Inc. contributed within the consumer non-cyclical sector.

Yield curve and duration positioning also contributed over the quarter. In particular, local-market positioning in the U.S. dollar and Brazilian real-pay markets contributed – these overweight duration positions contributed as yields decreased in both bond markets.

In equities, the three largest detractors from performance were UnitedHealth Group Inc. (UNH), O'Reilly Automotive Inc. and Roper Technologies Inc.

Shares of UNH underperformed over the period. Much of the decline came on May 13 when the company announced that the CEO had stepped down and that the company would suspend guidance for 2025. This followed a cut to earnings guidance for 2025 in April, driving a share price decline. The original cut to guidance came primarily from higher-than-expected expenses as a result of higher utilization in the Medicare Advantage business, and a reduction in funding paid from the Center for Medicare and Medicaid Services (CMS) to UNH. The May 13 update suggested that medical costs continued to accelerate, leading the company to withdraw its earnings guidance. However, the company stated that despite earnings pressure this year, it expects to return to growth in 2026, aided by the fact that Medicare policies are repriced annually, and price increases can be made going forward to account for higher medical costs. Shares remained in a "wait and see" mode in June as the market awaits potential clarity on earnings guidance with results due in July.

Shares of O'Reilly Automotive lagged over the period. O'Reilly had been an outperformer earlier in the year (gaining 20% in the first quarter), as tariffs on automobiles imported into the U.S. were viewed favourably for O'Reilly's business. More expensive imported cars would encourage owners to hold onto their cars for longer. Older cars tend to need more replacement parts, which would boost sales for O'Reilly and peers. However, on May 12, the U.S. and China agreed to slash tariffs on each other's goods for 90 days. This caused a rally for many companies that had been viewed as negatively exposed to tariffs, while those like O'Reilly, who would potentially benefit from tariffs, lagged. Underperformance continued in June with losses of an additional 1%, while optimism for better-than-expected tariff outcomes may have contributed to broader market strength.

Shares of Roper Technologies traded closely to other portfolio holdings for much of April, but a small gap appeared towards the end of the month. Many companies reported earnings that were better than feared, lifting shares in mid-to-late April. Roper reported results in line with expectations on April 28, which led to a neutral response in share price and likely led to the slight underperformance during the month relative to other companies. Roper had also been viewed as a relative winner in a high-tariff environment because most of its revenues come from software rather than physical goods that are exposed to tariffs. This led to a 13% gain in the first quarter, while other companies lagged. Similar to O'Reilly, the tariff pause with China in May helped companies that were tariff exposed, while companies with less tariff exposure lagged.

In fixed income, currency allocation was the most significant detractor from performance over the quarter. In particular, allocations to the U.S. dollar, Japanese yen and Brazilian real detracted from performance. Although yield curve and duration positioning as a whole contributed to performance over the period, local-market positioning in the euro and Chinese renminbi-pay markets detracted from returns – these underweight duration positions detracted as yields decreased in both bond markets.

We recognize the challenges posed by geopolitical risks and tariff uncertainty, but we believe fundamentals still support modest U.S. growth driven by consumers and corporate profitability. Higher inflation from trade policy remains a risk, but the Fed will likely look past any "one-time" price hikes, rather than responding by tightening monetary policy. The global growth picture is somewhat cloudy, but the risk that a slowdown in trade may cause a widespread recession appears greatly diminished given the potential for trade deals, temporary truces and extensions of tariff pauses. With this said, elevated effective tariff rates appear likely.

Higher-income consumers—who account for the bulk of spending—remain in good shape, assisted by the wealth effect. Those in lower-income brackets are under some financial pressure, but labour market health and ongoing job creation should keep consumer spending on a firm footing. Business fundamentals remain strong, corporate profits are close to record highs and issuers' ability to access credit has not shown signs of deterioration. A healthy business sector is a key to keeping the global expansion intact, but we question whether it can fully absorb uncertainty and supply-chain disruption.

The U.S. dollar faces numerous headwinds, including twin deficits, moderation in U.S. growth, more growth-supportive fiscal and monetary policies abroad, still-expensive valuation, and fading U.S. exceptionalism. In Europe—particularly Germany—the shift toward more expansionary fiscal policy should boost long-term growth rates. Improving growth prospects in the developed and emerging international markets have been attracting capital, a trend that could last for several quarters or longer. U.S. economic growth may drift below long-term trend levels later this year, but our estimated recession probability has continued to decline. Given the backdrop of decent growth, we think the Fed is likely to enact only modest interest-rate cuts and is unlikely to be aggressive unless there is a significant shock to the economy.

Although some progress may be made in shrinking the U.S. budget deficit, we are not optimistic that the U.S. administration's target of reducing the deficit to 3% of GDP over the next three years will be achieved. Lack of fiscal discipline has left many governments debt ridden, pressuring higher interest on debt that could meaningfully weigh on global growth, or limit countercyclical responses. Growth fears could renew a market focus on fiscal deficits and raise bond market volatility, or keep upward pressure on term premia.

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We are optimistic about global equities heading into the second half of 2025, as we expect profit growth to broaden across sectors and continue into 2026. Earnings estimates for next year indicate nearly double-digit growth rates for the U.S., Europe, Japan and the emerging markets.

Fund and benchmark performance, as at June 30, 2025	1-year	3-year	5-year	10-year
IA Clarington Loomis Global Allocation Fund – Series T8	6.7%	13.5%	6.5%	7.0%
40% Bloomberg Global Aggregate Bond Index (CAD Hedged), 60% MSCI AC World Index (CAD)[1]	11.4%	12.6%	8.0%	7.3%

Non-traditional fixed income asset classes may carry higher risk, but generally provide higher yield than traditional fixed income asset classes. For definitions of technical terms in this piece, please visit iaclarington.com/glossary and speak with your financial advisor.

[1]Source: MSCI Inc. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI. 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 Bloomberg Global Aggregate Bond Index (Currency Hedged) (40%) and MSCI AC World Index (CAD) (60%). The blended benchmark presented is intended to provide a more realistic representation of the general asset classes in which the Fund invests. The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty-eight local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. There are four regional aggregate benchmarks that largely comprise the Global Aggregate Index: the US Aggregate, the Pan-European Aggregate, the Asian-Pacific Aggregate, and the Canadian Aggregate Indices. The MSCI AC World Index (CAD) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 50 country indexes comprising 23 developed and 24 emerging market country indexes. The Fund's market capitalization, geographic, sector and credit quality exposure may differ from that of the benchmark. The Fund's currency risk exposure may be different than that of the benchmark. 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. Effective February 23, 2015, the sub-advisor of the Fund changed from Aston Hill Asset Management Inc. to Loomis, Sayles & Company, L.P. and IA Clarington Investments Inc. and the investment strategies of the Fund were changed. IA Clarington Loomis Global Allocation Fund was formerly IA Clarington Global Allocation Fund.

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. 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.

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