

IA Clarington U.S. Equity Class

Manager commentary – Q1 2025

During the first quarter of 2025, IA Clarington U.S. Equity Class Series A returned 0.6% outperforming the S&P 500 Index (CAD) which returned -4.2%. Over the 12-month period, the Fund returned 10.0% compared to 15.1% for the benchmark.

Early in the 12-month period, S&P 500 Index returns were driven by a small number of mega-cap stocks with high price-to-earnings ratios in the narrowest market rally since 1974. Seven mega-cap companies drove the S&P 500 Index's return in the second quarter.

U.S. stocks rallied into the third quarter on hopes that the U.S. Federal Reserve's (the Fed) interest-rate cut of 50 basis points would engineer a "soft landing" for the economy following a dip in the S&P 500. Meanwhile, 10-year U.S. government bond yields compressed in anticipation of further interest-rate cuts and alongside falling inflation and weakening jobs data.

The fourth quarter began with high investor optimism surrounding the new U.S. administration. However, the Trump government's new policies, including trade tariffs, resulted in expectations for lower growth, stubborn inflation and growing uncertainty around future Fed policy.

The Fund's stock selection within the industrials, consumer discretionary and financials sectors contributed to performance, as did its underweight allocation to the information technology sector. Individual contributors included 3M Co., as its second-quarter results led to a favourable re-rating in valuation. AutoZone Inc. delivered strong results, particularly in consistent growth in store numbers and same-store sales. Tariffs on new car sales were likely to drive strong demand for auto parts. Darden Restaurants Inc.'s share price gains were driven by better-than-expected same-store sales growth and margins within their largest restaurant brands.

The Fund's stock selection in the communication services and consumer staples sectors were the largest detractors from performance. Stock selection within the health care sector also detracted. Individual detractors included Thor Industries Inc. as cautious consumers refrained from large discretionary purchases. Centene Corp. generated solid growth, but the uncertainty surrounding potential cuts to Medicaid funding curbed investor enthusiasm. Merck & Co. Inc. experienced negative sentiment driven by weaker-than-expected sales of its Gardasil vaccine, particularly in China.

New positions included Solventum Corp., a spin-off of 3M's health care segment, as the business exhibited stable profit margins and benefited from a strong competitive position in diverse, non-cyclical

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end markets. Applied Materials Inc. is the world's leading manufacturer of semiconductor fabrication equipment and holds a dominant market share within several key product segments.

Increased positions included Darden Restaurants as the shares de-rated to nearly 15x forward earnings, which provided an attractive level to increase ownership in a franchise with a history of compounding earnings at attractive rates. Nestlé SA was increased despite near-term challenges. The company still owns one of the best brand portfolios among its global consumer goods peers, and its valuation at the time of purchase was near decade lows.

Decreased positions included Alphabet Inc., which was trimmed amid growing threats to its dominant search franchise, antitrust pressure and drastically increased spending related to artificial intelligence. Bank of America Corp., JPMorgan Chase & Co. and Wells Fargo & Co. were trimmed following strong gains over several quarters that resulted in their price-to-book value ratios meaningfully exceeding long-term averages.

Eliminated positions included The Boston Beer Co. Inc. owing to persistent volume declines resulting from deterioration in specific categories and intense competition. Verizon Communications Inc. was sold as stubborn inflationary pressures and lack of pricing power created a sustained challenge to earnings.

The largest reset in U.S. geopolitical and trade policy in decades has injected a new structural element of uncertainty into risk assets. The fund manager sees this as a major realignment of the existing world economic order and does not believe that aggregate valuations and investor sentiment adequately reflect the associated risks or the rapidly rising probability of U.S. recession.

Market sentiment has abruptly pivoted from an outlook defined by reaccelerating corporate profits and lower interest rates to one that is increasingly pricing-in risks to earnings growth as well as stubborn inflation.

The Fund finished the period at a meaningful discount to the S&P 500 despite higher returns on invested capital, a superior balance sheet, a higher dividend yield and comparable growth prospects. The Fund's above-average cash holdings and overweight positioning within traditionally defensive sectors should allow it to take advantage of a reinvestment landscape that is rapidly becoming more favourable from the vantage of implied long-term return potential.

Fund and benchmark performance as at March 31, 2025	1-year	3-year	5-year	10-year
IA Clarington U.S. Equity Class - Series A	10.0%	12.8%	16.8%	7.5%

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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 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 are historical annual compounded total returns.

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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