# Alpha Opportunities in a Turbulent Global Environment

## with Loomis, Sayles & Company, L.P

**Eileen Riley**
Vice-President & Portfolio Manager
Loomis Sayles
IA Clarington Loomis Global Allocation Fund
IA Clarington Loomis Global Equity Opportunities Fund

**Lee Rosenbaum**
Vice-President & Portfolio Manager
Loomis Sayles
IA Clarington Loomis Global Allocation Fund
IA Clarington Loomis Global Equity Opportunities Fund

**Moderator:**
**Pamela Czekanski**
Vice-President, Strategic Relationship Manager
Loomis Sayles

*The following is a summary of a due diligence session with iA Clarington sub-advisor Loomis, Sayles & Company, L.P. (Loomis Sayles). The event was held on May 12, 2022.*

### What helped and what hurt the portfolio during the first quarter?

**Eileen Riley:**

- Our performance suffered relative to the benchmark as a result of not owning areas of the market such as energy and cyclical commodities.
- Sector positioning can have an impact on performance, but ultimately stock selection is the key driver of outcomes.
- Our top three contributors were Airbnb, UnitedHealth Group and Costco.
- Airbnb has been highly effective in leveraging both the inventory creation that comes through host relationships as well as the demand creation that comes with its guest relationships. We think this is a business with a very long runway as alternative accommodations continue to penetrate the market share for night-stays globally.
- UnitedHealth Group is a company we've owned for many years and was a particularly strong contributor in Q1. Over the past five years, the company has had a double-digit compound annual growth rate (CAGR) on revenue and an almost 20% CAGR on free cash flow. It also has an excellent track record of allocating capital and returning capital to shareholders.
- Costco has been very well positioned through the pandemic and continues to be well positioned as we come out of it. It has sustained membership growth, high customer traffic and strong purchases per visit.

**Lee Rosenbaum:**

- Our top three detractors over the recent period have been Meta (Facebook), Sherwin-Williams and PayPal.
- Meta has faced stiff competition from TikTok, causing some revenue challenges. Their metaverse investments are also putting pressure on profit margins in the near term. But the company does have a very strong balance sheet and is putting it to work through stock buybacks.
- Sherwin-Williams is a position we've held for many years. The recent weakness actually started a number of years ago following the very impactful winter storm in the energy complex along the Gulf coast. Those challenges hurt Sherwin-Williams' margins and became more pronounced as we moved through the pandemic and into the post-pandemic period. The company is a price maker rather than a price taker, and we think the price increases it has implemented over the past 12–18 months will stick. Its gross margins are still strong, but not quite as strong as they used to be.
- PayPal's goals around user growth have not materialized, resulting in a paring back of expectations. Our reassessment has led us to exit this position.

### Where are the opportunities in the global equity markets?

**Eileen Riley:**

- About half of our turnover is in existing holdings, and that's because we look at periods of market volatility as opportunities to adjust position sizes up or down.
- We also look at volatility as an opportunity to add new names to the portfolio. We have a list of companies that exhibit our alpha drivers of quality and intrinsic value growth, but that may not have the valuation we're looking for as an attractive entry point. Market drawdowns often provide an opportunity to add these names to the portfolio.
- Year to date, we have increased some existing positions (e.g., Home Depot, Nomura Research Institute), and added some new names to the portfolio (e.g., Adobe).

### What are your thoughts on the technology sector?

**Lee Rosenbaum:**

- We need to monitor each business to make sure it continues to track with our investment thesis, particularly with respect to free cash flow generation and free cash flow growth. PayPal was no longer tracking well and that's why we exited the position.
- We hold a number of companies in the portfolio that have a longstanding tradition of buying back shares at discounts to intrinsic value. This is often accelerated during periods of significant drawdowns, as we're seeing currently. This contributes to value creation over the long term.

### Audience question: Are you a growth or value manager?

**Eileen Riley:**

- Our approach is style agnostic, meaning we do not look to fit into any particular style box.
- Our stock selection is driven by our three alpha drivers: quality, intrinsic value growth and valuation.
- This emphasis on intrinsic value growth does at times result in a growth bias in the portfolio, but we're not focused on high-growth names. We're comfortable with a variety of growth profiles, as long as that profile is appropriately aligned with our valuation alpha driver.

### Audience question: Can you speak to the portfolio's energy exposure over time?

**Eileen Riley:**

- We have not had any energy stocks in the portfolio for a number of years. But we have owned energy names at various points in the past.
- When commodity prices were low, energy companies did not meet our requirements for free cash flow generation and free cash flow growth. In the current environment, we are not seeing any names that completely satisfy our rigorous investment criteria.

### How do you factor in the potential for a secular rise in inflation?

**Lee Rosenbaum:**

- We like to own companies that are price makers, which in the current environment is a major positive.
- We're not able to predict how long inflation will persist at the levels we're seeing, but over the long term, we see a lot of value in owning businesses that have the ability to increase prices during periods like this and then not give it all back.
- Sherwin-Williams, Linde Corporation and S&P Global are good examples of holdings that have had the ability to pass on higher costs.
- Even still, in some cases these price increases are not enough to cover cost increases from quarter to quarter.
- Being very judicious in managing costs, supply chains and logistics is key in an environment like this.

### Audience question: Some of the names in the portfolio are in bear market territory. How do you decide whether these companies should stay in the portfolio?

**Eileen Riley:**

- We typically look to add to a position when it starts trading near the downside discipline we created at the outset of the investment.
- But this is not something that happens automatically; we discuss new information that's coming in and evaluate whether it changes the investment thesis, as was the case with PayPal, which Lee mentioned earlier.

### Audience question: Can you speak to the portfolio's Canadian exposure?

**Eileen Riley:**

- At present our only Canadian holding is Canada Goose.

### The global economy is undergoing a process of deglobalization – how is this affecting the companies in the portfolio?

**Lee Rosenbaum:**

- I think most would agree that from an investment perspective, this broad trend is not a positive overall.
- But it does open up opportunities in a number of areas. For example, deglobalization creates significant challenges for businesses, which benefits a company like Accenture, which is in the business of helping companies navigate and manage complexity.
- Another example relates to manufacturing, which is especially expensive in the current environment. Longtime holding Dassault Systèmes helps businesses reduce potential and actual inefficiencies in the manufacturing process, enabling these companies to better manage costs.
- We also hold a number of companies that are managing the deglobalization trend through acquisitions. Danaher Corporation's acquisition of GE's biopharma business is a good example of this.

### What has surprised you most about market activity over the last couple of months?

**Eileen Riley:**

- It's really the confluence of things happening simultaneously, from war to rising rates to food supply issues to renewed lockdowns in China.
- The lockdown in Shanghai is definitely an issue. Current holding Estée Lauder has warehouses in Shanghai, but they can't move goods in or out. Texas Instruments does 70% of its sales direct, but anything going through China is hitting a roadblock because they're having trouble getting couriers.

### Audience question: Can you speak to the energy names you owned in the past?

**Lee Rosenbaum:**

- We previously owned EOG Resources and Schlumberger.

### Audience question: What is the role of cash in the portfolio?

**Eileen Riley:**

- We aim to be fully invested. Normally we only have about 1% cash and never more than 5%.

### What are some of the lessons you learned from previous drawdowns that you believe are applicable in the current circumstances?

**Lee Rosenbaum:**

- The biggest lesson I've learned from the past is that every environment is different. There is no guarantee that what we're experiencing now will look anything like what we've experienced in the past, so it's important to keep an open mind and stay true to our philosophy, but remain flexible at the same time.

**Visit iaclarington.com/LS to learn more about the IA Clarington Loomis suite of funds.**

For definitions of technical terms, visit iaclarington.com/glossary or speak with your financial advisor.

| Fund and benchmark performance, as at April 30, 2022 | 1 year | 3 year | 5 year | 10 year |
|---|---|---|---|---|
| IA Clarington Loomis Global Allocation Fund – Series F | -8.2% | 4.4% | 6.6% | 7.0% |
| 40% FTSE World Government Bond Index (CAD Hedged), 60% MSCI AC World Index[1] | -3.6% | 4.7% | 5.4% | 8.3% |

Series F and its targeted payout options are sold with no sales charge and no redemption fee, but are only available to investors through a fee-based account with a full- service investment dealer. There may be a fee negotiated directly between the investor and his/her dealer for services provided. Please speak with your dealer about these fee-based series and whether they are available. Management fees and operating expenses are paid by the Funds. There is no trailing commission paid for these series of the Funds. There may be other fees such as short-term trading fees that may apply to certain transactions. Please refer to the prospectus for a more detailed discussion on the types of fees that exist.

[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 benchmark is a blend of FTSE World Government Bond Index (Currency Hedged) (40%) and MSCI AC World Index (60%). The blended benchmark presented is intended to provide a more realistic representation of the general asset classes in which the Fund invests. The FTSE World Government Bond Index (or WGBI) (Currency Hedged) measures the performance of fixed-rate, local currency, investment-grade sovereign bonds. The WGBI is a widely used benchmark that currently comprises sovereign debt from over 20 countries, denominated in a variety of currencies. The WGBI is a broad benchmark providing exposure to the global sovereign fixed income market. The index provides exposure to a broad array of countries. Sub-indices are available in any combination of currency, maturity, and rating. The MSCI AC World Index 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.

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. Where applicable, compound growth charts are used only to illustrate the effects of a compound growth rate and are not intended to reflect future values or returns of a fund. A mutual fund's "yield" refers to income generated by securities held in the fund's portfolio and does not represent the return of or level of income paid out by the fund.

The information provided herein does not constitute financial, tax or legal advice. Always consult with a qualified advisor prior to making any investment decision. Statements by the portfolio manager or sub-advisor responsible for the management of the fund's investment portfolio, as specified in the applicable fund's prospectus ("portfolio manager") represent their professional opinion, do not necessarily reflect the views of iA Clarington, and should not be relied upon for any other purpose. Information presented should not be considered a recommendation to buy or sell a particular security. Specific securities discussed are for illustrative purposes only. Mutual funds may purchase and sell securities at any time and securities held by a fund may increase or decrease in value. Past investment performance of a security may not be repeated. Unless otherwise stated, the source for information provided is the portfolio manager. Statements that pertain to the future represent the portfolio manager's current view regarding future events. Actual future events may differ. iA Clarington does not undertake any obligation to update the information provided herein. The information presented herein may not encompass all risks associated with mutual funds. Please read the prospectus for a more detailed discussion on specific risks of investing in mutual funds.

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. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Trademarks displayed herein that are not owned by Industrial Alliance Insurance and Financial Services Inc. are the property of and trademarked by the corresponding company and are used for illustrative purposes only.



(22-1029) 05/22