

## The first quarter.

The combination of a sharp rise in interest rates and the sell-off in credit made for an ugly quarter for fixed-income assets.

- Canada Universe Bond Index ETF (XBB) Q1: -7.07%
- Canada All Corporate Bond Index ETF (XCB) Q1: -6.72%

With central banks battling inflation, the bond market's expectation shifted to 'bigger and badder' rate hikes. This led to interest rates moving materially higher and a flattening of the yield curve.

- Canadian 2y rates finished Q1 at 2.29% (+1.34%) and the 10y at 2.41% (+0.99%)
- US 2y Treasury yields finished at 2.33% (+1.60%) and the 10y at 2.34% (+0.82%)

With investors worried about rising interest rates, they were reluctant to buy bonds, leading to a liquidity, technically driven sell-off in corporate credit. This has created a dislocation in Canadian investment-grade credit, wherein spreads are significantly higher for issuers whose equity has performed and credit fundamentals have improved (for more colour on the dislocation and the opportunity it creates [click here](#)).

- Canadian investment-grade spreads widened 27 bps to finish at 138 bps
- US investment-grade spreads widened 24 bps to end the quarter at 116 bps

## The fund.

While the fund maintained a low duration (~2y), it was not immune to the move in interest rates. But the greatest driver of returns was the widening of credit spreads. The silver lining of credit sell-offs is an attractive portfolio yield (~6%) and the potential for performance on spread normalization.

- F Class Returns: Q1: -4.71% | 2021: 2.42% | 2020: 10.53%

We have been adding credit exposure into the weakness, particularly in senior bank paper. Given the geopolitical risks and the potential of a central bank-induced recession, we prefer to stay focused on higher-quality issuers with the resilience to withstand a slowdown.

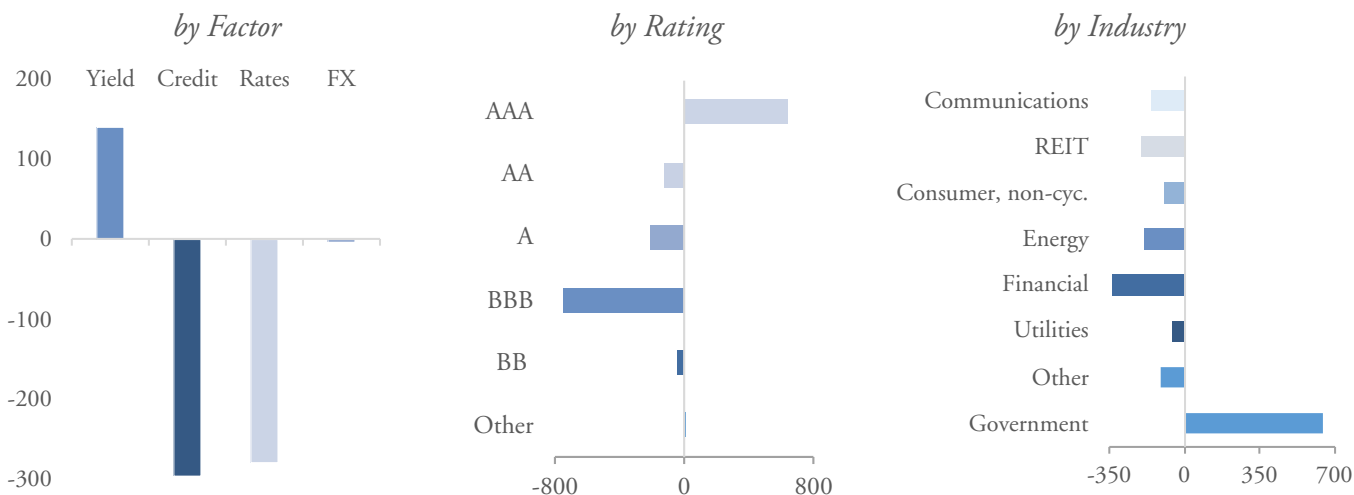
With markets now pricing in overnight rates of 2.5-3.0% in a year, we are starting to see some value in interest rates. Accordingly, we have modestly increased our duration (~3y) and will adjust exposures depending on inflation data and central bank rhetoric.

## Fund performance. *All data as at March 31, 2022*

### Returns (F Class)

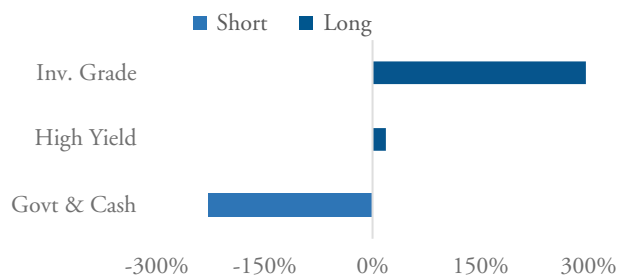
1 month	3 month	6 month	YTD	1 year	2020	2021
-1.06%	-4.71%	-4.60%	-4.71%	-1.88%	10.53%	2.42%

### Return attribution (*basis points*)



## Portfolio summary. *All data as at March 31, 2022*

### Portfolio Breakdown (*net exposures*)

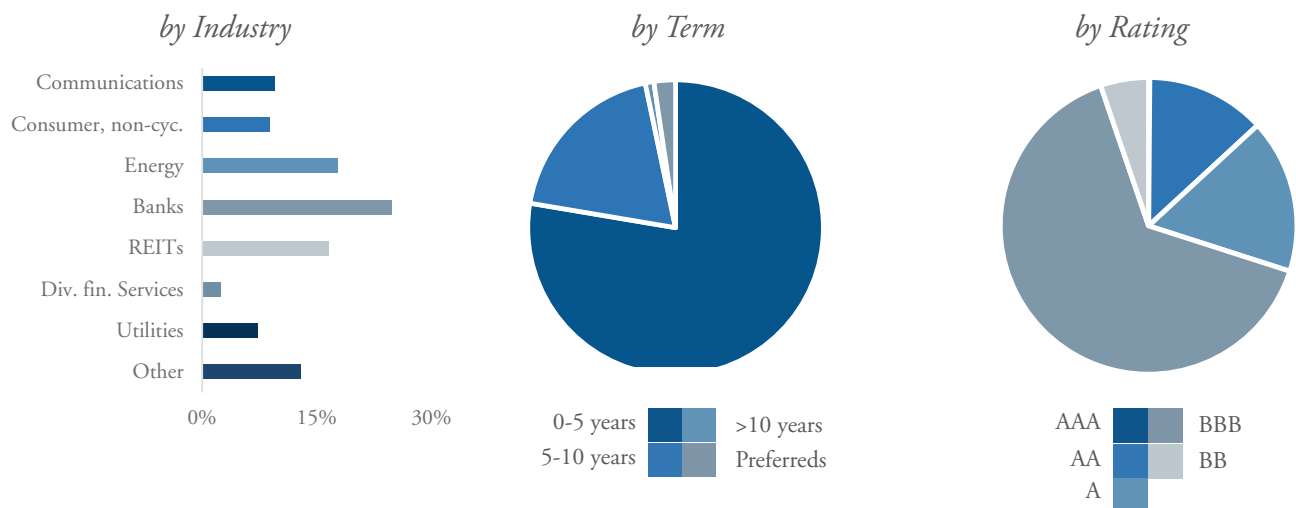


### Key Metrics

Portfolio Yield	Interest Rate Duration	Average Term	CR01	Leverage
6.0%	3.2yrs	3.6yrs	9.6bps	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.

### Long Exposures



### Top 10 Holdings

**EMPACN** 4.7 08/08/23

**ENB CCP** 0 04/07/22

**TACN** 4 1/2 11/15/22

**CRRUCN** 4.066 11/21/22

**CIXCN** 3.215 07/22/24

**CSHU** 4.211 04/28/25

**TCLACN** 2.28 07/13/26

**TD** 2.496 12/02/24

**TRPCN** 3.8 04/05/27

**GS** float 04/29/25

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