IA Clarington Inhance Bond SRI Fund

Manager commentary – Q3 2025

Bond markets were volatile during the period (April 1, 2025 – September 30, 2025) as global economies grappled with rising economic uncertainty while still dealing with elevated inflation readings. Global bond yields (the interest earned on a fixed-income security) were mixed across the developed world, but yield curve steepening (long-term bonds offering higher yields than short-term bonds) was a constant theme across all developed bond markets.

The Bank of Canada (BoC) maintained its policy interest rate at 2.75% for several months before cutting interest rates another 25 basis points (bps), to 2.50%, in September, citing less upside risk to inflation and a weaker Canadian economy.

In the U.S., the Federal Open Market Committee (FOMC) also cut its policy interest rate in September, taking its target rate down 25 bps, to a range of 4.00–4.25%. Despite inflation remaining somewhat elevated, moderating economic activity and slowing job gains tilted the FOMC to resume cutting rates, which had been on pause since its last interest-rate cut in December 2024.

Government of Canada yields were 2 to 41 bps higher across the yield curve (graphically illustrates the yields and maturities of bonds of similar credit quality), with long tenor (maturity) yields rising the sharpest, twisting the curve sharply steeper. The benchmark Government of Canada 10-year yield ended the period at 3.18%, about 22 bps higher than where it started, while 30-year yields ended the period at 3.63%, up nearly 41 bps from the start of the period.

Despite the broad rise in underlying bond yields, all sectors of the investment-grade Canadian fixed-income market generated positive total returns (inclusive of income and capital appreciation) over the period. Corporate bonds were the strongest-performing sector, outperforming given higher yield carry (income) and modestly tighter (narrower) credit spreads (the difference in yield between debt instruments with similar terms, but different credit ratings). Federal bonds were the weakest-performing sector but still generated a positive return.

The Fund's overweight allocation to corporate bonds was the main contributor to performance as this was the strongest-performing sector in the bond market over the period. The Fund’s underweight allocation to federal bonds, which was the weakest-performing sector, also contributed. The Fund's allocation to preferred shares (a type of security with hybrid features of both stocks and bonds, providing shareholders with a fixed dividend and priority over common shareholders in asset distribution and dividend payments) was another strong contributor to performance. Preferred shares, which were not held in the index, performed well as credit spreads compressed and risk assets (assets that are deemed to have more price volatile then lower risk or risk-free assets) outperformed.

The strongest individual contributors were mid-term maturity bonds where the Fund increased holdings at favourable times, including Canada Mortgage and Housing Corporation (4.25%, 15/03/2034) and Province of Ontario (3.65%, 03/02/2034). Federation des Caisses Desjardins du Quebec (5.035%, 23/08/2032) subordinated debt (junior debt that is repaid after senior debt) benefited from significant credit spread compression during the period as the bond moved closer to its call date (a specific date on which an issuer can redeem a debt security before its maturity date). Intact Financial Corp. IFC.pr.C shares, a rate-reset preferred share (a preferred share whose dividend rate resets at regular intervals, typically every five years) , benefited from higher 5-year government yields and an increased expectation of being called at the next call date.

The Fund's credit yield curve positioning, namely its bias towards short- and mid-term corporate bonds and underweight exposure to long-term corporate bonds, detracted slightly from performance. While short- and mid-term corporate bonds significantly outperformed government bonds with similar maturities and even outperformed long-dated corporate bonds, long-dated corporate bonds outperformed similar-dated government bonds by an even larger margin. Given the yield curve steepening and underperformance of long-term bonds, the biggest individual detractors were all overweight positions in long-dated bonds, including Province of Ontario (3.5%, 02/06/2043), Province of Ontario (2.9%, 02/12/2046) and Ottawa (4.1%, 06/12/2052).

New positions included sustainable development–labelled bonds in the new-issue market (primary market where new securities are issued and sold to investors for the first time), including Federation des Caisses Desjardins du Quebec (4.123%, 25/08/2032), International Bank for Reconstruction and Development (2.9%, 05/09/2028) and Ottawa (3.75%, 02/10/2034).

Increased positions included bonds in the middle of the yield curve. The Fund entered the period with a slightly underweight exposure to the middle section of the curve and overweight exposures to short- and long-dated maturities, so this shift brought the Fund’s yield curve positioning closer to neutral.

Decreased positions included credit exposures with higher-than-average volatility as credit spreads continued to narrow.

Eliminated positions included a couple of preferred share positions, including perpetual shares issued by Intact Financial (IFC.pr.E) and Great-West Lifeco Inc. (GWO.pr.G). Implied credit spreads were at multi-year tights (tight spreads), and these issues looked particularly expensive versus comparable issues.

The economic outlook in Canada remains tenuous as tariffs and an increasingly challenging trade relationship with the U.S. continue to negatively affect exports and overall confidence. With the Canada-United States-Mexico Agreement up for review in 2026, the trade environment will likely remain in flux over the near term, which could restrain economic activity.

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With mounting evidence of weakness in the Canadian economy (including eight consecutive months of contraction in the manufacturing sector and zero full-time employment growth year-to-date), and with the BoC's policy interest rate above the lower end of its neutral range estimate (2.25–3.25%), the BoC has plenty of scope to cut its policy rate should the economy need additional support.

The Fund ended the period with a slightly long duration (higher interest-rate sensitivity) versus the index. The fund manager will continue to tactically adjust the Fund's duration accordingly as market and economic conditions evolve.

The Fund maintains a relatively neutral position on the yield curve and continues to hold a small U.S. Treasury (government) long-dated bond in place of a similar-dated Government of Canada bond.

The Fund maintains an overweight position in corporate bonds, with a continued bias towards higher credit quality and shorter- and mid-term maturities, which continue to offer attractive yield carry relative to underlying Government of Canada bonds. Generic credit spreads reached new tights during the period, warranting caution around spread product.

The Fund continues to hold preferred shares as a yield enhancer. The Fund remains biased towards perpetual and higher rate-reset style preferred shares, which are not as sensitive to changes in interest rates, but still provide significant yield pick-up over bonds.

Fund and benchmark performance as at September 30, 2025	1 year	3 year	5 year	Since inception (Dec. 2016)
IA Clarington Inhance Bond SRI Fund – Series B	2.3%	4.1%	-0.9%	1.0%
FTSE Canada Universe Bond Index	2.9%	4.7%	-0.2%	2.0%

For definitions of technical terms, visit iaclarington.com/glossary or 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 time periods of more than one year are historical annual compounded total returns while returns for time periods of one year or less are cumulative figures and are not annualized. Where applicable, compound growth charts are used only to illustrate the effects of a compound growth rate and are not intended to reflect future values or returns of a fund. 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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