

The third quarter saw bond markets conclude that even higher rates and a recession were required to tame the beast that is inflation.

Interest Rates.

Expectations for ‘how high the central banks need to hike rates’ adjusted even higher, with the Bank of Canada expected to stop at around 4% and the Fed in the neighbourhood of 4.5%. Furthermore, over the summer, we also saw a dramatic inversion of yield curves, as the market braces for an economic slowdown.

Over the quarter,

- Canadian 2y finished at 3.79% (+14 bps) and the 10y at 3.17% (+5 bps)
- US 2y finished at 4.28% (+79 bps) and the 10y at 3.83% (+64 bps)

Credit.

With a recession all but inevitable, credit markets continued to sell off. Interestingly, it is the high-quality issuers that have been hit the hardest. Senior bank spreads are at their widest (cheapest) levels outside of March 2020 and 2008, and the rest of the investment-grade space is trading at recessionary levels.

Meanwhile, the high-yield market shows fewer signs of stress. The spreads on these lower-quality issuers finished the quarter around 562 bps, compared to previous periods of economic stress where these have traded in the 900-1100 bps range.

- Canadian spreads widened 14 bps to 172 bps
- US spreads widened 19 bps to 159 bps
- US High Yield widened 54 bps to 562 bps

The Fund.

Despite the sell-off in both rates and credit, the portfolio yield, active duration management, and credit trading led to a positive result for Q3.

- F Class Returns: Q3 2022: +0.46%; YTD: -8.35% | 2021: 2.42% | 2020: 10.53%

Through the quarter, the Fund’s duration was managed in a 2.5 – 4y range. With the market now pricing in a Canadian overnight rate of 4 – 4.25%, we are becoming more constructive on interest rate exposure. Our preferred area is the 2–5 year part of the Canadian curve, where we see the best risk/reward profile.

In terms of credit, we continue to favour higher-quality issuers (e.g. banks) and have reduced our exposure to high-yield, preferreds, and lower-quality investment-grade issuers. Our preference to stay on the top end of the credit spectrum is driven by three factors:

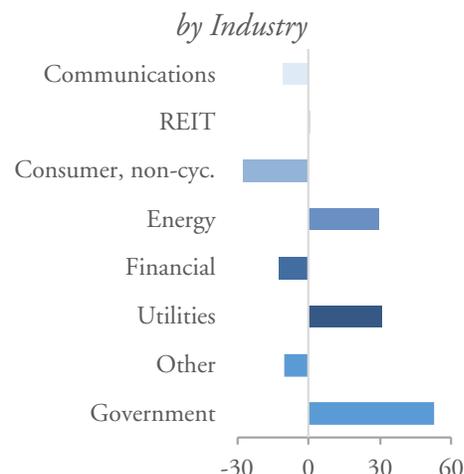
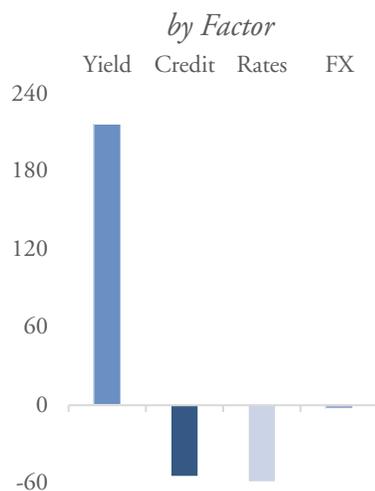
- The value on offer at today’s prices
- The security of high-quality, investment-grade issuers in an economic slowdown.
- The liquidity, which enables us to be flexible and nimble.

Fund performance. *All data as at September 30, 2022*

Returns (F Class)

1 month	3 month	6 month	YTD	1 year	2020	2021
-1.31%	0.46%	-3.81%	-8.35%	-8.24%	10.53%	2.42%

Return attribution (*basis points*)



Portfolio summary. *All data as at September 30, 2022*

Portfolio Breakdown (*net exposures*)

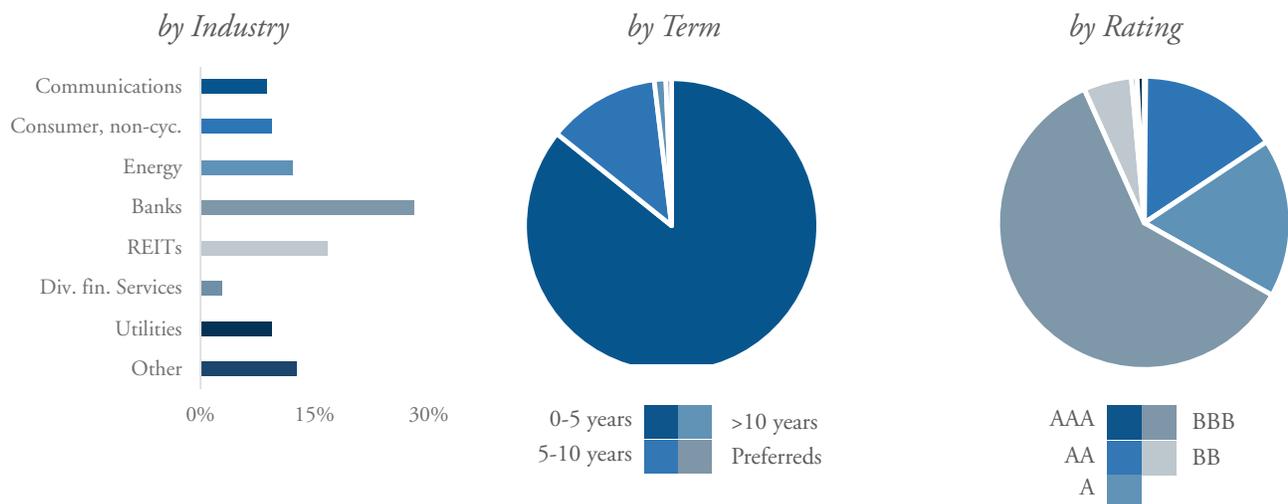


Key Metrics

Portfolio Yield	Interest Rate Duration	Average Term	CR01	Leverage
7.9%	3.5yrs	3.1yrs	8.0bps	2.2x

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

TACN 4 1/2 11/15/22

GS float 04/29/255

CRRUCN 4.066 11/21/22

ALACN 2.609 12/16/22

CIXCN 3.215 07/22/24

ENB CCP 0 11/23/22

CSHU 4.211 04/28/25

WFC 3.184 02/08/24

TCLACN 2.28 07/13/26

BMO 2.37 02/03/25

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