IA Clarington Inhance Monthly Income SRI Fund

Manager commentary – Q4 2025

In the fourth quarter, Canadian equities reached new record highs, led by the financials, materials and consumer discretionary sectors. While the suspension of U.S. trade talks and ongoing tariffs continued to weigh on the steel, automotive and lumber industries, the labour market improved, with unemployment falling to a low of 6.5%. In response to the shifting relationship with the U.S., Prime Minister Carney's 2025 Federal Budget committed billions to transform the Canadian economy and reduce dependence on U.S. trade, fostering a positive environment for infrastructure and defense investment, directly benefiting several industrials sector names with exposure to these nation-building projects. While the outlook for the Canadian economy remains uncertain – not least owing to the upcoming renegotiation of Canada-United States-Mexico Agreement (CUSMA), the mortgage renewal wall in 2026, and the slowdown in population growth that is presenting challenges for the real estate sector – the Canadian consumer and economy have proven to be resilient thus far, with the outlook for Canadian equities continuing to remain positive.

Global bond yields were mixed in the fourth quarter, as diverging central bank policy expectations drove significant differences in underlying bond market performance across regions. Yields on Japanese government bonds led developed markets higher, up 23 to 42 basis points (bps) across the yield curve, while yields on U.K. government bonds were down 20 to 30 bps across the yield curve over the same period.

The U.S. Federal Reserve (the Fed) cut its policy rate by 25 bps at both its October and December meetings, taking the upper bound of its policy rate down to 3.75%. The December decision was broadly anticipated by traders, but was marked by internal dissention on the committee, with two members calling for no change for the meeting and another calling for a 50-bps cut. The Fed's updated December projections, which showed the median official expecting a single quarter-point cut in 2026, were also marked by wide-ranging views, with a 175-bps range between the highest and lowest committee member's expectation of where the policy rate would end in 2026.

Meanwhile, the Bank of Canada (BoC) cut its policy rate by 25 bps to 2.25% at its October meeting, but signaled that it was likely done cutting this cycle as long as economic activity evolved broadly in line with its expectations. Subsequently, at its December meeting, the BoC left its policy rate unchanged and reiterated that the current policy rate was at "about the right level." Stronger-than-expected economic releases during the quarter, including three very strong monthly employment reports, diminished expectations of further rate cuts, driving Canadian bond yields broadly higher. Government of Canada bond yields were up 11 to 25 bps across the yield curve during the quarter, with the 10-year maturity area of the curve underperforming, closing the period at 3.43%.

Reflecting the broad shift higher in underlying Government of Canada bond yields, the FTSE Canada Universe Bond Index posted a total return of -0.32% in the fourth quarter. The corporate sector was the

lone positive returning sector, as corporate credit spreads continued to push tighter, offsetting the rise in underlying Government of Canada yields. On the yield curve, longer-dated bonds underperformed as yields increased, and yield curves steepened. The provincial sector, by virtue of its long duration, was the weakest-performing sector in the Canadian bond universe, despite modest spread tightening in provincial credit spreads.

IA Clarington Inhance Monthly Income SRI Fund Series T6 delivered an absolute return of +2.62% for the quarter, underperforming the benchmark return of +4.26%.

For the equity portion of the Fund, the financials sector made the largest absolute contribution to performance (+184 bps), supported by strong advances in core holdings such as Royal Bank of Canada (RBC) and The Toronto-Dominion Bank (TD Bank). RBC's and TD Bank's shares rose amid a resilient Canadian banking environment, benefiting from strong quarterly earnings. The consumer discretionary sector (+112 bps) also contributed meaningfully, led by Games Workshop Group Plc, which saw its stock rise on the back of strong core miniature sales and overall sales growth despite difficult comparable tied to strong licensing sales in the previous year. The industrials sector added +43 bps, with Exchange Income Corp. reaching all-time-highs following strong third-quarter earnings results in its aerospace and aviation segments. DRI Healthcare Trust contributed positively as well, buoyed by new royalty acquisitions, solid performance from its existing royalty portfolio, and continued unit buybacks. Conversely, the utilities sector detracted -34 bps, led by Northland Power Inc., which experienced a significant pullback as the company announced a surprise dividend cut. The materials (-20 bps) and communication services (-19 bps) sectors also weighed on results, with Telus Corp. pressured by analyst downgrades, dividend policy adjustments and weaker third-quarter, while Richards Group Inc. (previously known as Richards Packaging) and Killam Apartment REIT detracted moderately as well. Wolters Kluwer NV also detracted from performance as its shares, alongside its peers (software & information/content service providers), continued to face pressure from disruption risks related to artificial intelligence (AI).

The Fund's fixed-income allocation remains tilted towards high-quality corporate bonds less than five years in maturity. As a result, the duration of the Fund's fixed-income allocation is significantly shorter than the FTSE Canada Bond Universe Index's duration, while yield curve exposure is all in the short end of the curve, which was positive for relative performance in the fourth quarter given the outperformance of shorter-maturity bonds on the curve. The Fund's preferred shares, which averaged a 6.3% weight over the quarter, outperformed bonds, and this positioning also contributed to performance. Ongoing redemptions in the preferred share market continued to put a strong bid into existing preferred share issues.

During the period, we exited the Fund's positions in Power Corp. (TSX: POW) and Savaria Corp. (TSX: SIS), and initiated a new position in TMX Group Ltd. (TSX: X).

In terms of shareholder engagement this quarter:

- We met with RBC and Bank of Montreal to discuss recent updates to each institution's climate strategy and reporting. These discussions provided valuable insight into how the banks are refining their approaches to climate risk management, target-setting and disclosure practices.

Other investor statements and initiatives supported:

- Vancity Investment Management supported a "Say on Climate" vote request sent to FTSE 100 companies, encouraging them to provide shareholders with an opportunity to vote on their climate risk and resilience strategies at least once every three years. Such votes enable investors to express support for a company's approach, including related capital expenditures, and establish a clear mechanism for raising concerns where necessary.
- The ESG team participated in multiple Canada Climate Week events which support Canada's commitment of a significant greenhouse gasses (GHG) reduction by 2030 through the creation and promotion of events where cross-collaboration on Canada's climate-related challenges can drive solutions and opportunities. This was an opportunity to connect with other investors and climate experts, and to hear from thought leaders.
- We joined the steering committee of a new collaborative engagement group organized by Interfaith Center on Corporate Responsibility (ICCR). The purpose of the group is to engage companies on excessive executive compensation. Excessive executive compensation can be detrimental to investors as it often suggests weak corporate governance and can be poorly aligned with long-term shareholder value. For society, it fuels wealth inequality and social tension, as the growing disparity between CEO and average-worker pay is perceived as unethical, and can undermine economic stability and trust in democratic institutions.

We remain optimistic about the long-term outlook for equities. While uncertainties persist around global trade policy and heightened geopolitical tensions, the Canadian economy continues to show resilience, supported by steady economic growth, robust corporate earnings and a positive outlook for lower interest rates. Although political uncertainties and tariff threats from the U.S. may contribute to increased market volatility, the underlying fundamentals for Canadian stocks remain solid.

History has shown that markets are resilient, with each downturn eventually followed by recovery. This pattern underscores why many investors choose to remain invested through periods of volatility, such as those experienced in the first half of 2025. Maintaining a diversified approach across sectors and geographies is especially important as the Canadian market navigates ongoing global trade dynamics and economic conditions.

IA Clarington Inhance Monthly Income SRI Fund

Fund and benchmark performance as at December 31, 2025	1 year	3 year	5 year	10 year
IA Clarington Inhance Monthly Income SRI Fund – Series T6	12.2%	9.3%	6.5%	6.2%
30% FTSE Canada Universe Bond Index, 70% S&P/TSX Composite Index	22.3%	16.2%	11.0%	9.5%

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 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. 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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