

IA Clarington Floating Rate Income Fund

IA Clarington U.S. Dollar Floating Rate Income Fund

IA Clarington Core Plus Bond Fund



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FUND AWARDS**

2021 WINNER
CANADA

February 2022: portfolio and markets update

IA Clarington Floating Rate Income Funds

- The IA Clarington Floating Rate Income Fund (Series F) and the IA Clarington U.S. Dollar Floating Rate Income Fund (Series F) returned -0.6% and -0.5%, respectively, in February. The Loan index¹ returned -0.5% and the High Yield Bond index² returned -1.0%.
- Despite Russia's invasion of Ukraine in February, which set off a widespread sell off in all indices we screen, loans fared amongst the best asset classes. On one end of the risk spectrum the Emerging Markets High Yield Index¹² lost 4.4% while at the other end the Canada Government index/Canadian government bonds³ returned -0.4%.
- February was another record month for retail loan demand due to increasingly hawkish Fed expectations. US retail inflow into loan funds and ETFs broke January's record weekly inflow with a new record of \$2.3BN. Loan funds have now seen 15 consecutive months of inflows. CLO net issuance is regaining steam in February after a slower start this year as new issuance adapts to the new pricing model based on SOFR instead of LIBOR. CLO net issuance totalled \$14.6BN in February compared to \$4.9BN in January.
- Tables 1 and 2 show notable single security credit contributors and detractors for the month.
- Loan new issuance volume slowed in February amidst heightened market volatility. Loan new issuance totalled \$48.0 billion on a gross basis and \$32.5 billion net of refinancing. 63 SOFR-linked deals drove \$45.1 billion of issuance (94% of total volume).
- This month, Single B rated loans (-0.5%) outperformed BB loans (-0.5%) and CCC loans (-0.8%). All industries in the Loan Index¹ generated negative returns in February, except for the Metals/Minerals sector. The Utility sector saw the lowest return.
- The default backdrop remains benign in bonds and loans in 2022. Just one borrower defaulted in February on \$1.1 billion of bonds and one borrower completed a distressed exchange on \$0.6 billion of loans. Loan and high yield bond default rates changed to 0.6% (-5bps) and 0.3% (unchanged), respectively, in February.
- Loan spread and yield ended the month at 450 basis points and 6.1%. Leveraged loan prices are now \$1.14 below the YTD high of \$98.83 and the % of loans trading above par is down to 1.90% vs. 45.47% on January 20th. Expectations of five or more 25bps rate hikes in 2022 continues to drive strong investor demand as more than 75% of the loan index will see its carry component benefitting from these rate hikes.

Table 1: IA Clarington Floating Rate Income Fund

Contributors	Detractors
GFL Environmental 3.50% secured note due 2028	Telesat L+2.75% term loan due 2026
AYR Wellness 12.50% secured note due 2024	Eastern Power L+3.75% term loan due 2025
American Airlines 5.50% secured note due 2026	Diamond Sports L+3.25% term loan due 2026

Table 2: IA Clarington U.S. Dollar Floating Rate Income Fund

Contributors	Detractors
Columbia Care 9.50% secured note due 2022	Eastern Power L+3.75% term loan due 2025
AYR Wellness 12.50% secured note due 2024	Telesat L+2.75% term loan due 2026
American Airlines 5.50% secured note due 2026	Pitney Bowes senior unsecured note due 2027

IA Clarington Core Plus Bond Fund

- The IA Clarington Core Plus Bond Fund (Series F) was down 0.97% during the month bringing the year to date return to -2.22%. The year to date return of the Canada Corporate index⁴ was -3.86%.
- The combination of the Russian invasion of Ukraine and an increasingly hawkish fed set risk assets on a tumultuous course for February. The former caused increased inflation concerns as commodities of all types increased sharply throughout the month, while the latter has some investment banks penciling 7 hikes for this year alone.
- The risk-off tone coupled with a pull-forward of hiking expectations led to the 2s/10s curve in the US flattening by 20bps as recession concerns begin to mount.
- Contributors to fund performance from an asset allocation level were scarce, however loans and short duration credit fared relatively better.
- Table 3 shows notable single security credit contributors and detractors for the month.
- US investment grade corporate bonds had the worst start to the year in history with returns through the end of February of -5.3%. Yields have now breached 3%. Higher quality credit slightly outperformed BBBs in Canada.
- US IG credit spreads posted their worst spread return since March 2020 (-1.50%) as the index now trades at 2020 levels. The spread of the U.S. Corporate index⁶ closed the month at 122 basis points, a 16bps widening. The Canada Corporate index⁴ spread closed the month at 138 basis points, also a 16bps widening.
- Investment grade valuations have widened, and we are seeing multiple areas of opportunity. We are positive on credit spreads long term in their current context given their historical trading ranges. In particular, Canadian corporate credit spreads offer value, however the elevated equity and rate volatility are set to remain in place for the foreseeable future. Canadian corporate credit spreads are trading in the 16th percentile over the last 10 years of it's trading range.
- March tends to be a particularly active month in the primary market. The heavy new issue concessions that we're seeing will present repricing opportunities as supply materializes.
- Flexibility in portfolio construction and a history of generating alpha through credit selection provides the fund with opportunities to generate alpha and provide unitholders with real returns.

Table 3: IA Clarington Core Plus Bond Fund

Contributors	Detractors
Lindblad Expeditions senior secured term loan USD	Eastern Power senior secured term loan USD
Dryden 2017 CLO AAA EUR	Bank of Nova Scotia subordinated AT1 hybrid USD
Instant Brands senior secured term loan USD	TD Bank subordinated AT1 hybrid USD

Performance - Loan Funds & Indices

	Month	YTD	1 Year	3 Year	5 Year
IA Clarington Floating Rate Income Fund - F series	-0.6%	-0.8%	1.2%	1.8%	2.5%
IA Clarington USD Floating Rate Income Fund - F series	-0.5%	-0.3%	2.6%	2.4%	3.3%
Loan index ¹	-0.5%	-0.1%	3.2%	4.0%	4.1%
BB-rated	-0.5%	-0.2%	1.7%	2.5%	3.0%
B-rated	-0.5%	0.0%	3.5%	4.2%	4.3%
CCC-rated	-0.8%	-0.6%	7.5%	6.7%	5.7%
High Yield Bond index ²	-1.0%	-3.7%	0.6%	5.3%	4.9%
BB-rated	-1.2%	-4.5%	-0.2%	6.3%	5.4%
B-rated	-0.8%	-2.9%	1.1%	4.8%	4.6%
CCC-rated	-0.8%	-2.9%	2.9%	3.4%	3.6%
S&P/TSX Composite Total Return Index	0.3%	-0.1%	20.2%	13.1%	9.8%
S&P 500 Total Return Index	-3.0%	-8.0%	16.4%	18.2%	15.2%

Source: Bloomberg, Credit Suisse as of February 28, 2022.

Index Characteristics – Loans & High Yield

	Spreads ¹⁰ (basis points)	Yields ¹¹	Default Rates (includes distressed exchanges)
Loan index ¹	450	6.14%	0.61%
BB-rated	323	4.93%	–
B-rated	452	6.14%	–
CCC-rated	969	11.27%	–
High Yield Bond index ²	359	5.62%	0.32%
BB-rated	267	4.64%	–
B-rated	383	5.94%	–
CCC-rated	622	8.21%	–

	Average Price & Base Rate
IA Clarington Floating Rate Income Fund	\$97.38
IA Clarington USD Floating Rate Income Fund	\$97.72
Loan index ¹	\$97.69
High Yield Bond index ²	\$98.57
3-month U.S. LIBOR	0.50%

Source: Bloomberg, Credit Suisse as of February 28, 2022.

Performance – Core Plus & Indices

	Month	YTD	1 Year	3 Year	5 Year
IA Clarington Core Plus Bond Fund - F series	-1.0%	-2.2%	0.1%	2.8%	2.6%
Canada Short Term Corporate index ⁸	-0.6%	-1.5%	-1.5%	2.5%	2.1%
Canada Government index ³	-1.1%	-4.0%	-3.1%	2.0%	2.2%
Canada Corporate index ⁴	-1.7%	-3.9%	-2.9%	2.8%	2.6%
U.S. Treasury index ⁵	-1.0%	-2.5%	-2.1%	3.1%	2.4%
U.S. Corporate index ⁶	-2.9%	-5.3%	-3.4%	4.8%	3.8%
U.S. CLO AAA-rated index ⁹	-0.6%	-0.4%	0.7%	2.3%	2.5%
Loan index ¹	-0.5%	-0.1%	3.2%	4.0%	4.1%
High Yield Bond index ²	-1.0%	-3.7%	0.6%	5.3%	4.9%
Preferred Share CAD index ⁷	2.3%	-2.3%	9.1%	8.0%	4.9%

Source: Bloomberg, Credit Suisse as of February 28, 2022.

Index Characteristics – Investment Grade

	Spreads ¹⁰ (basis points)
Canada Corporate index ⁴	138
AA-rated	83
A-rated	124
BBB-rated	165
U.S. Corporate index ⁶	122
AA-rated	83
A-rated	108
BBB-rated	151

	Yield
Canada Short Term Corporate index ⁸	2.54%
Canada Government index ³	2.13%
Canada Corporate index ⁴	3.07%
U.S. Treasury index ⁵	1.76%
U.S. Corporate index ⁶	3.08%

Monthly change in bond yields (basis points)	2-year	5-year	7-year	10-year	30-year
U.S. Treasury curve	25.5	10.8	6.9	4.8	5.4
Canada sovereign curve	16.0	0.6	0.7	4.1	4.6

Source: Bloomberg, Credit Suisse as of February 28, 2022.

Dealer use only. ¹Loan index is represented by the Credit Suisse Leveraged Loan Index (USD). ²High Yield Bond index is represented by the Bloomberg US Corporate High Yield Index (USD). ³Canada Government index/Canadian government bonds is/are represented by the Bloomberg Canada Aggregate Government Index. ⁴Canada Corporate index/Canadian corporate bonds is/are represented by the Bloomberg Canada Aggregate Corporate Index. ⁵U.S Treasury index/U.S. Treasury bonds is/are represented by the Bloomberg US Treasury Index. ⁶U.S Corporate index/U.S. corporate bonds is/are represented by the Bloomberg US Corporate Bond Index. ⁷Preferred Share CAD index is represented by the S&P/TSX Preferred Total Return Index. ⁸Canadian Short Term Corporate index is represented by the Bloomberg Canada Aggregate Corporate 1-5 Years Index. ⁹U.S. CLO AAA-rated index is represented by the Palmer Square CLO AAA Index. ¹⁰Loan index spread represented by 3-year discount margin. ¹¹Loan index yield assumes 3-year average life. ¹²European Treasury Index is represented by the Bloomberg Pan-European Aggregate Treasury Total Return Index.

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IA Clarington Core Plus Bond Fund, Series A was awarded the 2019 Lipper Fund Award in the Canadian Short Term Fixed Income category for the three- and five-year periods ending July 31, 2019. IA Clarington Core Plus Bond Fund, Series F was awarded the 2021 Lipper Fund Award in the Canadian Short Term Fixed Income category for the five-year period ending July 31, 2021.

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