

# IA Clarington Inhance Monthly Income SRI Fund

## Manager commentary – Q2 2025

The Canadian equity market delivered a strong performance in the second quarter of 2025, outpacing its U.S. counterpart despite ongoing global uncertainty and heightened trade tensions, particularly those arising from U.S. tariff threats. A key driver of this outperformance was the election of Mark Carney as prime minister, which bolstered investor confidence in Canada's economic outlook and policy direction. His leadership signaled a decisive shift toward stronger fiscal stimulus and pro-growth policies, measures that are expected to underpin corporate earnings and overall economic activity. Toward the end of the period, the escalation of armed conflict between Israel and Iran briefly reignited fears of a global oil supply shock. This development caused a temporary spike in oil prices and a short-lived dip in the stock market. However, the market quickly stabilized as geopolitical tensions eased and a ceasefire was announced, with the S&P/TSX Composite Index ultimately posting a robust gain of 8.5% for the quarter. Dividend stocks, however, lagged behind as growth-oriented and cyclical sectors led the market rally, resulting in the S&P/TSX Composite High Dividend Index returning just 5.3% 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 FTSE Canada Universe Bond Index posted a return of -0.6% over the second quarter. Longer-dated bonds underperformed on the yield curve as yields increased over the period. In particular, federal bonds lagged both provincial and corporate 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 (coupon interest) and credit spread compression more than offset rising Canada yields.

**IA Clarington Inhance Monthly Income SRI Fund** advanced 7.3% on a gross-of-fee-basis over the reporting period, outperforming its blended benchmark (30% FTSE Canada Universe Bond Index, 70% S&P/TSX Composite Index) return of 5.8%. The underweight allocation to fixed income and overweight

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allocation to equities contributed positively to the Fund's overall performance, as equities outperformed fixed income during the period.

Within the equity component, both security selection and sector allocation added meaningfully to the Fund's relative performance. Notably, not having any exposure to energy sector stocks – which underperformed the broader market amid weaker oil prices – was the biggest contributor, while security selection in the industrials and health care sectors further enhanced relative results. Specifically, all holdings in the industrials sector posted positive returns, with Exchange Income Corp., Element Fleet Management Corp. and Savaria Corp. delivering double-digit returns thanks to positive earnings momentum. In the health care sector, the Fund benefited from a sizable position in DRI Health Care Trust, which rebounded following its termination of its external management agreement and bringing investment decisions in-house. This move enhanced governance and transparency, and better aligned management incentives with unitholder interests, all of which were well received by investors. Other notable individual contributors were Killam Apartment REIT, Jamieson Wellness Inc., Admiral Group PLC and Northland Power Inc.

The fixed-income allocation remains tilted towards high-quality corporate bonds of less than five years in term. As a result, the duration of the Fund's fixed-income allocation is significantly shorter than the FTSE Canada Universe Bond Index's duration, and yield curve exposure is all in the short end, which was positive for relative performance in the second quarter given the outperformance of shorter-maturity bonds on the curve. The Fund's preferred shares, which averaged a 6.0% weight over the quarter, outperformed bonds, also contributing to performance. Ongoing redemptions in the preferred share market and lack of new-issue supply is continuing to put a strong bid into existing preferred share issues.

In terms of portfolio activities for the equity component, the Fund initiated new positions in fast-food chain McDonald's Corp. and Italian transmission system operator Terna-Rete Elettrica Nazionale SpA. We eliminated BCE Inc., Broadcom Inc., Canadian Tire Corp. Ltd. and Labrador Iron Ore Royalty. Proceeds from the sales were also used to top up existing positions like Addtech AB, Bureau Veritas SA, Lamar Advertising Co and Richards Packaging Income Fund. Given the rise in bond yields and steepening of the yield curve, the Fund was active with credit extensions (selling shorter-maturity bonds and purchasing longer-dated bonds) to take advantage of higher all-in yields.

In terms of shareholder engagement in the second quarter:

- We met with the **North West Company** to understand their approach to Indigenous Reconciliation. We came away with a strong sense that the company is meaningfully committed to reconciliation, integrating Indigenous perspectives into decision-making, talent development and procurement.

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- We presented our shareholder proposal on industry-specific carbon risk scoring and transition plans at the annual general meeting (AGM) of **CIBC**. The proposal asked CIBC to disclose scoring metrics for clients classified in carbon risk scoring categories and for client transition plans to ensure alignment with the bank's 2030 interim targets to reduce financed emissions. The proposal received highly favourable support of 23%.
- At the **BMO** AGM, Investors for Paris Compliance presented the proposal we co-filed requesting the bank to disclose lobbying and policy influence activities "in a manner consistent with its support for the aims and objectives of the Paris Agreement." This proposal also received favourable support of 20.83%.
- We presented our shareholder proposal requesting enhanced disclosures on the use of internal pay metrics at the AGMs of **CIBC**, **RBC** and **BMO**. We received support votes of 9.89%, 11.53%, and 7.33%, respectively. It was encouraging to see other shareholders speak at the AGM in support of our proposal. We will continue to assess and engage with these banks on executive compensation matters.
- Along with our co-filers, we withdrew our shareholder proposal at **TD Bank**. The ask was for an independent review of TD's board governance policies and director selection criteria with a view to improving accountability and competency regarding key risks and emerging priorities. Namely, we would like to see more climate and net-zero competency among board members. Given the importance of the topic, the withdrawn shareholder proposal was nonetheless addressed at the AGM.
- As part of a collaborative engagement focused on the rights of digital workers, we've taken the lead in engaging with **TELUS Digital** and have requested the company to provide information related to working conditions, wages and benefits for data workers and content moderators.
- Content moderators who review content for platforms like TikTok and Facebook often face exposure to graphic material, low pay, strict surveillance, unsustainable quotas, limited mental health support and weak labour protections. Since **TELUS Digital** acts as an outsourcing firm for companies like Meta and ByteDance, we engaged **TELUS** to better understand their involvement in content moderation and the working conditions of **TELUS'** moderators. **TELUS** reported that only 5% of reviewed content is violent or harmful; directly employed moderators are allowed unlimited mental health breaks and have free access to licensed psychologists during employment and for up to 12 months afterward. These practices helped address several key concerns. We continue to monitor reports of anti-union tactics at a **TELUS Digital** call centre abroad and may re-engage if issues remain.

**Other investor statements and initiatives supported:**

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- 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. 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 this year. Maintaining a diversified approach across sectors and geographies is especially important as the Canadian market navigates ongoing global trade dynamics and economic conditions.

Fund and benchmark performance as at June 30, 2025	1 year	3 year	5 year	10 years
IA Clarington Inhance Monthly Income SRI Fund – Series T6	15.1%	7.4%	8.7%	5.1%
30% FTSE Canada Universe Bond Index, 70% S&P/TSX Composite Index	20.0%	12.5%	10.3%	7.4%

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For definitions of technical terms in this piece, please visit [iaclarington.com/glossary](http://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.

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