

IA Clarington QV U.S. Equity Class

Manager commentary – Q3 2025

During the third quarter of 2025, IA Clarington QV U.S. Equity Class Series A returned 5.2% in Canadian dollars (\$CAD) versus 10.3% for the S&P 500 TR Index (\$CAD).

In the second quarter, the S&P 500 Index rose 5.2% (in Canadian-dollar terms), driven by a resurgence in information technology stocks, particularly those benefiting from renewed artificial intelligence (AI) optimism. Toward quarter-end, the S&P 500 exceeded its previous mid-February high, marking one of the fastest corrections on record. Amid ongoing trade uncertainty, the U.S.-dollar index experienced its steepest year-to-date decline since 1973.

In the third quarter, returns were dominated by a narrow contingent of information technology stocks exposed to the AI fervour. Valuations were also supported by a U.S. Federal Reserve (the Fed) interest-rate cut and generally robust corporate earnings. A weakening in U.S. labour data and economic indicators supported the prospect of further interest-rate cuts, despite persistent inflation. The expectation for lower borrowing costs buoyed small-cap stocks, which outperformed their large-cap peers, while growth stocks outpaced value.

Over the six-month period, the Fund's stock selection within the information technology and consumer discretionary sectors contributed to performance, as did its allocation to the financials sector. Individual contributors included Alphabet Inc., which produced robust earnings and saw growth in its cloud computing segment. The company's AI model reached 450 million monthly active users, and a favourable antitrust ruling pushed the stock to new highs. Thor Industries Inc. produced solid quarterly results that highlighted improving North American dealer inventories and a margin recovery in towables. Applied Materials Inc. delivered back-to-back quarters of record earnings fueled by strong demand for AI and cloud-related semiconductor equipment.

The Fund's overweight exposures to the consumer staples and health care sectors detracted from performance, as did its underweight exposure to the information technology sector. The Fund's stock selection within the health care and consumer discretionary sectors also detracted. Individual detractors included Centene Corp., which withdrew annual guidance amid data showing that its ACA Marketplace business was slowing. Elevated medical costs and worsening trends in Medicaid also drove valuations down. UnitedHealth Group Inc. fell sharply following an earnings shortfall driven by higher-than-expected medical costs and patient utilization rates. Shares of Novo Nordisk AS re-rated following a significant cut to its full-year guidance amid increased competition in the obesity drug market.

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New positions included Estee Lauder Cos. Inc., a global leader in prestige beauty. Recent operational underperformance and market disruptions reduced its valuation well below long-term averages. Warrior Met Coal Inc. is a U.S.-based, low-cost producer of high-quality metallurgical coal critical for steelmaking. The business appeared to be undervalued.

Increased positions included Novo Nordisk as the stock re-rated near a decade-low valuation multiple. Despite some challenges, including increased competition, the franchise consistently generates solid returns on capital and has a strong balance sheet and attractive growth outlook. UnitedHealth Group outlined a well-defined path toward margin improvement, implying strong earnings growth in the coming years. Unilever PLC was trading at a near-decade low following strong results that showed excellent performance in terms of volume, price and margins. PepsiCo Inc. remained near a historically low valuation, but the fund manager thinks the market meaningfully underestimates the company's long-term earnings power.

Decreased positions included 3M Co. as its valuation normalized toward historical averages, and its earnings growth was expected to decelerate. JPMorgan Chase & Co., a leading global financial services franchise, produced strong second-quarter earnings, but the fund manager expected below-average returns from current levels.

Eliminated positions included Hormel Foods Corp., given persistent margin pressures and operational setbacks, as well as management's inability to deliver on its optimistic narrative. Netflix Inc.'s valuations reached multi-year highs, increasing valuation risk and lowering expected returns. Oracle Corp. has been transitioning to cloud computing and AI, which has driven earnings but below-average returns were expected following such a meaningful re-rating. Wells Fargo & Co. re-rated following the removal of the Fed's asset cap, but despite operational improvements and cost reduction, management did not articulate a clear capital deployment strategy.

Weakening employment and leading economic indicators continue to diverge from rising equity valuations. The Fed has begun cutting interest rates despite persistent inflationary pressures and a historically expensive stock market. Meanwhile, the proliferation of AI is propelling one of the strongest technological innovation cycles in decades, simultaneously supporting extreme stock market movements and driving massive corporate capital expenditure despite uncertain future returns.

Against a backdrop of extreme concentration and narrow market leadership, the Fund continues to hold a diversified portfolio of high-quality businesses that exhibit a mix of defensive, cyclical and long-term compounding characteristics. The fund manager believes that this "all-weather" portfolio should deliver reasonable outcomes regardless of broader equity market volatility.

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Fund and benchmark performance as at September 30, 2025	1-year	3-year	5-year	10-year
IA Clarington QV U.S. Equity Class - Series A	6.5%	14.3%	14.7%	7.4%
S&P 500 Index (CAD)	21.1%	25.5%	17.4%	15.7%

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

This Fund changed its name from IA Clarington U.S. Equity Class, effective June 16, 2025.

The performance data comparison presented is intended to illustrate the Fund's historical performance 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 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. equity market. The Fund's market capitalization and sector exposure may differ from that of the benchmark. The Fund's currency risk exposure may differ from 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 the sub-advisor of the Fund was changed from Sarbit Advisory Services Inc. to QV Investors Inc., and the Fund's investment strategies changed.

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.

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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