

IA Clarington Inhance Bond SRI Fund

Manager Commentary – Q1 2026

Bond markets experienced volatility during the period as central banks transitioned from an easing bias (accommodative rate policy) to a more defensive, on-hold stance. Rising geopolitical tensions in the Middle East near the end of the period drove further volatility and spiked energy prices, fanning inflation concerns. The Canadian economy struggled as a result of weaker consumer spending, housing slowdown and softening business investment.

Global bond yields (the interest earned on a fixed-income security) moved higher overall, with yield curves (graphically illustrates the yields and maturities of bonds of similar credit quality) steepening (long-term interest rates rise more quickly than short-term rates). Government of Canada yields increased 37 to 67 basis points (bps) across the yield curve, with the Government of Canada 10-year yield ending at 3.47% (up 51 bps) and the 30-year at 3.90% (up 67 bps).

The Bank of Canada maintained its policy rate at 2.75% through the first half, then cut 25 bps each at its September and October meetings, bringing the rate to 2.25%, with signalling for a likely hold near term. The Federal Open Market Committee resumed reductions in September with 25-bps cuts each in September, October and December, leaving rates at 3.50%–3.75% through January and March 2026.

Despite broad yield increases, all investment-grade Canadian fixed income sectors generated positive total returns (returns inclusive of income and capital appreciation), with corporates delivering the strongest performance and provincial bonds the weakest, reflecting higher yield carry (income) and modest credit spread (the yield difference between two types of fixed-income or credit instrument, typically expressed in percentage points or basis points. A tight spread means the yield difference is small, while a wide spread means the difference is comparatively large) tightening in corporates versus longer duration in provincials.

The Fund's strongest contributor was overweight allocation to corporate bonds, which was the strongest-performing sector as a result of credit spread tightening over the period (April 1, 2025 – March 31, 2026). Allocation to preferred shares (a type of share ownership in a corporation where dividends are typically paid before common share dividends) performed well as credit spreads compressed and risk assets (assets or asset classes with greater levels of risk) outperformed. Long-maturity U.S. Treasury holdings contributed as the differential between Canadian and U.S. long maturity bond yields narrowed.

Canada Housing Trust (4.25%, 15/03/2034) contributed significantly as the Fund increased holdings at favourable times, purchasing in July and partially selling in February. IFC.PR.C, a rate reset preferred share (a preferred share whose dividend rate resets at regular intervals, typically every five years. On the reset date, the investor has the option of locking in the new rate or converting to a floating rate preferred share), issued by Intact Financial Corp., benefited from higher 5-year government yields and increased call expectations. CCDJ (5.035%, 23/08/2032), subordinated debt issued by Fédération des caisses Desjardins du Québec, benefited from significant credit spread compression as the bond approached its call date.

The Fund's credit curve positioning (how corporate bond spreads or yields vary by maturity), which was biased toward short and mid-term corporate bonds and underweighted long corporate bonds, detracted from performance. Although short- and mid-term corporate bonds outperformed similar-dated government bonds significantly, long-maturity corporates outperformed similar-dated government bonds by an even larger

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margin. Long-maturity bond holdings detracted from performance: Province of Ontario (3.5%, 02/06/2043), Province of Quebec (3.5%, 01/12/2048), and Province of Ontario (2.9%, 02/12/2046) underperformed as the yield curve steepened and long maturities proved the weakest performing segment.

Portfolio activity centred on quality and sustainability positioning. The Fund manager added green bonds (securities whose proceeds are used exclusively to fund projects that contribute to environmental sustainability) and sustainable development labelled bonds, (forward-looking, performance-based debt instruments where financial or structural characteristics—such as coupon rates—depend on the issuer achieving predefined environmental, social, and governance targets) including CCDJ (4.123%, 25/08/2032), International Bank for Reconstruction and Development (2.9%, 05/09/2028), City of Ottawa (3.75%, 02/10/2034), and Government of Canada (3.5%, 01/12/2056). The Fund shifted exposure from the wings (the short- and long-maturity parts of the yield curve) into the middle of the yield curve as mid-term bonds underperformed, bringing yield curve positioning closer to neutral, then shifted slightly back into wings as the curve steepened. Preferred share holdings IFC.PR.E (Intact Financial perpetual) and GWO.PR.G (Great-West Lifeco perpetual) were eliminated as implied credit spreads tightened to multi-year levels, making them expensive versus comparable issues. Allied Properties exposure APUCN (4.808%, 24/02/2029) was exited after locking in significant credit spread compression. U.S. Treasury trade was exited as the relative spread relationship with similar-dated Government of Canada bonds compressed. Higher-beta (more sensitive to broad market swings) credit exposures were reduced as credit spreads pushed to cyclical tights (near the narrowest levels seen in the economic cycle).

Rising geopolitical risks in the Middle East have increased bond market volatility and introduced new economic risks. While the modern global economy shows reduced sensitivity to oil price shocks, risks of second-order effects on inflation and consumer spending have increased. The Canadian economic outlook remains tenuous, as tariff uncertainty and a challenging trade relationship with the U.S. negatively affect exports and confidence. The Canada-United States-Mexico Agreement faces review in 2026, adding policy uncertainty. The Fund ended the period slightly long duration (how sensitive bond prices are to interest-rate changes) relative to its index and will continue to tactically adjust positioning as conditions evolve. Curve positioning remains relatively neutral. The Fund maintains an overweight allocation to corporates, biased toward higher credit quality (the likelihood a borrower will repay its debts) and shorter to mid-term maturities to capture attractive yield carry (income received from a bond). Credit spreads have widened modestly with geopolitical risks but remain near cyclical tights. The Fund continues to hold preferred shares as a yield enhancer, biased toward perpetual (a preferred share that pays a fixed dividend) and higher rate reset styles.

	1-year	3-year	5-year	Since inception (Dec 2016)
IA Clarington Inhance Bond SRI Fund - Series F	0.8%	3.4%	0.4%	1.4%
FTSE Canada Universe Bond Index	0.8%	3.5%	0.7%	1.9%

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For definitions of technical terms in this piece, please visit iaclarington.com/glossary and speak with your investment 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 Fund's benchmark is the FTSE Canada Universe Bond Index, which is comprised of Canadian investment grade bonds and has significantly different portfolio duration characteristics. The FTSE Canada Universe Bond Index consists of a broadly diversified selection of investment-grade Government of Canada, provincial, corporate and municipal bonds issued domestically in Canada. The Fund's geographic, sector and credit quality exposure may differ from that of the benchmark. 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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