IA Clarington QV U.S. Equity Class

Manager commentary – Q2 2025

During the second quarter of 2025, IA Clarington QV U.S. Equity Class Series A returned -3.7% in Canadian dollars, versus 5.2% for the S&P 500 Index (CAD).

The "U.S. exceptionalism" theme re-emerged in the second quarter, driven by a resurgence in information technology stocks, particularly those benefiting from renewed optimism regarding artificial intelligence. Within the S&P 500 Index, the top-performing sectors for the quarter included information technology (+24%), communication services (+18%), industrials (+13%) and consumer discretionary (+12%). Lagging sectors included energy (-9%), health care (-7%) and real estate (0%).

The Fund's relative underperformance in the quarter was driven by unfavourable allocation toward the information technology, health care and consumer staples sectors, as well as poor security selection within the health care, consumer discretionary and industrials sectors. Security selection within the information technology sector provided a modest offset to the relative underperformance over the period. Top individual contributors to performance included Dollar General Corp., Applied Materials Inc. and Oracle Corp. Top detractors included UnitedHealth Group Inc., PepsiCo Inc. and Centene Corp.

As at June 30, 2025, the Fund held 40 positions across eight market sectors, with a cash balance of approximately 3.8%. During the quarter, we made net-weighting increases within the health care, information technology and consumer discretionary sectors, and net trims within the industrials and consumer staples sectors. There were no new portfolio initiations or eliminations during the quarter.

We increased our weight in Novo Nordisk AS as the stock re-rated near a decade-low valuation multiple of roughly 18x, on concerns about increasing competition within the company's core obesity franchise. Novo is the largest producer of novel insulin therapies in addition to several of the most well-known GLP-1 products, such as Ozempic, Wegovy, Rybelsus and Saxenda. The franchise remains an exceptional business that consistently generates greater than 50% returns on invested capital, with a strong balance sheet and an attractive growth outlook.

We also increased exposure to Thor Industries Inc. as the valuation reached 0.9x book value, a level consistent with a cyclical bottom, despite recent data pointing to an emerging recovery in wholesale shipments and revenues. We expect strong returns over a medium-to-longer term given the franchise's competitive strengths, improving fundamentals and attractive valuations.

Furthermore, we added to our Applied Materials position early in the second quarter, as the shares traded down to 13.6x earnings against broader market weakness and a corresponding pullback in semiconductor equipment manufacturers. We also continued to build our weight in Dollar General after initiating the position in late March.

We partially funded these purchases with cash on hand, and through trims within the consumer staples (Nestlé SA, Alimentation Couche-Tard Inc., Unilever PLC), health care (UnitedHealth Group), industrials (3M Co.) and consumer discretionary (Darden Restaurants Inc.) sectors.

The Fund's weighting in UnitedHealth Group was trimmed on a deteriorating near-term outlook as mounting business headwinds, including rising health care costs, led to a withdrawal of current-year financial guidance and a management change. We continue to consider all future outcomes for the business. We also reduced our weight in 3M as its valuation normalized toward historical averages, reducing our expected return going forward.

Tepid leading economic indicators, rising unemployment and nominal GDP growth trending toward the Federal Funds Rate suggest that the North American economy may be entering the later stages of the current economic cycle. U.S. equity valuations have returned to historically high levels alongside corporate earnings growth expectations, which have been recovering since trade war concerns peaked in April. With many long-term sentiment indicators approaching cyclical peaks, investors appear to have largely dismissed policy concerns related to trade tariffs or the trajectory of the U.S. fiscal deficit.

The Fund remains well diversified, holding a high-quality group of businesses that we expect will generate growing cashflows over time regardless of policy uncertainty, as well as more cyclical businesses that trade at sizeable discounts to their underlying earnings power over an economic cycle. Cumulatively, we expect the combination of defensive business models, growing earnings and low valuations to produce relatively attractive outcomes under a variety of scenarios for the broader economy and stock market.

Fund and benchmark performance as at June 30, 2025	1-year	3-year	5-year	10-year
IA Clarington QV U.S. Equity Class - Series A	6.8%	13.5%	14.0%	7.2%
S&P 500 Index (CAD)	14.8%	22.0%	16.7%	14.7%

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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.

The information provided should not be acted upon without obtaining legal, tax, and investment advice from a licensed professional. Statements by the portfolio manager or sub-advisor represent their professional opinion and do not necessarily reflect the views of iA Clarington. Specific securities discussed are for illustrative purposes only and should not be considered a recommendation to buy or sell. Mutual funds may purchase and sell securities at any time and securities held by a fund may increase or decrease in value. Past investment performance may not be repeated. Unless otherwise stated, the source for information provided is the portfolio manager. Statements that pertain to the future represent the portfolio manager's current view regarding future events. Actual future events may differ.

Commissions, trailing commissions, management fees, brokerage fees and expenses all may be associated with mutual fund investments, including investments in exchange-traded series of mutual funds. The information presented herein may not encompass all risks associated with mutual funds. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.