

IA Clarington Thematic Innovation Class

Manager commentary – Q1 2025

As 2024 progressed, the world appeared to be slowly finding the right balance between encouraging growth and controlling inflation. Central banks throughout the world made concerted efforts to manage the cost of living and inflation challenges facing individuals and businesses.

The most recent quarter was dominated by U.S. President Trump's surprisingly aggressive stance on tariffs, particularly towards Canada. By the end of the period, Trump had implemented 25% tariffs on steel, aluminum and cars, with more tariff announcements expected in April.

U.S. growth was expected to be somewhat flat in the first quarter, as consumer and business confidence was increasingly shaken by political uncertainty. The U.S. Federal Reserve held its target interest rate steady at 4.50%.

The U.S. equity market, as represented by the S&P 500 Index, returned favourable results in 2024 but regressed by 4.3% in the first quarter of 2025 given economic pressures. Over the 12-month period, this resulted in a return of 8.3% in U.S.-dollar terms and 15.1% in Canadian-dollar terms.

The Fund's allocations to the consumer discretionary and energy sectors contributed to performance, as did its security selection in the communication services sector. Individual contributors included American information technology giant Apple Inc., which benefited from a strong rebound in shipments in China that significantly boosted earnings in the second and third quarters of 2024. Leading semiconductor company NVIDIA Corp. generated impressive revenue and earnings performance that was driven most notably by huge demand in key segments, such as artificial intelligence (AI) data centres.

The Fund's allocations to the utilities, information technology and health care sectors detracted from performance, as did its security selection in the health care, industrials and information technology sectors. Individual detractors included American cloud-based software company Salesforce Inc., which experienced slower growth in its core customer relationship management segment, increased competition from other cloud service providers and higher operational costs. Shares of semiconductor company Advanced Micro Devices Inc. declined as the company faced supply-chain disruptions and increased competition from other semiconductor manufacturers.

New positions included AT&T Inc., as the telecommunications industry was going through an efficiency cycle and encroaching cable services as a catalyst for growth. Marsh & McLennan Cos. Inc. was added as the fund manager considered the insurance industry to be undervalued, and also believed that the sector was shielded from tariffs and positioned for growth owing to secular trends and consolidation benefits.

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Increased positions included Synopsys Inc. as the fund manager viewed electronic design automation as an evergreen trend that should benefit in the long term.

Decreased positions included GE Vernova Inc. amid concerns about its capital expenditures.

Eliminated positions included ServiceNow Inc. amid high valuation levels and expected cuts within the U.S. federal government. Starbucks Corp. was sold as the fund manager believed that the company would have a harder time turning the business around during an economic slowdown and uncertain market environment.

Heading into the second quarter of 2025, the fund manager anticipates heightened uncertainty and volatility leading to a cautious mindset among both companies and investors. While lower interest rates would be helpful, consumers and businesses are pausing spending. The fund manager expects the current uncertainty to gradually subside, supported by increased clarity on tariffs, ongoing global trade negotiations and the impending budget reconciliation facilitating tax cuts in the latter half of the year.

The fund manager thinks we should see incremental quantifiable benefits of AI adoption in 2025 through internal and external efficiencies, top-line incrementality, and visible applicable and scalable use through applications and/or software services. Despite the defensive shift in the Fund's first-quarter positioning to align with prevailing market sentiment, the fund manager believes that the future leaders within thematic sectors are currently undervalued.

Adhering to a "barbell" investment strategy, the fund manager will continue to seek out companies strategically positioned to benefit from innovation trends while maintaining investments in established companies. This well-rounded approach allows the Fund to capitalize on disruptive technology opportunities while benefiting from the stability and strength of established market players that have enduring pricing power, strategic capital allocation practices and advantageous positions within their respective supply chains.

Fund and benchmark performance, as at March 31, 2025	1-year	3-year	5-year	10-year
IA Clarington Thematic Innovation Class – Series A	9.5%	10.3%	15.1%	7.7%
S&P 500 Index (CAD)	15.1%	14.3%	18.9%	13.9%

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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 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. Effective May 30, 2019, Taylor Asset Management Inc. was removed as sub-advisor and Industrial Alliance Investment Management Inc. remained as portfolio manager, and the Fund's investment strategies changed. Effective April 1, 2023, the portfolio manager changed to iA Global Asset Management Inc.

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 are historical annual compounded total returns.

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