

IA Clarington Global Equity Fund

Manager commentary – Q1 2025

During the first quarter of 2025, IA Clarington Global Equity Fund Series T6 returned 3.4% outperforming the MSCI World Index (CAD) which returned -1.7%. Over the 12-month period, the Fund returned 5.2% compared to 13.8% for the benchmark.

Early in the 12-month period, benchmark returns were driven by a small number of mega-cap stocks with high price-to-earnings ratios in the narrowest market rally since 1974. Seven mega-cap companies drove the S&P 500 Index's return in the second quarter.

U.S. stocks rallied into the third quarter on hopes that the U.S. Federal Reserve's (the Fed) interest-rate cut of 50 basis points would engineer a "soft landing" for the economy following a dip in the S&P 500. Meanwhile, 10-year U.S. government bond yields compressed in anticipation of further interest-rate cuts and alongside falling inflation and weakening jobs data.

The fourth quarter began with high investor optimism surrounding the new U.S. administration. However, the Trump government's new policies, including trade tariffs, resulted in expectations for lower growth, stubborn inflation and growing uncertainty around future Fed policy. European and Hong Kong indexes outperformed U.S. markets early in 2025, rising from low starting valuations amid optimism that large fiscal stimulus announcements in both regions could reinvigorate stagnant domestic growth.

The Fund's stock selection in the consumer discretionary sector and the Asia-Pacific region contributed to performance. Individual contributors included Alibaba Group Holding Ltd., which began recovering from historical lows owing to improvements in its cloud computing and e-commerce business, major artificial intelligence (AI) advancements and China's favourable regulatory shift. 3M Co. benefited from improved organic growth prospects following restructuring measures, increasing clarity regarding major litigation settlements and buybacks. Unilever PLC delivered strong results, including notable improvements in its underlying sales growth driven by volume gains and margin expansion.

The Fund's stock selection in Europe and North America detracted from performance, as did stock selection in information technology companies. Individual detractors included Samsung Electronics Co. Ltd., which experienced declining memory semiconductor prices and was a laggard in the AI-driven high-bandwidth-memory chip market. Melexis NV was affected by broader weakness in auto sales, leading customers to reduce pre-order volumes. Centene Corp. was negatively affected by policy uncertainty surrounding Medicaid funding under the new U.S. administration.

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New positions included Melexis NV, a global semiconductor company with high returns on invested capital that was purchased at a historically attractive valuation. Solventum Corp. enjoys stable profit margins and a strong position in diverse, non-cyclical end markets. Tencent Holdings Ltd. is China's largest internet conglomerate and the world's largest online gaming company. Its core product, WeChat, boasts over 1.3 billion monthly average users. Dollar General Corp. is the largest discount retailer in the U.S. and appears to be well positioned for long-term growth.

Increased positions included Admiral Group PLC as its valuation declined despite the combination of premium pricing, claims inflation and robust core customer growth. ALTEN SA, Melexis and Nestlé SA were increased as their valuations declined.

Decreased positions included Netflix Inc. as its valuation appeared high. Svenska Handelsbanken AB was trimmed owing to limited earnings growth. Unilever was trimmed owing to lower expected returns. Eliminated positions included SAP SE as the forward earnings multiple rose to a multi-year high and there were better opportunities elsewhere. Micron Technology Inc. and Lennox International Inc. were sold as valuations rose. Verizon Communications Inc. and Wells Fargo & Co. were exited to fund more attractive opportunities. Compass Group PLC, Bank of America Corp., The Walt Disney Company and Ross Stores Inc. were sold owing to valuation concerns and limited upside potential.

The largest reset in U.S. geopolitical and trade policy in decades has injected a new structural element of uncertainty into risk assets. The fund manager sees this as a major realignment of the existing world economic order.

At period-end, the S&P 500 stood at about 20x estimated earnings but declined just under 10% in the first four days of April. Market sentiment has abruptly pivoted, and the fund manager expects investor behaviour to remain volatile as markets grapple with the shifting dynamic.

The Fund continues to own a diversified portfolio of high-quality businesses that mostly trade at meaningful discounts to their own historical valuations and the S&P 500. These holdings remain balanced between recession-resistant businesses and a collection of inexpensive businesses with above-average return prospects. The Fund has little exposure to many of the risks of the expensive U.S. market while continuing to offer a very differentiated value proposition.

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Fund and benchmark performance as at March 31, 2025	1-year	3-year	5-year	10-year
IA Clarington Global Equity Fund - Series T6	5.2%	8.7%	13.2%	6.7%
MSCI World Index (CAD) ¹	13.8%	12.8%	16.4%	10.9%

For definitions of technical terms in this piece, please visit iaclarington.com/glossary and speak with your investment advisor.

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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.

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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