

IA Clarington Inhance Monthly Income SRI Fund

Manager Commentary – Q1 2026

During the period (April 1, 2025 – March 31, 2026), gold prices peaked at around US\$5,417 per ounce, in part owing to the U.S. administration's protectionist policies and political pressures that created questions about the U.S. Federal Reserve's independence.

The early 2026 outbreak of war in the Middle East shocked global energy markets, and soaring crude oil prices compounded supply chain pressures and reignited inflation concerns.

Canada's renewed focus on domestic infrastructure and defence spending to bolster its economy, sovereignty and Arctic security heightened optimism around anticipated beneficiaries, such as Canadian defence, space and infrastructure suppliers.

The rapid development of artificial intelligence (AI) models fuelled market concerns around the possibility of white-collar jobs becoming obsolete. Real estate services, engineering and construction services, and software companies sold off as investors adopted the "shoot first, ask questions later" approach.

The S&P/TSX Composite Index generated impressive returns, driven primarily by surging gold and oil prices, as well as strong earnings (corporate profits) from major banks.

The Bank of Canada (BoC) maintained its policy interest rate at 2.75% through the first half of the period before cutting rates by 25 basis points at each of its September and October meetings. Afterwards, the BoC signalled it would likely hold interest rates steady over the near term, barring material economic changes.

All sectors of the investment-grade Canadian fixed income market generated positive total returns (returns is inclusive of interest income and capital appreciation). Corporate bonds outperformed on the back of 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, but long maturities underperformed given rising yields (the income earned from a security) and the steepening (long-term rates increasing more than short-term rates) yield curve (graphically illustrates the yields and maturities of bonds of similar credit quality).

The Fund's overweight exposure to equity and underweight exposure to fixed income contributed to performance over the period (April 1, 2025 – March 31, 2026). The Fund's security selection in the industrials and health care sectors contributed to performance, as did its allocation to the information technology sector.

The Fund's fixed income component outperformed the fixed income benchmark as it was fully invested in corporate bonds, with no exposure to federal government bonds. Within corporate bonds, the Fund's holdings remained skewed towards short-maturity corporate bonds and therefore maintained a much lower sensitivity to interest rates. The Fund's allocation to preferred shares (a type of share ownership in a corporation where shareholders are paid out before common shareholders in the event of bankruptcy) also contributed as strong risk sentiment drove performance in the preferred share market.

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The Fund's equity component underperformed the benchmark owing primarily to its underweight exposure to the materials sector, overweight exposure to the real estate sector and lack of exposure to the energy sector. The Fund's cash allocation also detracted modestly.

The fixed income component generated a positive absolute return but underperformed equities, detracting somewhat from performance.

New equities positions included Pigeon Corp., a leading manufacturer of baby care products and a growing range of premium electric and skincare products, with a strong presence across Asia and a reputation for quality and reliability. TMX Group Ltd. is a quality Canadian company with a good yield, strong track record of compounding earnings and strong competitive advantages. Restaurant Brands International Inc. has a strong portfolio of quick-service restaurant brands that collectively offer a significant runway (long-term growth opportunity) for "asset-lite" (a model that owns fewer physical assets and relies more on partners/franchising) growth. McDonald's Corp. is a high-quality, dominant fast-food franchise that provides a good yield. LVMH Moët Hennessy Louis Vuitton SE appears to be approaching a cyclical bottom (a trough in an economic or business cycle) and should benefit from accelerating economic recovery. FirstService Corp. is a quality Canadian compounder that has been negatively affected by slower growth, but it should recover through the economic cycle.

Within fixed income, the Fund actively extended its short corporate bond holdings at very attractive yield pickups.

Increased equities positions included Premium Brands Holdings Corp., which appeared poised to deliver strong U.S. revenue growth, earnings growth and free cash flow generation (cash a company generates after accounting for capital expenditures). Lamar Advertising Co., the leading billboard operator in North America, has a track record of creating significant value for shareholders and a healthy balance sheet. Richards Group Inc. has been transitioning into a predominately hybrid distribution and original equipment manufacturer in the global health care business. The company's stock was very cheap and should re-rate (a change in the value of a company) if management can deliver on its strategy. A&W Food Services of Canada Inc. is a dominant burger quick-service restaurant, second only to McDonald's in terms of size within Canada, and it has an attractive franchisor model with runway for growth.

Decreased positions included Games Workshop PLC as its risk/reward profile became less attractive after a strong run in its share price. Enghouse Systems Ltd. was trimmed owing to management's failure to follow through on promised capital deployment and continued deterioration in the company's existing businesses. CME Group Inc. and Texas Instruments Inc. were trimmed on valuation grounds. BSR REIT was trimmed owing to lack of visibility on improving apartment fundamentals (underlying financial health and business performance) in the U.S. sunbelt region.

Eliminated positions included Air Products and Chemicals Inc. and Labrador Iron Ore Royalty Corp. as the fund manager found better opportunities elsewhere. Broadcom Inc., Kone OYJ, Nutrien Ltd., Winmark Corp. and Power Corp. of Canada were sold based on valuation. First National Financial Corp. was acquired and taken private. Savaria Corp. was sold based on weak organic growth (resulting from increased productivity and sales) recovery in the European Union.

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In terms of environmental, social and governance (ESG) factors (refers to a company's environmental, social and corporate governance policies), Vancity Investment Management Ltd. (VCIM) was involved with shareholder proposals presented at the annual general meetings (AGMs) of Royal Bank of Canada, Bank of Montreal (BMO) and Canadian Imperial Bank of Commerce (CIBC) that requested enhanced disclosure on the use of internal pay metrics used to develop executive compensation packages. The proposals received shareholder support of 11.53%, 7.33% and 9.89%, respectively, reflecting continued investor interest in greater transparency and accountability in executive compensation practices. Engagement on executive pay matters will remain an area of focus.

VCIM engaged with BMO on climate-related issues, including the bank's evolving climate strategy and disclosure, with a focus on climate risk management, target setting and transparency. At BMO's 2025 AGM, VCIM co-filed a shareholder proposal requesting enhanced disclosure of BMO's lobbying and policy influence activities in alignment with the objectives of the Paris Agreement, which received 20.83% shareholder support.

A shareholder proposal was presented at CIBC's AGM requesting disclosure of industry-specific carbon risk scoring metrics and client transition plans to demonstrate alignment with the bank's 2030 interim targets to reduce financed emissions. The proposal received strong shareholder support, with 23% of votes in favour.

In March 2026, VCIM led the writing and development of a new investor statement on excessive executive compensation, in partnership with United Church Funds, as part of a newly launched initiative coordinated by the Interfaith Center on Corporate Responsibility (ICCR). VCIM's ESG team proposed the development of an investor statement as a foundational step to launch the campaign. The statement outlines concerns regarding misaligned and excessive executive compensation and sets out investor calls to action across proxy voting (casting shareholder votes without attending the meeting), corporate engagement and stewardship practices. The investor statement was presented and publicly launched at ICCR's Annual Spring Conference in New York on March 25, 2026.

While concerns around elevated oil prices, the upcoming Canada-U.S.-Mexico trade agreement renegotiation, further tariff threats and a weakening consumer remain top of mind, the fund manager plans to continue making bottom-up decisions (security selection based on a company's fundamental characteristics, rather than top-down macro calls) rather than allowing market predictions to drive stock selection or portfolio construction.

	1-year	3-year	5-year	10-year
IA Clarington Inhance Monthly Income SRI Fund - Series F6	14.5%	8.9%	6.4%	7.1%
30% FTSE Canada Universe Bond Index, 70% S&P/TSX Composite Index	23.8%	15.7%	10.8%	9.4%

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Get ahead

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 benchmark is a blend of 30% FTSE Canada Universe Bond Index and 70% S&P/TSX Composite Index. The blended benchmark presented is intended to provide a more realistic representation of the general asset classes in which the Fund invests. The FTSE Canada Universe Bond Index 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 S&P/TSX Composite Index is the premier indicator of market activity for Canadian equity markets, with 95% coverage of Canadian-based, TSX-listed companies. The index includes common stock and income trust units and is designed to offer the representation of a broad benchmark index while maintaining the liquidity characteristics of narrower 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, sector exposure and credit quality 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. Overall, the Fund's bond and equity exposure can differ, because the Fund does not use a fixed ratio similar to the benchmark. 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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