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Active Insights for Long-Term Wealth Creation

Thinking Outside the Style Box: Global Opportunities for Long-Term Wealth Creation

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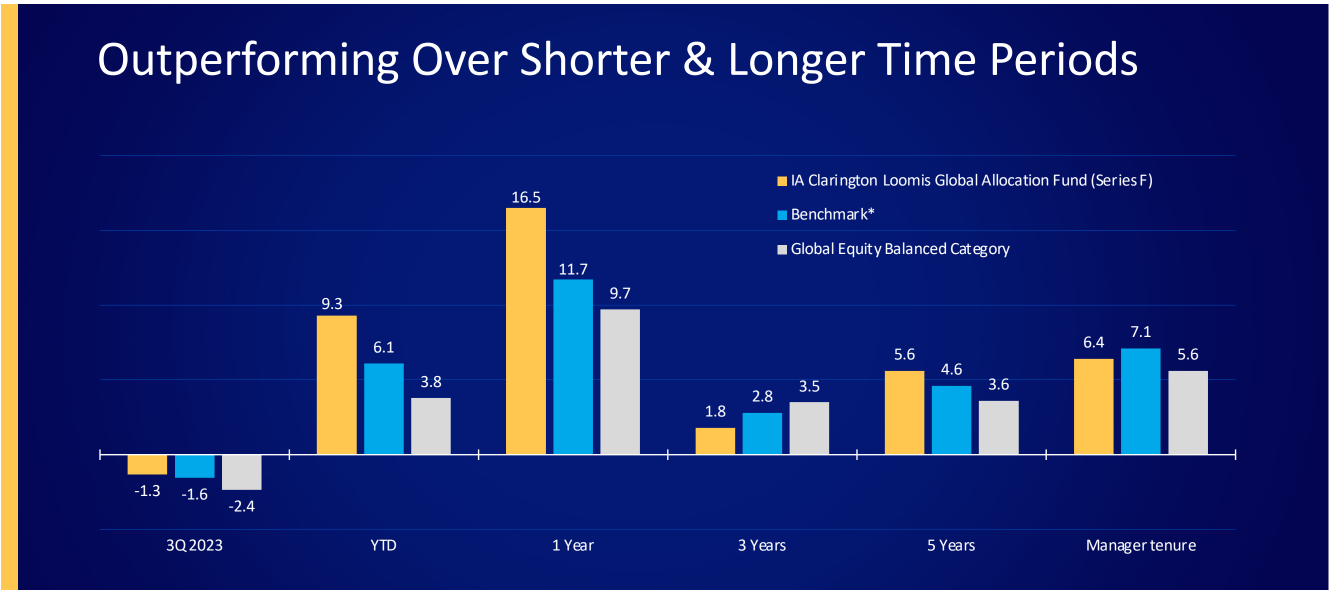
The following is a summary of a panel discussion held on November 7, 2023.

The IA Clarington Loomis Global Allocation Fund has been performing very well over the one-year period. Can you explain what has been driving these results?

- YTD performance has been driven by the equity sleeve of the fund, and in particular a handful of names we've owned for long periods. Some of them are names we added to during the very difficult year we had in 2022. And this is typical of our approach – we take advantage of short-term price volatility to add to names where we have a high degree of long-term conviction.
- This is a low turnover portfolio, and more than half of that turnover is within existing holdings.

Key takeaways

- We took advantage of market volatility in 2022 to add to positions in the portfolio, which helped drive our strong YTD returns this year.
- We continue to favour equities over fixed income in the IA Clarington Loomis Global Allocation Fund.
- We are style agnostic and seek to populate the portfolio with our best ideas, which include both value and growth stocks.



Source: Morningstar, Loomis Sayles, MSCI. Manager tenure data from March 1, 2015. *Benchmark is 60% MSCI ACWI NR CAD, 40% Bloomberg Global Aggregate Index (currency hedged). Returns for multi-year periods are annualized. See disclaimer for additional information.

What leads you to have a high level of conviction in a stock?

- We have an iterative process, which means it's very important to us to be constantly reassessing our positions.
- For us to have a high degree of conviction in a company, it must exhibit our three alpha drivers:
  - Quality
  - Intrinsic value growth
  - Attractive valuation
- We then determine a position size that reflects our level of conviction.

Can you discuss the reasons behind the large allocation to technology names in the portfolio?

- I should emphasize that we do not make sector calls – our sector allocations are a byproduct of our bottom-up company selection.
- Our technology holdings are a varied mix of businesses with a diverse range of business drivers.
  - We have hardware manufacturers such as ASML Holding NV, NVIDIA Corp. and Texas Instruments Inc.
  - We also have varied companies on the software side, such as Salesforce Inc. and Adobe Inc.
  - Further afield, we have companies in IT services, such as Accenture PLC and Nomura Holdings, Inc., which again have quite varied business drivers.
- You will see the same type of business driver diversification in our industrials and other exposures.

How does geopolitical risk factor into your analysis?

- The pace of change in geopolitics is faster now than it has been in many decades and has a meaningful impact on many of the businesses in the portfolio.
  - In our view, the geopolitical risk premium is quite elevated currently.
  - Our assessment of geopolitical risk comes from the bottom up as we're analyzing businesses, rather than from the top down. This assessment can have an impact on position sizing.

Can you speak to a situation where you had to reassess your investment thesis?

- As noted earlier, the process of reassessment is continuous for us.
- We have a sell discipline where, if we can no longer quantify the downside of a business we own, it's an immediate sell. If it's a company we don't own, it won't make it into the portfolio.
- The equity sleeve of the Global Allocation mandate is a concentrated portfolio of businesses, so it's simply too great a risk to own a company where we do not have clarity on its downside potential.
- As an example, last year we sold Mercari, Inc., a Japanese e-commerce company. Our forecast on customer acquisition costs was not accurate; we were also incorrect about the extent of the post-pandemic slowdown it would experience. In addition, they were making expansion plans that we thought would be extremely challenging. So we exited the position in line with our sell discipline.

How do you approach risk management?

- Particularly in our equity portfolios, we view security-specific risk as the most important factor since this is a concentrated portfolio.
- We measure this risk by answering a simple question: what's the downside potential?

Can you discuss the opportunity set for equities today versus fixed income?

- We're still leaning more heavily on equities than fixed income in the Global Allocation mandate.
- But we're in a very different fixed-income environment today, and this is very exciting for our colleagues who manage that portion of the fund. They are focused on credit and they're seeing a lot of interesting opportunities.

How do you handle currency exposure in the portfolio?

- The fixed-income portion of the Global Allocation mandate is hedged back to the Canadian dollar, while the equity sleeve is not. If you look over long periods of time, what we've found in the equity allocation of the strategy is that currency tends to even itself out.

How do you and the team feel about the outlook for the businesses in the portfolio today?

- There are a lot of risks in today's environment, but we're very excited about the portfolio as it stands. It includes some newer ideas, including:
  - Trane technologies PLC, which operates in the HVAC space. The company has very tight control of distribution via their sales force, and it has been very innovative in addressing concerns companies have around reducing emissions. It has a great balance sheet as well as very strong free cash flow generation, and management has been very judicious in reducing the share count, which accrues to us as shareholders.
  - O'Reilly Automotive, Inc., which operates auto parts supply stores across North America. This business has very strong free cash flows and over the past 5+ years they've shrunk their share count by close to one-third. The company also has strong same-store growth and square footage growth.

Do you have a preference for share buybacks or dividends as a way of returning cash to shareholders?

- We don't have a strong preference for one over the other.
- We're looking for companies with strong free cash flow generation and management teams that make strong capital allocation decisions – a key driver of intrinsic value growth.

How does the interest rate environment impact the names in the portfolio?

- Our equity holdings have strong balance sheets, and the names that do carry some leverage (e.g., S&P Global) have pushed out their maturities very far into the future, which gives them a lot of flexibility relative to a business with floating-rate debt or shorter-term maturities that carry higher interest rates, which will eat into free cash flow generation.

How do you respond to the long-running debate in the industry around growth versus value?

- This is by far the most frequent question I get, and I would say that we as a team don’t want to constrain ourselves by taking on either a growth or value label, which would narrow the universe of opportunities for the portfolio.
- We are style agnostic, which for us means we constrain ourselves by the criteria that define our alpha drivers. We’re very comfortable owning a company like Airbnb Inc., which would be considered a growth company, at the same time as we own Goldman Sachs Group Inc., a value name. But our approach does result in a portfolio that is tilted more in the direction of growth names.
- Most fundamentally, we are building a portfolio of our best ideas that meet our three alpha drivers.

Speak with your advisor to learn more about the IA Clarington Loomis Global Allocation Fund and IA Clarington Loomis Global Equity Opportunities Fund.

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

IA Clarington Loomis Global Allocation Fund is modeled after the Loomis Sayles Global Allocation Fund (LSGAF), a U.S.-based multi-asset mandate. In February 2015, iA Clarington brought the LSGAF strategy to Canada by appointing Loomis Sayles portfolio manager for IA Clarington Loomis Global Allocation Fund. The Loomis Sayles Global Allocation Fund is not available for sale in Canada.

Fund and benchmark performance as at October 31, 2023	1 year	3 years	5 years	10 years
IA Clarington Loomis Global Allocation Fund – Series F	10.1%	2.1%	6.5%	6.1%
40% Bloomberg Global Aggregate Bond Index (CAD Hedged), 60% MSCI AC World Index (CAD)1	7.9%	3.1%	5.3%	6.6%

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 benchmark is a blend of Bloomberg Global Aggregate Bond Index (Currency Hedged) (40%) and MSCI AC World Index (CAD) (60%). The blended benchmark presented is intended to provide a more realistic representation of the general asset classes in which the Fund invests. The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty-eight local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. There are four regional aggregate benchmarks that largely comprise the Global Aggregate Index: the US Aggregate, the Pan-European Aggregate, the Asian-Pacific Aggregate, and the Canadian Aggregate Indices. The MSCI AC World Index (CAD) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 50 country indexes comprising 23 developed and 27 emerging market country indexes. The Fund's market capitalization, geographic, sector and credit quality 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. Overall, the Fund's bond and equity exposure can differ, because the Fund does not use a fixed ratio similar to the benchmark. 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 February 23, 2015, the sub-advisor of the Fund changed from Aston Hill Asset Management Inc. to Loomis, Sayles & Company, L.P. and IA Clarington Investments Inc. and the investment strategies of the Fund were changed. IA Clarington Loomis Global Allocation Fund was formerly IA Clarington Global Allocation Fund.

Series F is only available through a fee-based account with a full-service investment dealer. Please refer to the prospectus to learn more about Series F and its targeted payout options. If you buy other series of the Fund any differences in performance is primarily due to different fees and expenses.

[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.

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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Commissions, trailing commissions, management fees, brokerage fees and expenses all may be associated with mutual fund investments, including investments in exchange-traded series of mutual funds. The information presented herein may not encompass all risks associated with mutual funds. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.

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