IA Clarington Inhance Global Equity SRI Class

Manager commentary – Q2 2025

The second quarter was characterized by pronounced volatility in global equity markets. In early April, stocks fell sharply amid concerns over the "Liberation Day" tariff announcement, which stoked fears of an escalating trade war. Nevertheless, market sentiment improved notably after the initial tariff proposal was suspended, and renewed optimism about ongoing trade negotiations, particularly between the U.S. and China, helped fuel a recovery. This rebound was further bolstered by central bank easing postures, robust economic data and resilient corporate earnings, all of which reassured investors that the economy remained on solid footing despite persistent trade uncertainties. However, this positive momentum was briefly interrupted late in the quarter when conflict erupted between Israel and Iran. The resulting spike in oil prices and dip in equities proved temporary, as markets stabilized following easing geopolitical tensions and the announcement of a ceasefire. By quarter-end, global stocks were reaching new all-time highs, with the MSCI World Index (CAD) posting a return of 5.7% over the quarter. The market's risk-on sentiment seen during this period favoured speculative, high-growth stocks, particularly in technology and artificial intelligence (AI). In contrast, the energy and health care sectors lagged. Energy sector stocks struggled as oil prices weakened and demand expectations waned, while the health care sector was weighed down by UnitedHealth Group, the largest U.S. health care insurer, which saw its stock fall more than 40% following the departure of CEO Andrew Witty and the suspension of its 2025 financial guidance amid surging medical costs.

IA Clarington Inhance Global Equity SRI Class gained 3.8% on a gross-of-fee basis in the second quarter of 2025, but trailed the benchmark by 188 basis points. The Fund's underperformance was primarily attributable to security selection across several sectors, including financials, information technology, industrials and consumer discretionary. The largest detractor was an underweight position in NVIDIA Corp., which continued to surge on sustained AI momentum. Within the financials sector, insurance brokers such as Brown & Brown Inc. and Marsh McLennan Companies Inc. experienced double-digit declines, reflecting both the broader underperformance of defensive, quality-oriented sectors and industry-specific headwinds from stabilizing insurance rates and subdued inflation, which tempered organic growth relative to recent years. In the industrials sector, Copart Inc. pulled back following its second-quarter earnings release, as insurance volume growth slowed to 2% year-over-year, from 9% in the previous quarter, although it remains too early to determine if this marks the beginning of a sustained trend. Meanwhile, LVMH Moet Hennessy Louis Vuitton SE., was the largest laggard within the consumer discretionary, as luxury demand weakened amid a more cautious global consumer environment, further contributing to the Fund's relative weakness during the quarter. On the upside, security selection in the consumer staples and communication services sectors helped partially offset some of the weakness, as Polish grocer Dino Polska SA, video game company Nintendo Co. Ltd., and technology conglomerate Sea Ltd. all delivered robust gains during the three-month period. Sector allocation, on the other hand, had a positive impact on relative performance. Underweight sector exposure to health care and overweight exposure to information technology were the largest contributors, while not having an allocation to the energy sector also proved beneficial.

The Fund eliminated Xylem Inc. (XYL) and initiated new positions in MercadoLibre Inc. (MELI) and Lumine Group Inc. (LMN).

- **Xylem Inc.** is one of the leading water technology companies globally. Its portfolio spans a wide range of equipment and solutions for the water industry, including the transport, treatment, testing and efficient use of water for public utilities, as well as for industrial, commercial and residential customers. We exited our modest position in XYL (roughly 45 basis points) in favour of MercadoLibre, reflecting our conviction in MELI's long-term growth trajectory relative to XYL's more mature and slower-growing profile.

- **MercadoLibre Inc.**, often called the "Amazon of Latin America", is the region's largest e-commerce platform. Founded in 1999 by Marcos Galperin in Argentina, it now operates online marketplaces across 18 Latin American countries, including key markets like Argentina, Brazil and Mexico. Over time, it has expanded beyond its marketplace roots to provide integrated payment solutions, logistics, financing and advertising services, creating a comprehensive digital commerce ecosystem. This ecosystem creates powerful network effects (value to all users) that drive customer loyalty and reinforce its competitive moat. MELI's proprietary logistics infrastructure and data-driven capabilities further strengthen its market leadership, enabling efficient operations and enhanced user experiences. Notably, the company is unlocking new growth avenues through its fast-scaling credit card business, which is central to its digital banking ambitions, and through its high-margin advertising business. With a proven track record of innovation, robust financial performance and a vast, underpenetrated addressable market, we believe MELI is exceptionally well positioned for sustained growth as digitalization accelerates across Latin America.

- **Lumine Group**, the second spin-off from Constellation Software, began trading as an independent public company on March 24, 2023. The company targets the communications and media sector, employing a vertical market software (VMS) roll-up strategy similar to Constellation Software (CSU) and Topicus.com (TOI). As a serial acquirer (frequent acquirer of businesses to foster growth), LMN has demonstrated mid-single-digit organic growth across its core markets and is led by a team of outstanding capital allocators with a proven history of value creation, following the CSU playbook. In our view, LMN, often described as a "mini-CSU," has the potential to generate even greater value as a standalone entity than it could have under the Constellation umbrella.

In terms of shareholder engagement in the second quarter:

- As part of our involvement in Climate Action 100+, we met with **Trane Technologies** to review progress on its climate commitments. **Trane** reported strong results on Scope 1 and 2 reductions, and is making steady progress on its "Gigaton Challenge" (climate commitment) to reduce Scope 3 emissions. The company expects AI integration to improve product efficiency and lifespan and plans to release new circularity key performance indicators to be released by the third quarter of 2025 that will reach beyond recycled metals to refurbished parts. **Trane** recently published its first climate transition plan, designed as a living document. Despite high energy costs and reduced incentives, heat pump upgrades remain financially beneficial in Europe. Increased collaboration between **Trane** and large technology firms on water and emissions goals reflects continued corporate momentum on sustainability.

- We engaged with **Microsoft** to discuss working conditions for data workers involved in labelling, annotation and content moderation for AI, and interactive media platforms like Xbox Live and LinkedIn. We learned that Microsoft now relies primarily on Large Language Models (LLMs) for content moderation, which we view positively given the significant psychological risks human moderators face when exposed to disturbing or explicit content.

- In May, we participated in our first meeting with **LVMH** as part of the World Benchmark Alliance's collaborative engagement on nature and biodiversity. The discussion covered the company's existing biodiversity initiatives, progress over recent years, and key challenges encountered in implementation.

- We signed an investor letter expressing concerns regarding **Amazon**'s Quebec warehouse closures and its commitment to freedom of association and collective bargaining. Along with other investors, we've invited the company to respond to the concerns raised.

Other Investor Statements and Initiatives Supported:

- We are signatory of an investor statement that emphasizes the economic and social importance of a robust public health system in the U.S. This investor statement urges companies that we invest in to ensure they maintain fair access to health care in light of the current U.S. administration's cuts to various programs. The statement calls on companies to:

- Ensure that corporate political activity and public policy engagement, including through trade associations, supports the advancement of global public health priorities and safeguards existing national public health policy and infrastructure. The statement also calls on companies to evaluate the direct and indirect impacts of both new and existing public policies, and their enforcement on the company, its workers and customers specific to health and well being

- Assess the upstream and downstream impacts of the company's commercial business streams on the human right to health

- Adopt policies, systems and processes to ensure the right to health is upheld and a company's commitment to health equity is maintained, including but not limited to their commitment to achieving Sustainable Development Goal 3 (SDG3), as well as Article 12 of the International Covenant on Economic, Social and Cultural Rights

- Support the appointment and staffing of individuals with the appropriate experience and credentialing to lead key public health positions

We remain optimistic about the long-term outlook for equities. Although uncertainties persist around global trade policy and heightened geopolitical tensions, the economic growth prospects for many countries continue to be encouraging. Inflation forecasts suggest a return to a more moderate, long-term environment, while central banks maintain an easing stance. Additionally, fiscal stimulus from governments in Europe, Canada and the U.S. is supporting further economic expansion.

While we anticipate continued market volatility, history has shown that markets are remarkably resilient – each downturn has ultimately been followed by a recovery. This enduring pattern is a key reason why many investors choose to stay invested through periods of turbulence, such as those witnessed in the first half of this year.

Fund and benchmark performance as at June 30, 2025	1 year	3 year	5 year	10 years
IA Clarington Inhance Global Equity SRI Class – Series A	7.5%	14.8%	9.9%	8.8%
MSCI World Index (CAD)[1]	15.9%	20.6%	14.6%	11.7%

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For definitions of technical terms in this piece, please visit iaclarington.com/glossary and speak with your investment 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 Fund's benchmark, the MSCI World Index, is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index consists of 23 developed market country indices. The Fund holds securities of companies which meet the fund manager's socially responsible investment principles, while the holdings in the benchmark may not align with these principles. The Fund's market capitalization, geographic and sector 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. 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.

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