

iA Clarington Strategic Corporate Bond Fund

Beginning the year with a rally in fixed income following a challenging 2022

After turning the page on what was a very challenging 2022, January saw a very strong rally across fixed income markets as many of the dynamics we had been expecting for quite some time started to take hold as reality in investors' minds. The Federal Reserve continued slowing their pace of interest rate hikes, as multiple 50 and 75 bp hikes through last year were met with a much less significant 25 bp hike at the start of February. Similarly, the Bank of Canada slowed its path of interest rate increases to 25 bps in January following significant tightening undertaken last year. Current expectations for an incremental one to two hikes in 2023 remain very insignificant relative to the prior year, as interest rates are in a sufficiently restrictive territory and progress is being made on successfully taming inflation.

While inflation is still very much an issue for the global economy, tightening activities undertaken over the last year have helped bring inflation under control. And although many of the same dynamics that impacted last year still persist in 2023, we are transitioning from an environment of actively combating these issues, to moderation. We continue to expect the first half of 2023 to remain challenging in an environment of lower consumer demand, slower earnings growth, rising unemployment, and tighter financial conditions. However, we are beginning to navigate the new year from a position of relative strength as corporate balance sheets are healthy, default rates remain below historical averages, and the maturity wall is not a short-term concern. In this environment, we believe the most attractive investments in the fixed income space are concentrated in high-quality high yield bonds and investment grade securities.

We continue to adjust our exposure in this changing environment, allocating capital towards investments where we see the most attractive opportunities to generate the highest risk-adjusted returns. Last month, we put cash to work in high-quality high yield bonds,

while continuing to limit our allocations towards lower-rated fixed income investments. Our highest allocation within the Fund remains to high-quality high yield bonds, which should continue to provide investors with relatively safe and attractive yields, as well as protection against slower growth. Through the first week of February, we also increased our exposure to investment grade bonds as we believe these provide an attractive value proposition as the path of interest rate hikes slow. Overall, we believe our current positioning is warranted going into 2023 given the challenging macroeconomic outlook, the expected slower pace of interest rate hikes at central banks over the coming months, and attractive yield opportunities these securities provide.

Yields at levels only seen on two other times over the last decade



Source: Bloomberg, iA Clarington as at January 31st, 2023. Based on ICE BofA US High Yield Index.

Total returns¹:

- The U.S. high yield index posted a total return of +3.91% in January while the Canadian high yield index generated a return of +1.86%.
- The YTM on the U.S. high yield index fell during the month to 8.22% while the YTM on the Canadian high yield index decreased to 7.14%.
- During January, spreads decreased in the U.S. high yield market by 51 bps while Canadian high yield market spread narrowed by 4 bps.

Notable:

- The Fund's government and consumer cyclical securities generated the largest contribution to performance during the month.
- The Funds' largest individual contributors to performance

during the month included holdings in Canadian Government 2.0% 2032 bonds, and U.S. Treasury 2.875% 2032 bonds.

- The Fund's U.S. dollar exposure was, on average, over 90% hedged during the month.

IA Clarington Strategic Corporate Bond Fund

Fund assets

Asset	% of total assets
Investment Grade Corporate Bonds	15.5%
High Yield Corporate Bonds	68.8%
Convertible Bonds	0.7%
Cash & Equivalents	12.5%
Total Assets	97.4%
Other	2.6%
Net Assets	100.0%

Fund attributes²

Corporate bonds	
Portfolio Current Yield	5.57%
Yield to Maturity	6.67%
Coupon	5.24%
Average Bond Price	\$92.930
Credit Spread	296 bps
Bond Rating	BB-
Number of Companies	55
Number of Bonds	75
% of Value in C\$	55%
% of Value in US\$	45%

Top 10 bond holdings

Company	% of net assets
ISHARES IBOXX INVESTMENT GRADE CORPORATE BOND ETF	2.98
RUSSEL METALS 5 ¾% 10/27/25	2.75
SUPERIOR PLUS LP 4 ¼% 05/18/28	2.54
GARDA WORLD SECURITY 9 ½% 11/01/27	2.25
TRULIEVE CANNABIS 9 ¾% 06/18/24	2.18
WYNN LAS VEGAS 5 ¼% 05/15/27	2.15
AIR CANADA 4 ⅝% 08/15/29	2.14
CANWEL BUILDING 5 ¼% 05/15/26	2.14
PARKLAND CORP 6% 06/23/28	2.08
KEYERA CORP 6 ⅞% 06/13/2079	1.97
Top 10 as % of Total	23.18

Source: iA Clarington as of January 31, 2023.

Ratings Distribution

Credit rating	% of net assets
A- and Higher	6.0%
BBB	9.5%
BB	41.1%
B	21.4%
CCC	2.9%
NR	5.9%

Term to Maturity	7.6 years
Duration	3.0 years

Term to Maturity Distribution

≤ 1 Year	0.0%
1 Year to ≤ 5 Years	43.6%
5 Years to ≤ 10 Years	27.6%
≥ 10 Years	7.6%

Sector Distribution

Sector	% of net assets
Basic Materials	4.6%
Communications	5.5%
Consumer	17.9%
Diversified	0.0%
Energy	13.7%
Financial	4.1%
Government	4.5%
Healthcare	5.6%
Industrial	13.3%
Real Estate	1.7%
Technology	0.0%
Utilities	10.4%

Dealer use only. ¹ Bond data from ICE Bank of America indices. Canadian dollar high yield refers to ICE BofA Canada High Yield Index. U.S. dollar high yield refers to ICE BofA U.S. High Yield Index. Canadian dollar investment grade corporate bond market refers to ICE BofA Canada Corporate Index. U.S. dollar investment grade corporate bond market refers to ICE BofA U.S. Corporate Index. U.S. Treasuries refers to Bloomberg Barclays U.S. Treasury Total Return Index. Canadian government bonds refers to FTSE Federal Canada Bond Index. Leveraged loans refers to Credit Suisse Leveraged Loan Index. Total returns are in local currency.

² Fund attributes are market-weighted averages (i.e. yield, coupon, rating, term, duration). Cash & equivalents are excluded from all except for "Portfolio Current Yield" which includes cash & equivalents. Option adjusted credit spread shown. High yield benchmark refers to ICE BofA US High Yield Index.

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