

IA Clarington Inhance Bond SRI Fund

Manager commentary – Q2 2025

Over the second quarter of 2025, IA Clarington Inhance Bond SRI Fund (gross of fees) generated a total return of -0.26%. The FTSE Canada Universe Bond Index observed a total return of -0.57% over the same period.

Fixed-income markets observed constant volatility during the second quarter as investors attempted to navigate tremendous uncertainty resulting from the U.S. administration's decision to launch sweeping reciprocal tariffs against its major trading partners. Global bond yields were on the rise as bond investors focused on the potential for tariffs leading to higher prices and inflation.

After cutting in January and March, the Bank of Canada left its target policy rate unchanged at 2.75% during its meetings in April and June. Policymakers indicated there was a consensus to remain on hold as domestic economic growth and core inflation data remain firmly above expectations. Trade conflict with the U.S. remains the biggest headwind for the Canadian economy, and growth is expected to weaken in the second quarter. The labour market has observed some fragility, particularly in trade-intensive sectors, with the unemployment rate rising to 6.9%. While headline Consumer Price Index (CPI) inflation eased to 1.7% during the quarter, core inflation remains near the upper end of the 3% target range.

The U.S. Federal Reserve (Fed) left its benchmark interest rate unchanged at 4.25%-4.50% throughout the quarter as officials waited for clarity on the economic impact of trade policies. Chair Jerome Powell warned that planned import tariffs could lead to a "meaningful increase in inflation" in coming months, advocating patience before any policy moves. The Fed's updated June projections showed policymakers still expect two quarter-point interest-rate cuts by the end of the year, but a slower easing path thereafter.

Government of Canada (GoC) bond yields climbed higher over the past three months, driven by inflation concerns related to tariffs and expectations of rising fiscal deficits leading to larger bond issuance. Bond yields were higher across the curve, with longer-dated yields underperforming and steepening the overall Canada curve. The benchmark GoC 10-year yield closed the quarter at 3.27%, rising 30 basis points since the end of the first quarter.

The FTSE Canada Universe Bond Index posted a return of -0.57% over the second quarter. Longer-dated bonds underperformed on the curve as yields increased over the period. Federal bonds particularly lagged both provincial and corporates bonds as credit spreads tightened materially with the improved risk tone. Short-term bonds continued to outperform, producing positive returns across all sectors as yield carry (interest) and credit spread compression more than offset rising GoC yields.

IA Clarington Inhance Bond SRI Fund

The Fund posted a return of -0.26% (gross of fees), outperforming the benchmark by 31 basis points over the period. The Fund's preferred share holdings were a strong contributor to relative performance, significantly outperforming bonds during the quarter. In addition, the Fund's longer-dated U.S. Treasury position outperformed similar maturity GoC bonds.

Given the economic headwinds related to the trade conflict, we continued to de-risk the Fund while credit spreads were still trading at the tight end of the range at the beginning of April. This was done by shifting some corporate bond exposure into government bonds. As the quarter progressed, we opportunistically added several new corporate issues during the quarter, generally rolling up the yield curve to increase the overall yield carry at attractive levels. With inter-provincial spreads widening, the Fund also shifted some positioning from an Ontario holding to move into a similar-dated Quebec maturity.

The Fund is currently positioned mostly balanced on the curve, with exposure within longer-dated bonds defensively skewed towards maturities of less than 25 years. Within credit, the Fund maintained an overweight exposure to short-term corporate bonds, but overall remains defensively positioned with a large underweight exposure to corporate bonds beyond 10 years to maturity. The Fund ended the period with a total positive impact bond weight (include green, social, sustainable development and sustainability-linked bonds) of 23.6%.

Fund and benchmark performance as at June 30, 2025	1 year	3 year	5 year	Since inception (Dec. 2016)
IA Clarington Inhance Bond SRI Fund – Series B	5.4%	3.6%	-1.0%	0.9%
FTSE Canada Universe Bond Index	6.1%	4.3%	-0.4%	1.8%

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.

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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 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.

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