IA Clarington Loomis U.S. All Cap Growth Fund

Manager commentary – Q2 2025

Over the long term, we believe that markets are efficient. Near term, however, we believe innate behavioural biases, such as herding, overconfidence or loss aversion, may influence investment decisions and create asset pricing anomalies. These pricing inefficiencies converge toward intrinsic value over time. Market efficiency is thereby dynamic, existing along a continuum between fully efficient and inefficient pricing. Therefore, we attempt to identify intrinsic value and exploit the long-term differential between this value and the market's current perception. We look to invest in those few high-quality businesses with sustainable competitive advantages and profitable growth when they trade at a significant discount to intrinsic value.

Over the quarter, IA Clarington Loomis U.S. All Cap Growth Fund Series A posted returns of 13.4%, outperforming the S&P 500 TR (CAD) index return of 5.2%. On a U.S.-dollar basis, NVIDIA Corp., Netflix Inc., Oracle Corp., Meta Platforms Inc. and Tesla Inc. were the five largest contributors to performance during the quarter. Below, we highlight NVIDIA, Netflix and Oracle. Regeneron Pharmaceuticals Inc., Yum China Holdings Inc., Starbucks Corp., Alibaba Group Holding Ltd. and Boston Beer Co. Inc. were the five weakest contributors to performance. Below, we highlight Regeneron, Yum China and Starbucks.

Stock selection in the information technology, communication services, health care, industrials, consumer discretionary and consumer staples sectors, as well as the Fund's allocations in the communication services, financials and consumer staples sectors, contributed to relative performance. Allocations in the health care, information technology and industrials sectors detracted from the Fund's relative performance.

NVIDIA is the world leader in artificial intelligence (AI) computing, which enables computers to mimic human-like intelligence for problem solving and decision-making capabilities. Founded in 1993 to develop faster and more-realistic graphics for PC-based video games, NVIDIA created the first graphic processing units (GPUs), which enable computers to produce and utilize highly realistic 3D graphic imagery and models. The parallel processing capability of NVIDIA's GPUs can accelerate computing functions by as much as 10 times. As a result, NVIDIA extended its visual computing expertise beyond its legacy gaming market into innovative new and larger markets, including data centres, where they are used for machine learning and AI applications, and autonomous vehicles. The parallel processing capability also facilitates pattern recognition and machine learning functions that have enabled NVIDIA to be at the forefront of growth in AI applications. As a result, the data centre business, which first surpassed the gaming business to become NVIDIA's largest revenue and profit generator in its 2023 fiscal year, grew to represent over 88% of revenue in the company's most recent fiscal year. We believe the company’s strong and sustainable competitive advantages include its intellectual property, brands, and a large, growing ecosystem of developers and applications utilizing GPU technology. NVIDIA reported very strong quarterly financial results that reflected the company’s dominance in capturing spending on AI computing within data centres. For the quarter, total revenue of US$44.1 billion grew 69% year-over-year and 12% versus the prior quarter, despite new U.S. government restrictions on the sale of its H20 chips to China that resulted in US$2.5 billion of foregone revenues in the period. NVIDIA’s H20 chips were specifically designed to comply with prior U.S. export restrictions, and the company anticipates a further US$8 billion of foregone sales in the current quarter owing to the restrictions. Despite the revenue headwind, the company expects revenue of approximately US$45 billion in the current quarter, which would represent 50% growth over the prior-year quarter. The results were also notable given recent concerns that spending might slow given potentially cheaper options to develop AI functionality. These concerns were catalyzed by the January 2025 launch of DeepSeek-V3, a chatbot that appears to rival OpenAI’s ChatGPT from the standpoint of industry performance metrics, but which was claimed to have been created for a fraction of the cost using NVIDIA’s now-restricted H800 chips. We did not believe that the DeepSeek development materially changed the level of investment needed to develop the next generation of frontier models as companies strive for AGI (artificial general intelligence) and beyond. We believe this view is supported by the unchanged plans for AI investment by the industry’s leading spenders. Following the news, some of the world’s largest investors in AI technology, including Meta, Microsoft and Alphabet, reaffirmed and expanded on their intention to spend tens of billions of dollars in 2025. We believe this supports our thesis that NVIDIA’s accelerated computing technology remains crucial to achieving AGI and other AI advances. Further, the company noted that the success of DeepSeek, which employs reasoning AI, has itself been a driver of strong demand. With reasoning AI, as opposed to providing a “one-shot” answer based on statistical probabilities and existing patterns, the model spends more time refining the answer by running it through the model multiple times before outputting an answer that is more accurate and nuanced. As a result, reasoning AI is more compute intensive and can require 100 times more computing power per task than one-shot inferencing. With continued evidence that greater capabilities can be achieved with greater computing power and expanding use cases such as agentic AI, we believe both near-term and long-term demand will remain strong. For the quarter, record data centre revenues of US$39.1 billion rose 73% year-over-year and represented 89% of quarterly revenues. The company dominated data centre spending on AI computing, with quarterly data centre revenue that was again approximately quadruple that of competitors Intel and AMD combined. Enterprise, consumer internet companies and regional cloud-hosting providers represented over 50% of data centre revenue in the quarter, while hyperscale cloud service providers that are building out their infrastructure of accelerated servers to monetize strong demand for GPUs by companies looking to leverage AI capabilities and drive competitive differentiation represented the balance. Having eased prior supply constraints, Blackwell accounted for nearly 70% of data centre revenue in the quarter, which represents the fastest product launch in the company's history. We believe the long-term growth drivers for NVIDIA are secular in nature. Still, we anticipate there could be a pause in spending following the initial buildout period as hyperscalers and others digest their substantial new purchases of GPUs. We believe such cyclical pauses are characteristic of even the best growth companies historically. In the current period, however, many of these hyperscalers have already announced increased capital expenditure plans with a greater share going to AI architecture that should continue to benefit NVIDIA in its 2026 fiscal year and beyond. We believe the company's decades of focused investment, cumulative know-how and robust software platform and architecture that has attracted millions of developers, has positioned the company to benefit from several secular long-term growth drivers, including accelerated adoption and continued growth in applications and use cases for AI. Over the long term, we believe virtually all servers will be accelerated, primarily using GPU technology, up from a low-double-digit to mid-teens percentage today. Gaming revenues of US$3.8 billion rose 42% year-over-year and 48% versus the prior quarter, in which revenue declined following six consecutive quarters of growth. Given supply constraints in its data centre business, the company temporarily focused its resources on alleviating constraints in that segment, which have since been addressed. We believe the gaming business can sustain secular growth in the mid-to-high teens, driven by both unit sales and pricing increases. Over our long-term investment horizon, we believe double-digit growth in gaming revenues and faster growth in its data centre markets will enable NVIDIA to sustain total annualized revenue growth of approximately 20%. With low capital intensity and high cash-flow returns on invested capital, we believe the company can generate faster growth in free cash flow. We believe NVIDIA's strong growth prospects are not currently reflected in its share price. As a result, we believe the company's shares are trading at a significant discount to our estimate of intrinsic value, offering a compelling reward-to-risk opportunity.

Founded in 1997, Netflix is one of the world's leading internet entertainment platforms and a pioneer of subscription video on demand (SVOD), which it first launched in 2007. Today, the company is a global leader with over 300 million paid subscribers, out of what we estimate is a total addressable market of one billion households outside of China, who access TV series, movies, mobile games and other entertainment content across a wide variety of genres, languages and devices. The company has subscribers in over 190 countries, with an estimated global audience in excess of 700 million. We believe Netflix's strong and sustainable competitive advantages include its focus, scale, brand, and a large installed base of clients that are protected by high barriers to entry. As a pioneer in SVOD, Netflix has amassed a subscriber base that we estimate to represent just under 40% of all SVOD subscribers globally and approximately 50% of the industry revenue share of the leading global providers. Over the past five years, the company's strong brand is reflected in both its premium pricing versus peers and mid-single-digit growth in average revenue per user. Over the past decade, Netflix has invested more than US$120 billion in content and amassed over 14,000 hours of original content, which is estimated to represent just under two times the next five largest streaming competitors combined. Of course, it is not just the quantity, but quality of the content that matters. Netflix has captured the first or second spot in total Emmy Awards during the past six years, which we believe reflects the quality of its content. The ability to create and acquire high-quality content contributes to very high barriers to entry. A portfolio holding since the first quarter of 2022, Netflix reported quarterly financial results that were strong and above management guidance and consensus expectations for revenue, operating margins, free cash flow and earnings per share. The company also provided guidance for the current quarter that was above consensus expectations, but maintained its full-year outlook for key metrics. Quarterly revenue of US$10.5 billion rose 16% in constant currency, driven by higher subscription and ad revenue, both of which benefited from membership growth and pricing gains. The company recently increased prices in the U.S., U.K. and Argentina, and announced it would be increasing prices in France. The company also successfully rolled out an internal ad tech platform in the U.S. and transitioned off a partner platform. The company anticipates rolling out this platform to all its ad markets over the next several months, which is expected to contribute to better measurement and targeting, as well as enabling new ad formats and expanded programmatic capabilities. The company believes that paid sharing and its ad-supported pricing plan, which was initially rolled out in 12 markets in November 2022, will further broaden its addressable subscriber base and has contributed to accelerating revenue growth and greater monetization per user. The company previously commented that the paid-sharing initiative was resulting in better-than-expected retention and conversion of borrowing households into full-paying members. We believe SVOD will continue to benefit from a secular shift from linear television to streaming entertainment as a result of growing global penetration of broadband internet connections, the proliferation of internet-connected devices, and consumers' desire for on-demand personalized entertainment at prices that are generally significantly below paid TV. In our view, as a leading provider of SVOD, Netflix will take its share of global consumer entertainment spending from about 3% today to approximately 5% over our long-term investment horizon, contributing to low-double-digit growth in revenue over our long-term investment horizon. We expect substantial recent investments in content will moderate, and we believe the company will benefit from higher gross margins as its content library is leveraged over a growing global subscriber base. We recently increased our longer-term operating margins for Netflix, driven by higher scale benefits, and now expect Netflix to generate longer-term operating margins in the mid-30% range, up from approximately 30% previously. As a result, we expect both operating profits and free cash flow will grow faster than revenues, in the mid-teens. We believe current market expectations substantially underestimate the strength of Netflix's business model and its ability to generate sustainable growth in free cash flow over our long-term investment horizon. As a result, we believe the shares trade at a substantial discount to our estimate of intrinsic value and offer a compelling reward-to-risk opportunity.

Oracle is a leader in the enterprise software market, with a strong market position in database, infrastructure and application software, and cloud-based software and services. We believe the company’s strong and sustainable competitive advantages include its large and experienced direct sales force, a founder-driven management team that reinvests relentlessly to maintain a leading intellectual property portfolio and differentiated product suite, and a large installed base of clients where it consistently achieves client renewal and retention rates in the mid-90% range. We believe Oracle is well positioned to benefit from the continuing growth in data storage and enterprise software solutions, as well as the shift to cloud-based solutions. Oracle reported strong quarterly financial results that were above management guidance and consensus expectations on most measures, including remaining performance obligation (RPO) bookings, a forward-looking measure of revenue. As a result, the company expects revenue growth to accelerate and raised its guidance to at least 16% revenue growth in its 2026 fiscal year, driven by cloud growth in excess of 40%. While Oracle remains the world leader in its largest business segment, enterprise database software used in customer on-premise IT environments, the company continues to focus on transitioning its business from a traditional on-premise, up-front software licensing and maintenance revenue model to a cloud-computing subscription-based model where software revenue is recognized over the life of the client’s contract. While there has been pressure on year-over-year overall revenue comparisons during this transition, which started over a decade ago as Oracle released cloud versions of its applications and infrastructure software, as up-front license revenue shifts to subscription revenue, we have long expected this to lead to faster growth over time owing to a higher customer lifetime value. Even though the company is in the midst of a major business model transition, Oracle’s financials remain strong, and adjusted EBIT (earnings before interest and taxes) of US$5 billion rose 4% versus the prior-year quarter and was above consensus expectations, despite a 266 basis-point decline in EBIT margins, to 44%. Operating cash flow of US$20.8 billion represented 36% of revenues, but free cash flow was negative in the quarter owing to elevated capital expenditures to support the continued build out of its cloud infrastructure, which we estimate will contribute to revenue growth in excess of 20% in it cloud infrastructure business over our long-term investment horizon. Over the trailing 12 months, the company invested US$21 billion in capital expenditures, which represented a greater than 200% increase over the prior-year period. There are no changes to our view of Oracle as a structurally attractive business trading substantially below our estimate of intrinsic value. Oracle has a strong financial model that currently has high financial leverage due to its increased allocation of capital to share repurchases and more recently its US$28 billion acquisition of healthcare IT provider Cerner in 2022. We expect operating margins will improve over time as Cerner benefits from Oracle’s technology and scale. We believe Oracle is well positioned given its core database & infrastructure and applications suite of products and solutions, and we expect the company will generate long-term growth of free cash flow around the 20% level over our investment time horizon. We believe Oracle’s stock price embeds free-cash-flow growth assumptions that are well below our long-term forecast. As a result, we believe its shares are selling at a significant discount to our estimate of intrinsic value and offer a compelling reward-to-risk opportunity.

Regeneron Pharmaceuticals is a fully integrated biopharmaceutical company created with the vision to empower scientists to shape the path of the business by advancing long-term scientific outcomes over short-term results. Regeneron has created enabling technologies, platforms and methods that materially speed target discovery and development timelines, allowing the company to develop viable candidates for clinical trial faster than competitors. Regeneron's shares declined sharply following news that a phase 3 clinical therapy met its primary endpoint in only one of two clinical trials in treating former smokers with inadequately controlled chronic obstructive pulmonary disease (COPD). While the company is evaluating next steps, we believe it is likely that the program, developed in collaboration with Sanofi, will be severely delayed if not shelved altogether. And while our base-case valuation for the company included a positive probability-weighted contribution from the program, the market decline was far greater than our estimate of the program's value contribution, such that our assessment of reward-to-risk to our revised base case following the market reaction became even more attractive. We believe the market reaction may have been exaggerated given pre-existing concerns regarding Eylea, the company's largest revenue generator. The company reported that sales for its Eylea franchise declined versus the prior-year quarter owing in part to a funding gap at copay assistance foundations that led cost-sensitive consumers to off-label Avastin, as well as competition from new entrants. We have long expected Eylea to face heightened competition, most immediately from the 2022 approval of Roche's Vabysmo, as well as the eventual introduction of biosimilar competition for 2mg Eylea. However, we believe Eylea's efficacy and safety profile of greater than 10 years has provided a very strong competitive advantage that remains difficult for competitors to overcome. Regeneron has responded to the competitive threat with an increased (8mg) dose of Eylea (Eylea HD), which was approved by the FDA in 2023. We believe Eylea HD's potential is clinically superior to any existing or clinical therapy, carries the benefit of less-frequent dosing than 2mg Eylea, earlier-generation competitors, and all current biosimilars, and benefits from Eylea's 10-year safety history, once again illustrating Regeneron's demonstrated ability to innovate and sustain its market leadership. The company has made good progress in switching patients from the regular dose of Eylea, as well as capturing those that are not well managed on existing alternative therapies, despite competition from Vabysmo. However, the combination of near-term affordability given the co-pay issue which impacted branded therapies relative to cheaper alternatives, along with temporary labeling disadvantages, have benefited competitors in the current period. While we believe Eylea HD remains superior to alternative options, it is not yet indicated for a particular type of macular edema (following retinal vein occlusion), as the original Eylea is, and it is not indicated for more frequent dosage in those rare instances when required for certain patients. The company is awaiting an FDA decision on both issues, expected in August. Further, while it is available in a more-convenient pre-filled syringe (PFS) outside the U.S., temporary issues with a contract manufacturer in the U.S. have delayed the availability of the PFS in the U.S. We believe all of these issues will be rectified shortly, which should re-establish the therapy's superior competitive positioning in the market given its unmatched history of safety and efficacy. Outside of potentially heightened competitive intensity for Eylea in the U.S., the company continues to perform well. We believe the Eylea franchise's competitive advantages remain intact. Eylea has established itself as the leading branded therapy in treating a broad and expanding range of diseases of the back of the eye. Its leading efficacy over both the short and long term, as well as its attractive safety and side effect profile, have made it the market leader and choice of physicians across multiple indications – a position that will be difficult for new competitors to replicate. Regeneron continues to drive innovation in and derive intrinsic value from not only diseases of the back of the eye, but across a host of oncology, hematology and central nervous system indications. We believe Regeneron is among the highest-quality businesses in healthcare, with both broad-based established therapies and meaningful pipeline assets that include over 40 product candidates currently in trials across numerous indications spanning a broad range of auto-immune disorders, oncology targets and cardiovascular diseases. We believe the share price embeds a lack of appreciation for the company's multiple growth opportunities and the uniqueness of its business model. As a result, we believe the company's shares trade at a significant discount to our estimate of intrinsic value, and represent a compelling reward-to-risk opportunity. We took advantage of near-term price weakness to add to our position during the quarter.

Yum China is the largest restaurant company in China, operating over 16,000 restaurants primarily under the KFC and Pizza Hut brands. Yum China reported solid quarterly financial results that were better than expected for same-store-sales growth and restaurant margins, and again reflected record net-new store openings. However, unit growth was nonetheless slower than expected and revenues and profitability were below expectations. We believe the financial and operating results reflect the company's continued success in navigating a challenging consumer spending environment. The company continues to expand into lower-tier cities while consistently innovating to sustain consumer purchases – especially among its over 540 million loyalty members. We also believe the company has the products and scale to offer increasingly value-conscious consumers attractive food options at all price points, while still serving customers looking for greater premiumization. The company has recently accelerated the pace of its store openings while sustaining attractive payback periods. While it took the company 25 years to open its first 5,000 stores and eight years to open the next 5,000, the last 5,000 took only four years and the company anticipates exceeding 20,000 units by 2026. We believe Yum China's strong and sustainable competitive advantages include its exclusive license to operate and franchise two of the most prominent restaurant brands in China, the scale of its distribution and supply-chain infrastructure, a first-mover advantage in real estate procurement, and decades of experience in restaurant operations. The Chinese economy is transitioning to a consumption-driven economy, following a path similar to that of other developing economies. We believe this will fuel future consumption spending, including expenditures in restaurants, as food options like Pizza Hut and KFC become increasingly affordable to an emerging middle class with rising levels of disposable income. We believe that its iconic brands, large and complex supply-chain infrastructure and real estate procurement expertise allow Yum China to remain well positioned to benefit from the secular growth of consumer spending on restaurants in China. We believe current market expectations do not reflect the company's long-term opportunity for increased sales given unit growth and consumer recovery, as well as the resulting improvement in margins and free cash flow. And while the company is selling at a discount to our estimate of intrinsic value, we modestly trimmed our position during the quarter.

Starbucks is the world's leading retailer and roaster of specialty coffee, with more than 40,000 coffee shops in 88 markets worldwide. Starbucks reported quarterly financial results that reflected slightly lower-than-expected revenue growth, driven by comparable-store-sales ("comps'"). While comps improved in North America over the prior quarter, the decline of 1% was just shy of consensus. International growth inflected positively and was well ahead of consensus expectations, with China showing signs of stabilization after four consecutive quarters of negative comps growth. However, owing to operating investments in labour and continued sales deleverage, primarily in North America, operating profits, margins and earnings per share (EPS) all came in below expectations. Despite the lower-than-expected results, there were several indicators suggesting the company's "Back-to-Starbucks'" strategy was showing positive results. They included transactions that improved over the previous quarter, brand research suggesting the brand was scoring at its highest level in two years, material improvement in social media brand engagement, successful pilot programs to reduce order wait times, and good growth among non-Starbucks rewards members – which had been an area of weakness over the past year. The company continues to emphasize the key pillars of the Back-to-Starbucks strategy, which include improving employee and customer satisfaction, reducing wait times and improving throughput, elevating the in-store coffee house experience, innovation, simplification and branding. The company also communicated that it was pulling back on the prior management team's Siren Systems rollout, which required store renovations to install new equipment intended to improve throughput and productivity. After piloting a less-capital-intensive alternative over the past few months, CEO Brian Niccol is confident he can achieve the desired results in a less-disruptive and less-capital-intensive manner. Year-over-year sales growth of 3% in constant currency was driven by increased store count that was offset in part by a 1% decline in global comps versus the prior-year quarter. International comps rose 2% over the prior-year period, as 3% transaction growth more than offset a 1% decline in ticket size. China comps were flat year-over-year. While China has been undergoing a period of weak consumer spending, Starbucks has seen positive reaction to some of its recent innovations and pricing initiatives, and performance in the quarter represents sequential improvement over declines of 14% and 6% in the third and fourth quarters, respectively. We and the company believe that Starbucks' brand in China remains strong and that its long-term investment opportunity remains intact. Over our investment horizon, we believe Starbucks can grow its store count in China from over 7,700 to over 14,000 stores, and that China will remain a material growth market and continue to grow incrementally in weight as a percentage of total corporate system sales. The company generated adjusted operating margins of 8.2%, which declined 450 basis points year-over-year owing to sales deleverage and investments in its Back-to-Starbucks plan, particularly in labour. Over our long-term investment horizon, we expect the company to reattain its industry-leading margins and for returns on invested capital to expand as the business becomes increasingly streamlined and asset light, and continues to benefit from overall scale and growth in North America, China and large international markets that are under-penetrated and represent attractive licensed-market opportunities. We believe Starbucks' strong and sustainable competitive advantages include its brand, scale, culture and digital engagement with consumers through its rewards program. Collectively, we believe these competitive advantages would be difficult to replicate and create high barriers to entry for competitors. We believe that Starbucks is one of the best-positioned companies in the specialty coffee industry and one of the highest-quality consumer brands in food and beverage. We believe that over the long run, its global sales growth will be supported by a long tail of away-from-home coffee consumption, pricing power, ongoing premiumization, improved loyalty and targeted marketing. In addition, we believe that the China opportunity is not fully appreciated by short-term investors. We believe the current market price embeds expectations well below our long-term assumptions for operating income, margins and growth of free cash flow. As a result, we believe that Starbucks is trading at a meaningful discount to our estimate of intrinsic value and offers an attractive reward-to-risk opportunity.

Our investment process is characterized by bottom-up, fundamental research and a long-term investment time horizon. The nature of the process leads to a lower turnover portfolio where sector positioning is the results of stock selection. At quarter-end, the Fund had an overweight position in the communication services, consumer discretionary and health care sectors. The Fund had underweight positions in the financials, information technology, industrials and consumer staples sectors. We held no positions in the materials, energy, real estate or utilities sectors. We remain committed to our long-term investment approach to invest in those few high-quality businesses with sustainable competitive advantages and profitable growth when they trade at a significant discount to intrinsic value.

Fund and benchmark performance, as at June 30, 2025	1-year	3-year	Since inception (Feb. 2021)
IA Clarington Loomis U.S. All Cap Growth Fund – Series A	22.3%	29.6%	13.8%
S&P 500 Index (CAD)	14.8%	22.0%	15.7%

For definitions of technical terms in this piece, please visit iaclarington.com/glossary and speak with your investment advisor.

IA Clarington Loomis U.S. All Cap Growth Fund

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 S&P 500 Index (CAD). The S&P 500 Index (CAD) includes 500 leading companies in leading industries of the U.S. economy and is widely regarded as the best single gauge of the U.S. equities market. 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 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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