

IA Clarington Inhance Global Small Cap SRI Fund

Manager Commentary – Q1 2026

Global equities delivered solid performances in a year defined by momentum-driven (an approach that invests in securities exhibiting an upward price trajectory) market leadership, a robust artificial intelligence (AI) narrative, unprecedented tariff uncertainties and a late-period global energy shock sparked by conflict in the Middle East.

Global small caps and U.S. small caps experienced sharp rallies off April lows, driven disproportionately by low-quality, high-volatility and unprofitable stocks.

The AI trade matured into a massive physical buildout. Hyperscalers (large cloud service providers which can provide services such as computing and storage enterprise scale) committed billions to AI infrastructure, heavily rewarding industrials companies. However, traditional software-as-a-service companies experienced severe multiple compression (stock valuation). Investors aggressively repriced the existential risk posed by low-cost AI models, forcing a re-evaluation of long-term growth and margin expectations (refers to a company's profits). Similar concerns spread to other human capital and/or data-centric industries, such as information services companies, engineering firms, insurance brokerages and commercial real estate services.

Sweeping U.S. import tariffs forced a costly realignment of global supply chains, and the ongoing political and legal uncertainty has created a precarious environment, requiring companies to rapidly execute expensive nearshoring, reshoring and diversification efforts.

The early 2026 outbreak of war in the Middle East shocked global energy markets. With the Strait of Hormuz closed, soaring crude oil prices compounded supply chain pressures and reignited inflation concerns. This triggered a spike in headline-driven volatility and a rapid market rotation into energy and defensive (an investment posture designed to protect against an event or conditions that could have an adverse impact on an asset class or market) assets.

The Fund's overweight exposures to the information technology and industrials sectors contributed to performance, as did its underweight exposures to the financials, communication services and health care sectors over the period (April 1, 2025 – March 31, 2026). The Fund's security selection in the consumer discretionary sector also contributed. The Fund's quality and defensive positioning contributed early in the period. Individual contributors included Five Below Inc., as its strong share price performance marked a sharp reversal in investor sentiment. Tariff concerns faded as impacts proved manageable and/or were offset with price increases, and improved confidence in the new CEO and management team was reflected in the share price following better-than-expected results. Diploma PLC delivered strong full-year returns and upgraded its full-year earnings guidance (forward looking forecast of the company's expected future financial performance) owing to strong structural demand in the aerospace and data-centre markets, while management continued deploying capital into highly accretive mergers and acquisitions. Darling Ingredients Inc. benefited from improving sentiment around the renewable diesel market and supportive regulatory tailwinds. Investor confidence rebounded as weaker competitors curtailed production while industry leaders benefited from favourable regulatory developments and policy clarity.

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The Fund's security selection in the information technology sector detracted from performance as software and information technology services holdings came under significant pressure from the "AI disruption" narrative, and the Fund held underweight positions in semiconductor and technology hardware companies. The Fund's security selection in the industrials, health care and financials sectors also detracted, as did its lack of exposure to the energy and utilities sectors. Individual detractors included Globant S.A. owing to a series of earnings guidance reductions and weaker results. Investors increasingly saw AI as disruptive, and Globant was hit particularly hard given its growth-oriented valuation (a stock that is expected to have above-average earnings growth which drives investors expectation for share prices), higher sensitivity to project delays and lack of near-term reacceleration. Carl Zeiss Meditec AG underperformed owing to repeated earning guidance reductions and persistent uncertainty around end-market demand, and its outsized exposure to China created challenges. Additionally, two CEO changes in the year reinforced governance concerns. Topicus.com Inc. experienced sustained valuation pressure amid investor concerns around potential AI disruption to long-term revenue and earnings growth. The sudden departure of the CEO of Topicus.com's parent company, Constellation Software Inc., created further uncertainty.

New positions included holdings that balanced high-quality, valuation and durability, such as APi Group Corp., FirstService Corp. and Japan Elevator Service Holdings Co., Ltd. Serial acquirer (a company that drives growth by acquisition strategies) companies Roko AB and Sdipotech AB were also added.

Increased positions included higher-conviction holdings such as Addtech AB, Brunello Cucinelli SpA, Floor & Decor Holdings Inc., Kinaxis Inc. and Xpel Inc. to actively take advantage of short-term weakness and/or potential inflection points.

Decreased positions included Darling Ingredients, TopBuild Corp., Computacenter PLC and Five Below owing to concerns on near-term valuations (a measurement of how much an investment is worth). Grocery Outlet Holding Corp., Dino Polska SA and Tecan Group AG were trimmed owing to ongoing fundamental execution issues. National Storage Affiliates Trust was substantially trimmed after the all-stock acquisition bid (acquisition offer through stocks only) from a peer.

Eliminated positions included Alfen NV and Ryman Healthcare Ltd. as these companies have made many execution missteps in recent years. Four Corners Property Trust Inc. was sold to take advantage of share price strength and seek better risk/reward opportunities.

In terms of environmental, social and governance (ESG) factors (refers to a company's environmental, social and corporate governance policies), Vancity Investment Management Ltd. (VCIM) led the writing and development of a new investor statement on excessive executive compensation (EEC), in partnership with United Church Funds, as part of a newly launched initiative coordinated by the Interfaith Center on Corporate Responsibility (ICCR). VCIM's ESG team is represented on the EEC Leadership Committee, which provides strategic oversight of the initiative and supports the development of coordinated investor strategies on excessive executive pay. VCIM's ESG team proposed the development of an investor statement as a foundational step to launch the campaign, establishing a clear and shared investor framework on the issue. The statement outlines concerns regarding misaligned and excessive executive compensation and sets out investor calls to action across proxy voting (casting shareholder votes without attending the meeting), corporate engagement and stewardship practices. The investor statement was presented and publicly

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launched at ICCR's Annual Spring Conference in New York on March 25, 2026, marking the formal commencement of ICCR's coordinated work on EEC.

The fund manager expects a mixed but resilient macroeconomic backdrop for global small caps. Economic growth has held up despite elevated inflation and higher interest rates amid ongoing geopolitical risks. Meanwhile, policy uncertainty continues to weigh on business confidence. Shifting narratives around AI have driven significant volatility across technology and services stocks, obscuring underlying business fundamentals (underlying financial health and business performance) in parts of the global small-cap universe.

Against this backdrop, the fund manager remains focused on quality, emphasizing companies with consistent free cash flow generation (cash a company generates after accounting for capital expenditures) and durable competitive advantages. The market regime has strongly favoured low-quality, high-volatility and often unprofitable stocks, but the fund manager views this factor dislocation as cyclical (temporary) rather than structural. As speculative momentum fades and investors refocus on earnings durability and returns on capital (the amount of profit generated per dollar of invested capital), high-quality global small caps should be well positioned. The Fund remains concentrated in businesses that should be able to compound value through a business cycle, with the patience to benefit from a normalization in market leadership.

	1-year	3-year	Since inception (Feb 2023)
IA Clarington Inhance Global Small Cap SRI Fund - Series F	0.4%	0.8%	-0.5%
MSCI World Small Cap Index (CAD)¹	17.2%	12.9%	10.7%

Get ahead

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

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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 cash while the benchmark does

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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.

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.

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