IA Clarington Inhance Global Small Cap SRI Fund

Manager commentary – Q2 2025

Global small-cap equities, as measured by the MSCI World Small Cap Index (CAD), were up 5.8% in the second quarter. Despite the strong returns, the quarter saw notable volatility in global equity markets. An early April decline, triggered by "Liberation Day" tariff concerns and escalating trade war fears, impacted both global large-cap and small-cap stocks. However, market sentiment improved significantly following the easing of trade tensions in late April, particularly on key U.S.-China trade negotiations, which fueled a broad recovery. This rebound was further supported by central bank easing, robust economic data and resilient corporate earnings, reassuring investors of economic stability despite trade uncertainties. Notably, global small caps (as measured by the MSCI World Small Cap Index) outperformed global large caps (MSCI World Index) despite the volatility during the quarter, benefiting from a broader risk appetite (particularly in June). A brief interruption occurred late in the quarter with the Israel-Iran conflict, but markets quickly stabilized as geopolitical tensions eased, showing a resilient undercurrent again. Within global small caps, we had quite noticeable outperformance from non-U.S. small caps, as the Russell 2000 Index lagged the MSCI World Small Cap Index by over 300 basis points (bps), potentially reflecting relative valuation attractiveness and differing regional macro dynamics.

IA Clarington Inhance Global Small Cap SRI Fund outperformed its benchmark by 246 bps, with a +8.3% return gross-of-fees in the quarter and the bulk of the outperformance coming in the volatile month of April (reflecting the Fund's quality and defensive attributes). Outperformance was driven firstly by allocation aided by positive security selection, and favourable foreign exchange. In terms of sector allocation, the key contribution was from our overweight position in information technology, which was the best-performing sector. Our overweight sector position in industrials also contributed. The zero-weight position in the energy and utilities sectors also benefitted the Fund by roughly 45 bps from an allocation standpoint. Selection within the consumer discretionary sector was the strongest, and selection in the consumer staples sector was also solid. Security selection within the information technology was weakest, offsetting the allocation-driven impact.

On an individual basis, the largest contributor was Five Below Inc. (+66% in the quarter). Shares recovered strongly after being in the crosshairs on tariff-related concerns (about 60% of products imported from China). The company pre-released strong first-quarter results, which showed clear signs of improving sales performance. Specialty vehicle-focused industrial company Federal Signal Corp. (+37%) was also a strong contributor on the back of solid first-quarter earning results and positive analyst price revisions. Switzerland-based specialty HVAC and flow control company Belimo Holdings AG. was also a strong performer (+57%), as the stock benefited from its exposure to datacenter construction. Other solid contributors, at 40 to 50 bps each, were Diploma PLC (niche industrial distribution), Nova Ltd. (semiconductors), and Guidewire Software Inc. (insurance industry software).

The largest detractor (roughly 70 bps) was Globant SA, which fell 27% in the quarter after reducing 2025 guidance with its first-quarter results. Despite reporting strong pipelines, macroeconomic uncertainty is weighing down customer decision-making, which compounds existing investor worries around IT services companies and artificial intelligence (AI) disruption. National Storage Affiliates Trust, a storage real estate investment trust (REIT), was also a key detractor (roughly 60 bps). Despite signs of a bottom in self-storage pricing, sluggish housing activity and low occupancy continues to weigh on self-storage REITs. Workiva Inc., which makes software for public company reporting, was another key detractor (roughly 40 bps). Workiva posted solid first-quarter results and reiterated guidance, but a cautious tone from management worried investors.

Over the quarter we initiated new positions in **First Service Corp.** and **Aaon Inc.**

- **FirstService Corp.** is a North American leader in essential outsourced property services, operating through two key business segments: FirstService Residential, North America's largest residential property management organization, which manages over 9,000 communities and delivers recurring services such as strata management and property maintenance; and FirstService Brands, a leading provider of home improvement, restoration and niche property services through company-owned operations and franchise networks. The company stands out for its resilient and high-quality business model, underpinned by a high proportion of recurring revenue, strong contract retention rates (mid-90%+) and a decentralized, acquisition-driven growth strategy that has consistently delivered robust financial results and free cash flow growth. This combination of market leadership, operational excellence and financial discipline makes FirstService a defensive growth stock, well positioned to weather economic cycles and sustain long-term value creation.

- **Aaon Inc.** presents a compelling investment opportunity as a leading player in the resilient and growing commercial HVAC industry. The company benefits from powerful secular trends, including increasing demand for energy-efficient and sustainable building solutions. Aaon's strength lies in its ability to offer higher-specification, semi-customized HVAC equipment, enabling it to consistently gain market share. Furthermore, a significant driver of its future growth is its BASX solutions, which are at the forefront of HVAC technology for data centres, providing attractive exposure to the booming AI-driven demand for specialized cooling solutions. This combination of a robust core business, market-leading innovation, and strategic positioning in high-growth sectors underpins Aaon's potential for sustained value creation.

In terms of shareholder engagement in the second quarter:

- As a follow-up to initial outreach via the Fostering Action for Biodiversity through Responsible Investment in Clothing (FABRIC) initiative, a meeting was booked with **Brunello Cucinelli**. From the perspective of biodiversity, the meeting covers raw materials and traceability, governance, water, and chemical substances.

Other investor statements and initiatives supported:

- We are 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 that we invest in to ensure they maintain fair access to health care in light of the current U.S. administration's cuts to various programs. The statement calls on companies to:
  - Ensure that corporate political activity and public policy engagement, including through trade associations, supports the advancement of global public health priorities and safeguards existing national public health policy and infrastructure. The statement also calls on companies to evaluate the direct and indirect impacts of both new and existing public policies, and their enforcement on the company, its workers and customers specific to health and well-being
  - Assess the upstream and downstream impacts of the company's commercial business streams on the human right to health
  - Adopt policies, systems, and processes to ensure the right to health is upheld and a company's commitment to health equity is maintained, including but not limited to their commitment to achieving Sustainable Development Goal 3 (SDG3), as well as Article 12 of the International Covenant on Economic, Social and Cultural Rights
  - Support the appointment and staffing of individuals with the appropriate experience and credentialing to lead key public health positions

The second quarter of 2025 proved to be a period of significant recovery and resilience for global small caps, following a challenging start to the year. With both the Russell 2000 Index and MSCI World Small Cap Index falling below pre-election levels in the first quarter, the second quarter delivered a welcome rebound. This shift in momentum was significant given the persistent volatility driven by evolving economic conditions and the ongoing impact of the U.S. administration's trade policies.

Both U.S. and non-U.S. small-cap indices demonstrated solid performance in the second quarter, with international small caps showing particularly strong gains and outpacing U.S. counterparts. This performance underscores a growing investor appetite for opportunities outside the U.S., a trend that benefited the Fund's overweight position in European stocks.

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While market reactions to earnings surprises, especially negative earnings guidance, remained pronounced in the short term, these instances also created opportunities for patient, long-term investors. The initial market shock from new tariff announcements early in the quarter gave way to a recovery as the fast-changing scope of these measures was better understood. While consumer confidence has shown some moderation, overall spending remains resilient. The upcoming earnings season will be closely watched for corporate financial guidance, particularly concerning how companies are navigating trade tensions and consumer spending trends.

Looking ahead, we believe small caps continue to present compelling opportunities, especially if broader investor sentiment improves and greater clarity emerges regarding global trade policies. However, the fund managers anticipate continued market fluctuations as the economic landscape, central bank decisions and the effects of unconventional trade policies continue to unfold. The performance of small caps will remain closely tied to overall investor positioning and shifts in macroeconomic sentiment. Our focus remains on identifying high-quality small caps characterized by strong balance sheets, pricing power, consistent revenue growth and durable competitive advantages, enabling them to navigate short-term uncertainties and provide strong long-term return potential.

Fund and benchmark performance as at June 30, 2025	1 year	Since inception (Feb 2023)
IA Clarington Inhance Global Small Cap SRI Fund - Series A	6.1%	1.2%
MSCI World Small Cap Index (CAD)[1]	14.1%	9.5%

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

[1]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 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.

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 time periods of more than one year are historical annual compounded total returns while returns for time periods of one year or less are cumulative figures and are not annualized.

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