

# IA Clarington Inhance Global Small Cap SRI Fund

## Manager commentary – Q3 2025

Global markets were shaped by significant volatility and divergence, with performance driven by a complex interplay of trade policy disruptions, monetary policy shifts, technological innovation and heightened geopolitical risks. Uncertainty surrounding the new U.S. tariff regime created both a temporary boost in economic activity through the front-loading of trade, and subsequent concerns about negative effects on global growth. Major central banks pivoted to more accommodative monetary policies (central bank policy that seeks to stimulate economic growth by increasing access to credit through low or reduced interest rates) and cut interest rates.

Investor enthusiasm for artificial intelligence (AI) remained a dominant secular trend, fueling outsized gains in technology segments and creating a pronounced performance gap between growth (an investment strategy focused on finding stocks with high earnings growth potential) and value (an investment strategy that seeks to identify and purchase securities that are trading below their true intrinsic value) strategies.

Heightened geopolitical tensions, U.S. fiscal concerns and concerns of a government shutdown triggered a pronounced flight to safety (the tendency for investors to gravitate to safer assets during times of market uncertainty or high volatility), with precious metals rallying strongly as investors sought protection from policy and currency instability.

Emerging markets, which have underperformed developed markets significantly since late 2020, strongly rebounded in 2025. Emerging markets stocks benefited from a weaker U.S. dollar, attractive valuations (a measurement of how much an investment is worth) and growing recognition of their diversification benefits amid a trend of decoupling from U.S.-centric risks.

Market leadership was highly concentrated, particularly in mega-cap information technology stocks, raising questions about the sustainability and breadth of the equity rally. Sector and regional performance became increasingly fragmented, reflecting the growing importance of country-specific policies, industrial trends and local economic fundamentals over broad macroeconomic drivers.

The Fund's overweight exposures to the information technology and industrials sectors contributed to performance over the period (April 1, 2025 – September 30, 2025), as did its lack of exposure to the energy sector. The Fund's stock selection in the consumer discretionary and consumer staples sectors also contributed. Individual contributors included Five Below Inc. as the company has shown better-than-expected passthrough of tariff costs and returned to solid same-store sales (a measure of a company's revenue growth from existing stores over a specific period compared to the previous year)

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growth after a poor performance through 2024. Shares of Federal Signal Corp. rose following two strong quarterly reports that exceeded analyst expectations, and favourable trends in municipal and infrastructure spending. Shares of Stevanato Group SpA also produced strong quarterly earnings (net income) that exceeded analyst expectations, driven by robust demand for its pharmaceutical packaging solutions.

The Fund's underweight exposure to the materials sector and overweight exposure to the consumer staples sector detracted from performance. The Fund's stock selection in the information technology, industrials and real estate sectors also detracted. Individual detractors included Globant S.A. as the stock declined following earnings guidance (performance forecast) cuts, with management citing weaker client demand. Bytes Technology Group PLC saw an unexpectedly weak trading update in July that indicated lower-than-expected demand from public sector clients and delays in contract awards. Aalberts N.V.'s stock declined amid concerns over weaker-than-expected performance in several key industrial segments, with management citing a continued waning demand in key end markets like European construction and automotive markets.

New positions included AAON Inc., a leading player in the commercial heating, ventilation, and air conditioning industry. The company benefits from powerful secular trends, including increasing demand for energy-efficient and sustainable building solutions. APi Group is an industrial services company that has acquired 100 durable niche businesses with a focus on fire safety inspections and monitoring for commercial buildings and facilities. Many of their companies are recession-resistant because their services are required by fire and building code regulation. FirstService Corp. is a North American leader in essential outsourced property services. The company has a resilient and high-quality business model, underpinned by a high proportion of recurring revenue, strong contract retention rates and a decentralized, acquisition-driven growth strategy.

Increased positions included Globant, Addtech AB, Carl Zeiss Meditec AG, Workiva Inc. and Aalberts, as share prices weakened.

Decreased positions included Federal Signal, Five Below, Belimo Holding AG, Guidewire Software Inc., Diploma PLC and Stevanato Group to harvest gains and/or owing to extended valuations. Four Corners Property Trust Inc. was trimmed and the proceeds were redeployed into positions with better long-term risk-reward potential.

At the Bank of Montreal (BMO) annual general meeting (AGM) in early 2025, Investors for Paris Compliance presented the proposal that Vancity Investment Management (VCIM) co-filed requesting the bank to disclose lobbying and policy influence activities "in a manner consistent with its support for the aims and objectives of the Paris Agreement." This proposal received favourable support of 20.83%.

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VCIM also presented a shareholder proposal requesting enhanced disclosures on the use of internal pay metrics at the AGMs of both Royal Bank of Canada and BMO, receiving support votes of 11.53% and 7.33%, respectively. It was encouraging to see other shareholders speak at the AGM in support of this proposal. VCIM will continue to assess and engage with these banks on executive compensation matters.

VCIM engaged with Microsoft Corp. to discuss working conditions for data workers involved in labelling, annotation and content moderation for AI and interactive media platforms like Xbox Live and LinkedIn. As a part of the World Benchmarking Alliance's Ethical AI benchmarking, VCIM held a meeting with Microsoft to get a more in-depth understanding of how the company was mitigating risks associated with AI safeguards, transparency and equality, as well as how this is supported by governance structures.

In collaboration with investor support group, SHARE and NEI, VCIM held an engagement with Aritzia for an update on their supply-chain human rights due diligence (HRDD) practices. Aritzia is advancing its HRDD by conducting a human rights impact assessment with a third-party specialist, and is working to align its practices with the UN Guiding Principles.

In September 2025, VCIM sent letters to Toromont Industries and Exchange Income Corp. as part of the CDP Non-Disclosure Campaign, encouraging the companies to respond to the CDP corporate questionnaire.

VCIM is a signatory of an investor statement that emphasizes the economic and social importance of a robust public health system in the U.S. This investor statement urges companies in which VCIM invests, to ensure that they maintain fair access to health care in light of the current U.S. administration's cuts to various programs.

VCIM participated in the Global Investor Coalition on Workplace Mental Health Benchmark spearheaded by CCLA Investment Management Ltd. For this initiative, VCIM supported the investor engagement with Microsoft and will sign the next round of investor letters.

VCIM signed a joint statement in which investors warn that the chemical sector is not transitioning fast enough to protect vital ecosystems, and stated that companies are not robustly mapping their dependencies and impacts on nature or taking advantage of the strong market potential for sustainable and safer alternatives to hazardous chemicals.

VCIM signed the Statement—Call for Responsible Corporate Policy and Practices on Human Rights in Conflict-Affected and High-Risk Areas (CAHRA).

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Small-cap stocks, particularly U.S. small caps, had a difficult start to 2025 given the tariff-related volatility. Since then, equity markets have largely recovered as trade tensions eased, monetary policy around the world loosened (central banks have started reducing interest rates) and the economic climate remained supportive, largely through a resilient U.S. economy. Global small caps kept pace with large caps during the recovery but still lag slightly year-to-date.

While declining interest rates typically create a supportive backdrop for the asset class, this environment has also fueled speculative fervour. Under the surface, much of the strength in small caps has been driven by momentum-oriented and speculative areas, such as meme stocks, micro-caps, AI-related companies, crypto plays, nuclear and renewables. In effect, quality and fundamentals are being overshadowed by speculation, which has resulted in a poor environment for active managers. The fund manager remains focused on identifying high-quality small caps characterized by strong balance sheets, pricing power, consistent revenue growth, and durable competitive advantages.

Fund and benchmark performance as at September 30, 2025	1 year	Since inception (Feb 2023)
IA Clarington Inhance Global Small Cap SRI Fund - Series A	1.2%	1.5%
MSCI World Small Cap Index (CAD) <sup>1</sup>	17.0%	12.8%

For definitions of technical terms, visit [iaclarington.com/glossary](https://iaclarington.com/glossary) or 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 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

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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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