

# IA Clarington Inhance Global Small Cap SRI Fund

## Manager commentary – Q1 2025

Global equities delivered strong performances over the period (April 1, 2025 – March 31, 2025), fueled by enthusiasm around artificial intelligence (AI), expectations of imminent interest-rate cuts and positive economic and earnings growth forecasts. However, global trade uncertainties, particularly the U.S. government's tariff threats to trade partners, created challenges for markets and pushed volatility higher toward the end of the period.

Geopolitics was a key flashpoint, as the new U.S. administration's stance on Ukraine alienated European allies. Increasing uncertainty in the U.S. led to investors repositioning into markets such as Europe, China and emerging markets, which all outperformed the S&P 500 Index.

The "Magnificent 7" stocks (Apple Inc., Microsoft Corp., Alphabet Inc., Amazon.com Inc., NVIDIA Corp., Meta Platforms Inc. and Tesla Inc.) faced a particularly harsh sell-off, worsened by news of Chinese startup DeepSeek unveiling a low-cost AI model.

Global large-capitalized stocks (company with a market capitalization of more than \$5 billion) outperformed small capitalized stocks (companies with a market capitalization of \$300 million to \$2 billion), primarily driven by large market capitalized information technology companies that benefited from the AI boom. This dominance faded by mid-2024 as expectations of interest-rate cuts and pro-growth policies under the Trump administration created favourable conditions. However, small capitalized stocks (small caps) struggled in the first quarter of 2025 owing to broader market volatility and economic uncertainty.

The Fund's stock selection in the information technology sector contributed to performance, as did its underweight position in the health care sector and its lack of exposure to the energy sector. Individual contributors included Guidewire Software Inc., which beat revenue expectations, highlighting strong deal momentum as well as strong margin (refers to a company's profits) improvement. BELIMO Holding AG saw strong share price momentum in contrast to other European peers. Dino Polska SA saw strong gains in late 2024 and early 2025, reporting solid financial results.

The Fund's security selection in the industrials, consumer discretionary, health care and consumer staples sectors detracted from performance. The Fund's underweight position in the financials sector detracted from performance, as did its overweight position in the information technology sector. The Fund's lack of exposure to the utilities and communication services sectors also detracted. Individual detractors included Five Below Inc. as shares weakened considerably early in the period amid disappointing company earnings results, then weakened again over the summer. Grocery Outlet Holding

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Corp. saw weaker results, owing in part to lingering issues around its enterprise resource planning system. Croda International PLC was weak as its core specialty chemicals and ingredients business remained under pressure.

New positions included Topicus.com Inc., a smaller, European-focused replica of its parent company, Constellation Software Inc. The company offers a proven acquisition model with a better risk/reward profile compared to most small- and mid-capitalized (a company with a market capitalization value between \$2 billion and \$5 billion) software companies. AddTech AB is a Swedish industrial serial acquirer that focuses on acquiring high-quality, founder-led businesses and operating them with a decentralized approach. Kinaxis Inc. is a Canadian software business with a leadership position in supply chain planning.

Increased positions included Stevanato Group S.p.A., Kinsale Capital Group Inc., Five Below, SiteOne Landscape Supply Inc., Grocery Outlet and Dino Polska to take advantage of share price weakness.

Decreased positions included Four Corners Property Trust Inc. to redeployed proceeds into positions with better long-term risk/reward potential. Nova Ltd., Floor & Decor Holdings Inc., BELIMO Holding, Kadant Inc., Lincoln Electric Holdings Inc., Guidewire Software and Diploma PLC were trimmed owing to extended valuations or to simply take profits.

Eliminated positions included BlackLine Inc. as the announcement that it would be included in the S&P Small Cap 600 Index spurred demand for shares, but the company faces challenges concerning growth. El.En S.p.A. is an Italy-based manufacturer of specialty lasers for niche aesthetic and medical uses, a competitive industry with a relatively high degree of change. Intertek Group PLC and its testing and inspection industry peers are generally high-quality businesses, but the industry has struggled with organic growth (growth resulting from increased productivity and sales, rather than, e.g., through acquisition of a competitor).

In terms of environmental, social and governance (ESG) issues, Vancity Investment Management Ltd. (VCIM) engaged with value retailer Five Below in 2024 to better understand its wage practices and present the business case for becoming a living wage employer. VCIM highlighted an investor statement calling for corporate leadership on providing living wages for U.S. workers. VCIM provided Five Below with resources and examples, and recommended conducting a living wage assessment to identify gaps. The company agreed to review the materials and to meet with VCIM again.

VCIM has been supporting an engagement with Darling Ingredients Inc. that was coordinated by a global network of investors addressing risks and opportunities in the global food system to focus on the impacts of animal waste on water quality and biodiversity. An engagement letter was sent to the company in November, and the company responded in February outlining the initiatives it was taking to

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mitigate the risks set out in the investor letter. The participating investors were reviewing the response and deciding next steps.

In late 2024, VCIM joined the Fostering Action for Biodiversity through Responsible Investment in Clothing (FABRIC) initiative organized by Finance for Biodiversity Foundation. The investor-led coalition works with companies and aims to have them publicly commit to reducing the negative environmental impacts of their activities through the whole lifecycle of their products and align with the Global Biodiversity Framework's targets by 2030. This will be a multi-year engagement.

VCIM became a signatory of the 2024 Global Investor Statement to Governments on the Climate Crisis. This statement, coordinated by the Investor Agenda, urges governments worldwide to enact the critical policies needed to free up private financial flows for the just transition to a climate-resilient, nature-positive, net-zero carbon emissions economy.

VCIM also became a founding signatory of the World Benchmarking Alliance's Investor Statement on Nature, a call for companies to urgently assess and disclose their impacts and dependencies on nature.

VCIM was one of nearly 100 institutional investors that supported a statement supporting the comprehensive U.S. immigration reform that investors like VCIM view as critical to creating business certainty, operational continuity, economic expansion and a more cohesive and just society. The statement, which includes a series of recommended actions for congress, companies and investors, was issued in response to recent executive orders that have resulted in increased raids by U.S. Immigration and Customs Enforcement, as well as the deportations and detentions of people and families without documentation.

The second Trump administration was expected to produce a "business-friendly" environment for small caps. However, this has not been the case, and the initial "Trump Bump" (A sudden rise in stock market share value or revenue as a result of the election of Donald Trump and his electoral victory) in small caps has more than faded.

Volatility around earnings reports remains heightened, particularly negative surprises on earnings guidance (forecast provided by a company about its expected future earnings). These reactions may be punishing in the short term but may produce opportunities for attractive longer-term positioning.

The Fund benefited from its overweight positioning in European stocks. While the fund manager has observed more attractive valuations in European small caps for some time, greater investor attention has shifted from the U.S. and more toward Europe.

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Looking ahead, small caps continue to offer compelling opportunities, particularly if broader investor sentiment improves. However, investors should anticipate continued volatility as markets navigate evolving economic conditions, central bank policies and shocks from the Trump administration's trade policies.

The fund manager remains focused on finding quality small caps with conservative balance sheets, pricing power, predictable revenue growth and durable competitive advantages, as these characteristics should give them the ability to weather any short-term economic uncertainties.

Fund and benchmark performance as at March 31, 2025	1 year	Since inception (Feb 2023)
IA Clarington Inhance Global Small Cap SRI Fund - Series A	-10.1%	-2.0%
MSCI World Small Cap Index (CAD) <sup>1</sup>	6.1%	7.7%

For definitions of technical terms in this piece, please visit [iaclarington.com/glossary](https://iaclarington.com/glossary) and speak with your investment advisor.

<sup>1</sup>Source: MSCI Inc. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI.

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, The MSCI World Small Cap Index (CAD) captures small cap representation across 23 Developed Markets (DM) countries. With 4,139 constituents, the index covers approximately 14% of the free float-adjusted market capitalization in each country. The Fund holds securities of companies which meet the fund manager's socially responsible investment principles, while the holdings in the benchmark may not align with these principles. 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.

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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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