The 2.0 Quarterly *1st Quarter, 2022*

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.

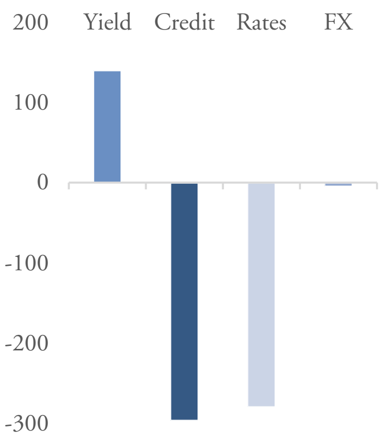
Fund performance. *All data as at March 31, 2022*

Returns *(F Class)*

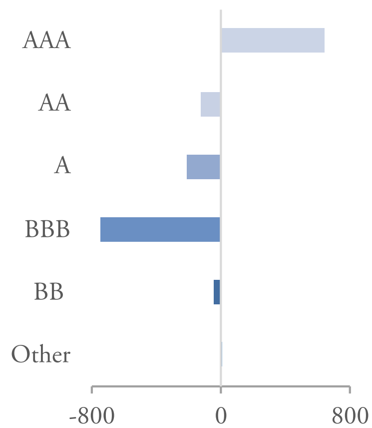
1 month	3 month	6 month	YTD	1 year	2020	2021
-1.06%	-4.71%	-4.60%	-4.71%	-1.88%	10.53%	2.42%

Return attribution *(basis points)*

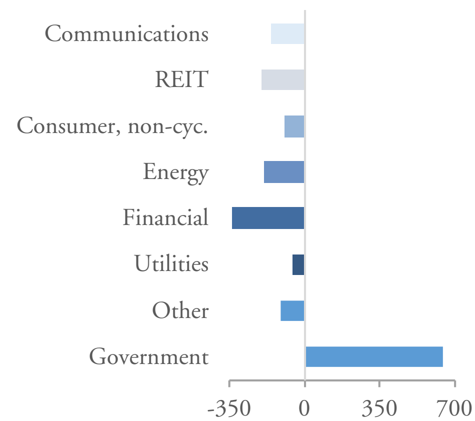
by Factor



by Rating

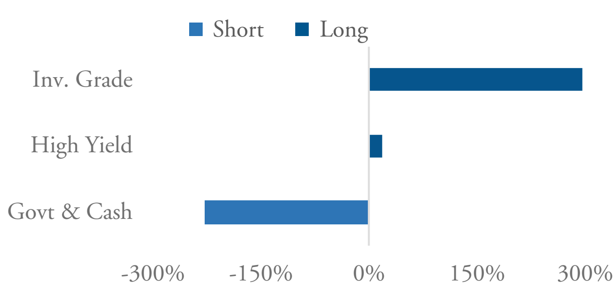


by Industry



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

Portfolio Breakdown *(net exposures)*



Key Metrics

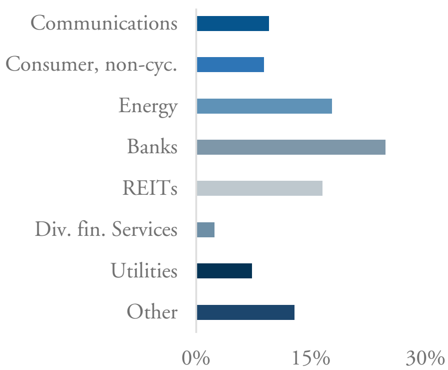
Portfolio Yield	Interest Rate Duration	Average Term	CR01	Leverage
6.0%	3.2yrs	3.6yrs	9.6bps	2.3x

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.

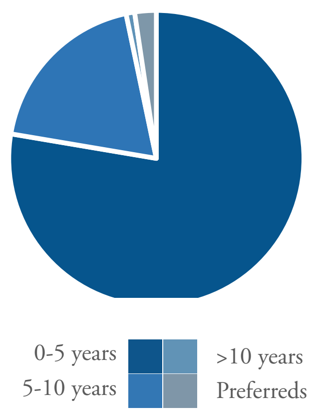
The 2.0 Quarterly *1st Quarter, 2022*

Long Exposures

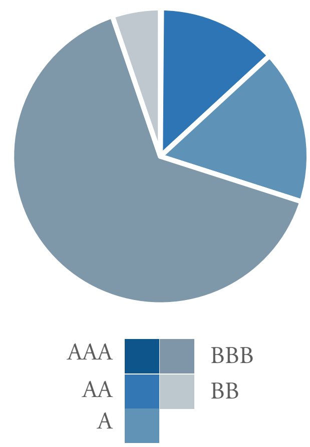
by Industry



by Term



by Rating



Top 10 Holdings

EMPACN 4.7 *08/08/23*	**CSHU** 4.211 *04/28/25*
ENB CCP 0 *04/07/22*	**TCLACN** 2.28 *07/13/26*
TACN 4 1/2 *11/15/22*	**TD** 2.496 *12/02/24*
CRRUCN 4.066 *11/21/22*	**TRPCN** 3.8 *04/05/27*
CIXCN 3.215 *07/22/24*	**GS** *float 04/29/25*