INVESTMENT FUNDS

DIVIDEND GROWTH & U.S. DIVIDEND GROWTH

QUARTERLY COMMENTARY

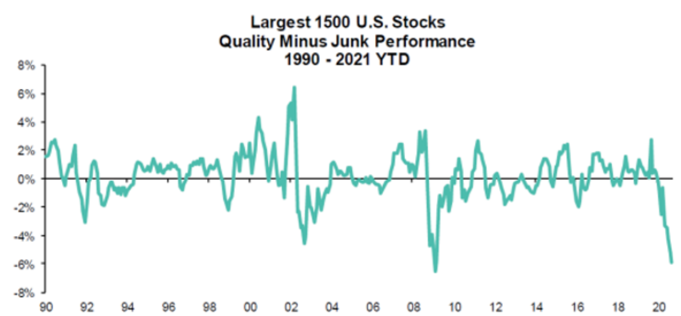
March 31, 2021

It was another positive month for equities on both sides of the border, and we now have the first quarter of 2021 in the books, with the S&P/TSX up over 8%, and the S&P 500 up over 6% – both great results. Leading the way in both markets were the Financial and Energy sectors, which we have discussed in detail in past months, as these sectors were under intense pressure in 2020 and are now seeing a favourable set up as the economy recovers from the pandemic. Interest rates continued to move upward in March. However, the pace has moderated which is good news for equity investors, as sharply higher rate levels are an impediment to continued gains in equities.

Within the rotation in stocks we have seen since the initial vaccine announcement in November, one of the more frustrating elements for us has been the underperformance of "quality" stocks versus "junk" stocks. As we sift through some of the best performers so far in 2021, we see a lot of airlines, department stores, auto manufacturers, and other highly levered companies, where in many cases the stocks are back to all-time highs – while their earnings haven't caught up!

Meanwhile the quality companies, who tend to compound earnings and dividend growth through cycles, have been a source of funds since mid-late 2020. As the chart below shows, it's been the toughest time for these stocks in the past 30 years. However, we have seen some improvement in the past few weeks. With the stock market at all time highs, you could be forgiven for thinking that quality stocks are currently on sale!

EXHIBIT 2: **Quality stocks have underperformed junk by over 15% year-to-date**



Source : Bernstein

iA Financial Group

#1 in net sales of segregated funds in Canada since 2016

iA Investment Management

One of the best examples of this phenomenon in our portfolio is Costco. The company has been an obvious beneficiary of the pandemic, as its stores became a vital source of necessities for its members. After a solid run in 2020, shares weakened starting in November as investor interest moved to "reopening" stocks. Its shares kept falling until the middle of March, at levels lower than pre-pandemic (!) – but with earnings forecasts 15% higher than pre-pandemic; it made no sense to us.

An additional example in Canada would be insurer Intact Financial, which continues to trade below pre-COVID levels despite benefitting from the pandemic (as its customers drive less) and has just completed a large accretive acquisition.

Our view is that this type of underperformance won't last, as quality companies that outperformed in 2020 prove that they can continue growing earnings and cash flow as the economy returns to normal. As a reminder, our investment process has not changed in 13 years and leads us to focus on quality. We define this as owning well-managed companies that can grow cash flow and dividends over the long term, without excessive leverage. While some of our stocks won't end up on the top performing list for last quarter, our time horizon is long and look forward to seeing these companies continue their outperformance over the coming quarters and years.

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DONNY MOSS, CFA

- Principal Portfolio Manager, North American Equities
- Joined iAIM in 2008
- More than 15 years of investment experience
- Bachelor's degree in commerce, Dalhousie University

Main funds managed by the team

✓	Dividend Growth
✓	U.S. Dividend Growth
✓	Dividend Growth Hybrid 75/25
✓	IA Clarington Canadian Dividend Fund
✓	IA Clarington Dividend Growth Class
✓	IA Clarington U.S. Dividend Growth Fund
✓	IA Clarington Canadian Conservative Equity Fund

iAIM snapshot

- Principal asset manager for iA Financial Group
- Major player in the asset management industry
- Manages $97 billion in general portfolios and segregated and mutual funds
- A team of 184 people, including 108 investment professionals (including 44 CFA charterholders)
- Composed of experienced managers who emphasize fundamental analysis, identification of value and long-term investing

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