The 2.0 Quarterly *4th Quarter, 2021*

The year-end edition.

With rates beginning their march higher, 2021 was a difficult year for fixed income. Outside of high yield, annual bond returns typically fell within a range of 0% and -3%.

Our ability to manage duration and enhance the portfolio yield provided the Fund with a distinct edge. In addition, the active rotation of credit positions and execution of trading strategies acted to further enhance returns.

- F Class Returns: Q4: 0.12% | 2021: 2.42% | 2020: 10.53%

The fourth quarter.

Between central banks finally acknowledging the risks of inflation and the emergence of the Omicron variant, markets adjusted and then re-adjusted their expectations for the timing and pace of rate hikes. This led to a particularly volatile quarter, with interest rates across the curve trading in 40-60 bps ranges.

Ultimately, yield curves flattened, with short-end rates moving materially higher and long-end rates unchanged to slightly lower.

Over the quarter,

- Canadian 2y rates rose 42 bps to finish at 0.95%, and the 10y dropped 9 bps to end the year at 1.42%
- US 2y Treasury yields rose 45 bps to 0.73%, while the 10y was flat and finished the year at 1.52%

Relative to interest rates, credit markets were rather benign. Overall, the fears around Omicron coupled with a heavy amount of new corporate supply saw investment-grade credit spreads finish the quarter modestly wider. We took advantage of the weakness and deployed capital into opportunities we had been waiting to enter.

Over the quarter,

- Canadian investment-grade spreads widened 6 bps to finish the year at 111 bps
- US investment-grade spreads widened 8 bps to end the year at 92 bps

Looking ahead.

The base case for 2022 is four interest rate hikes in Canada (0.25% each) and three such increases south of the border. The risk is that inflation proves to be stickier than expected, requiring the central banks to be more aggressive. Accordingly, we continue to maintain a low duration and will actively manage our rate exposures to capitalize on the anticipated volatility in the months ahead.

On the credit spectrum, high yield is now at its most expensive (tightest) levels since the Great Financial Crisis. As such we don't see much value and performance potential from lower-quality credit and are very selective in this space. In the investment-grade universe, we do see opportunities in higher-quality issuers (i.e. banks and telcos), which have cheapened-up relative to a year ago and from their 2021 tights. The added benefit of these securities is high liquidity, which is a valuable attribute in what will likely be a choppy year.

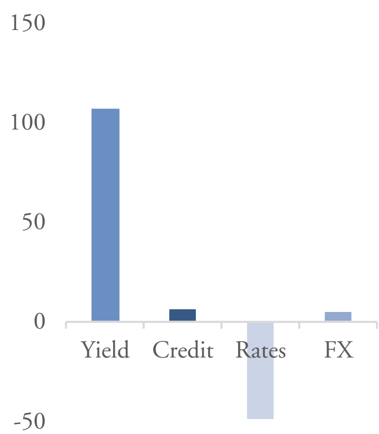
Fund performance. *All data as at December 31, 2021*

Returns *(F Class)*

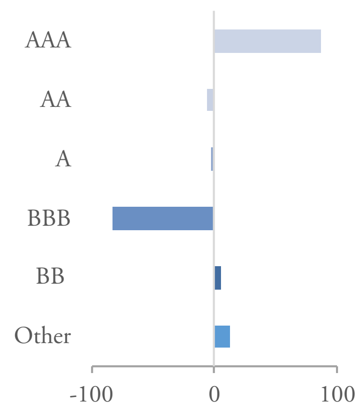
1 month	3 month	6 month	YTD	1 year	2020
0.65%	0.12%	0.81%	2.42%	2.42%	10.53%

Return attribution *(basis points)*

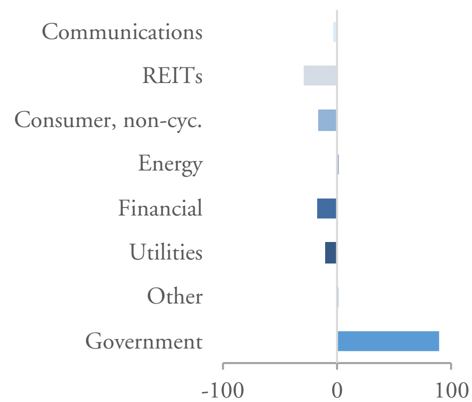
by Factor



by Rating

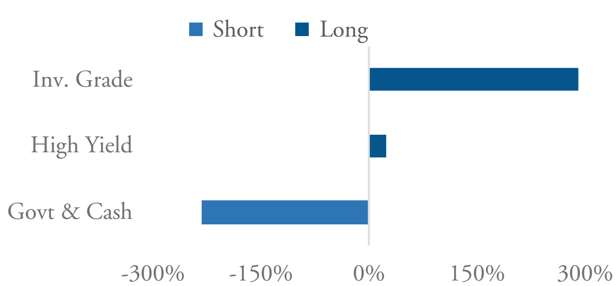


by Industry



Portfolio summary. *All data as at December 31, 2021*

Portfolio Breakdown *(net exposures)*



Key Metrics

Portfolio Yield	Interest Rate Duration	Average Term	CR01	Leverage
4.0%	2.5yrs	3.7yrs	9.9bps	2.3x

Portfolio Yield is the weighted average aggregate yield net of borrow cost; IR Duration is an estimate of portfolio sensitivity to 1% change in interest rates; Average Term is weighted average term to maturity of long positions; CR01 is an estimate of portfolio sensitivity for a one basis point change in credit spreads across all credit positions; Leverage based on short positions and borrowed cash as per National Instrument 81-102.

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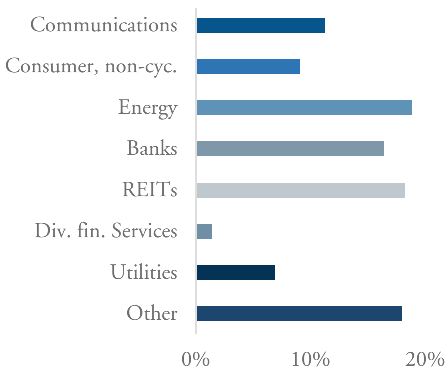
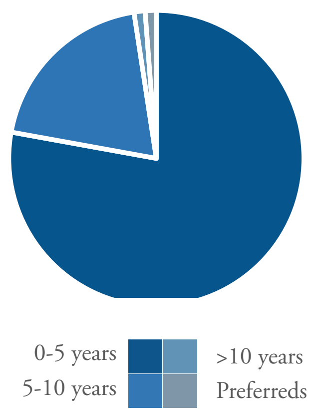
ALGONQUIN CAPITAL

Long Exposures

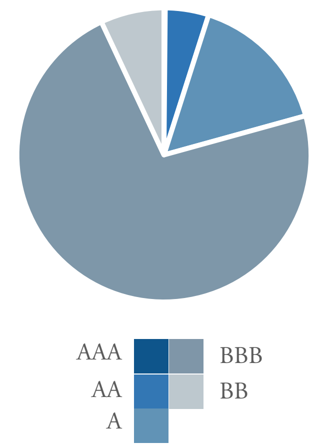
by Industry



by Term



by Rating



Top 10 Holdings

ENB CCP 0 *10/12/21*	**CSHU** 4.211 *04/28/25*
EMPACN 4.7 *08/08/23*	**F** 2.71 *02/23/22*
TACN 4 1/2 *11/15/22*	**TRPCN** 3.8 *04/05/27*
CRRUCN 4.066 *11/21/22*	**GEICN** 2.45 *07/14/25*
TCLACN 2.28 *07/13/26*	**GS** *float 04/29/25*