

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:

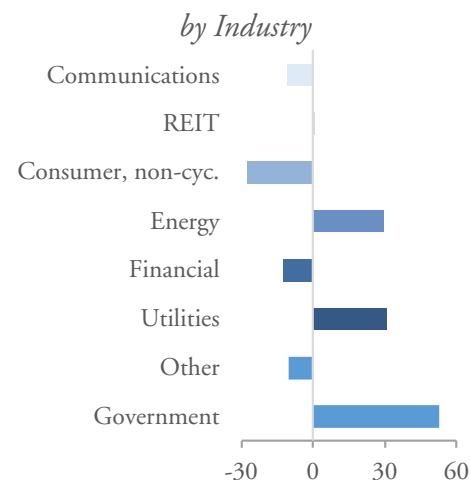
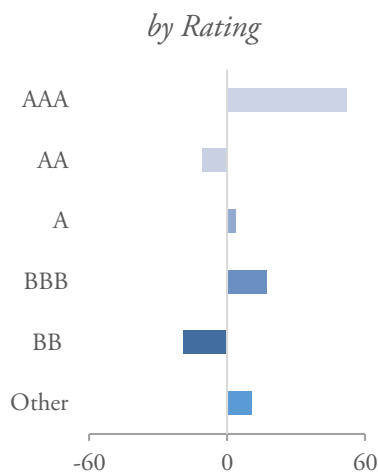
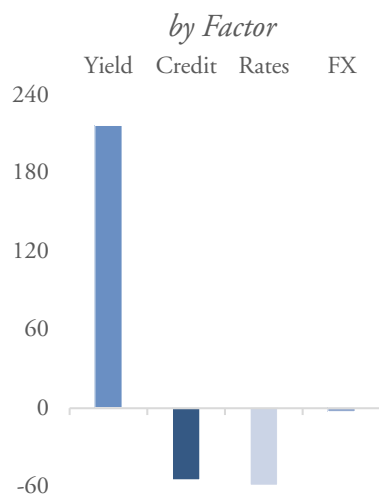
- The value on offer at today’s prices
- The security of high-quality, investment-grade issuers in an economic slowdown.
- The liquidity, which enables us to be flexible and nimble.

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

### Returns (F Class)

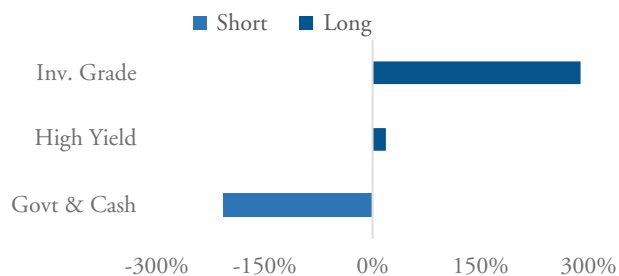
1 month	3 month	6 month	YTD	1 year	2020	2021
-1.31%	0.46%	-3.81%	-8.35%	-8.24%	10.53%	2.42%

### Return attribution *(basis points)*



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

### Portfolio Breakdown *(net exposures)*

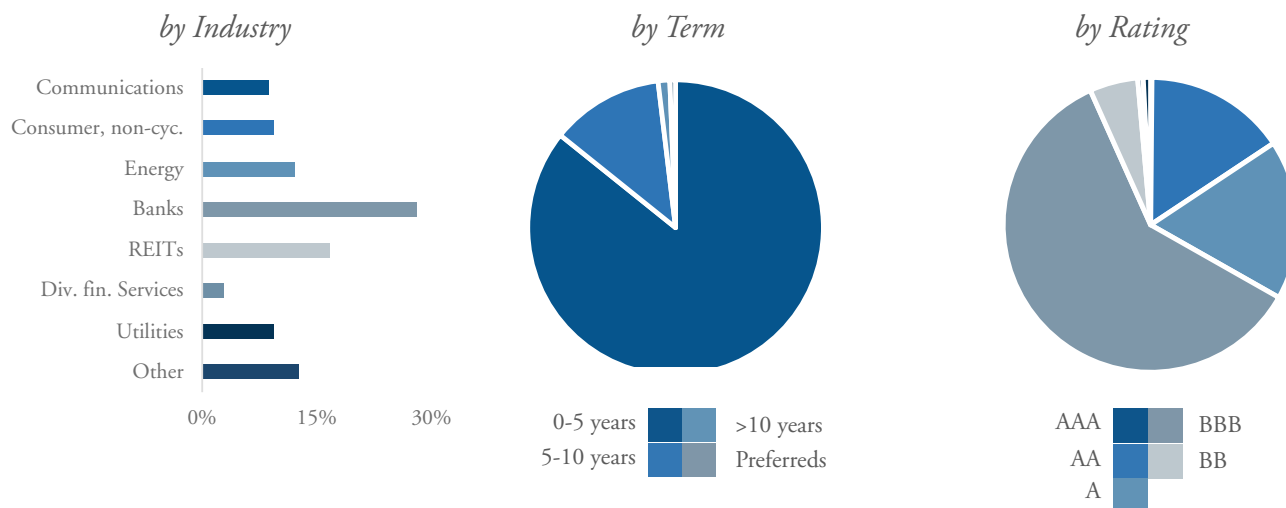


### Key Metrics

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

**CRRUCN** 4.066 11/21/22

**CIXCN** 3.215 07/22/24

**CSHU** 4.211 04/28/25

**TCLACN** 2.28 07/13/26

**GS float** 04/29/255

**ALACN** 2.609 12/16/22

**ENB CCP** 0 11/23/22

**WFC** 3.184 02/08/24

**BMO** 2.37 02/03/25

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