The 2.0 Quarterly *2[nd] Quarter, 2023*

ALGONQUIN CAPITAL

Interest rates.

It was another eventful quarter for interest rates, as bond markets swung from expecting a series of cuts to multiple hikes being delivered this year.

- The quarter began quietly, with rates muddling along through April, as the expectation remained for two cuts to come later in the year.
- That changed in May, as sticky inflation numbers erased any hope of cuts, and yields surged higher. By month-end, neither the US nor Canadian curve had cuts built in, and the domestic market had the odds of a June hike at 40%.
- A week later, that 40% became a reality, as on June 7th the BoC raised the overnight rate by 0.25% to 4.75%. Following the announcement, bond traders moved to incorporate another hike this year. By month-end, the expectations sat at a hike in July to be followed by one more before year-end.

Over the quarter:

- Canadian 2y finished at 4.58% (+85 bps) and the 10y at 3.27% (+37 bps)
- US 2y finished at 4.90% (+87 bps) and the 10y at 3.84% (+37 bps)

Credit.

With fears over US regional banks waning, the March sell-off (precipitated by three bank runs) was reversed, and investment-grade credit spreads rallied.

Over the quarter:

- Canadian investment-grade spreads tightened 16 bps to 151 bps
- US investment-grade spreads tightened 15 bps to 123 bps

The fund.

The sell-off in interest rates was a strong headwind for fixed-income products. Thankfully, we entered the quarter with a low duration, and losses from the move in rates were more than offset by the strong portfolio yield (7-8%) and performance from our credit positions.

- F Class Returns: Q2: 0.73%, YTD: 3.52%; 2022: -6.15%, 2021: 2.42%; 2020: 10.53%

We used the move higher in interest rates to increase our duration from 2.9y to 4.1y. Now that it appears central banks have entered the 'tweaking zone' with their hikes, we are more constructive on adding rate exposure on sell-offs.

In terms of credit, we continue to favour higher-quality issuers (i.e., banks, energy infrastructure, telcos) and remain selective and light in our exposure to high-yield and REITs.

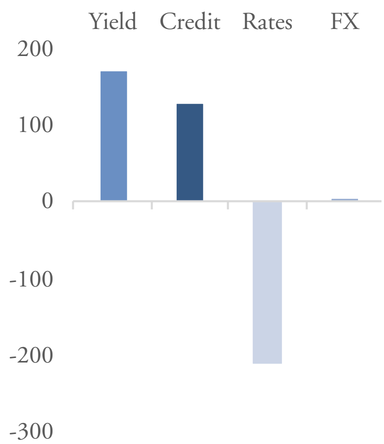
Fund performance. *All data as at June 30, 2023*

Returns *(F Class)*

1 month	3 month	6 month	YTD	1 year	2020	2021
0.00%	0.73%	3.52%	3.52%	6.49%	10.53%	2.42%

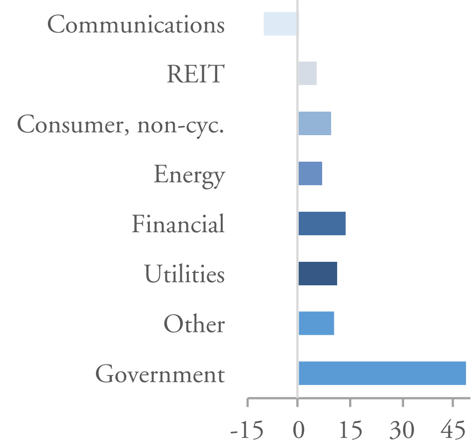
Return attribution *(basis points)*

by Factor



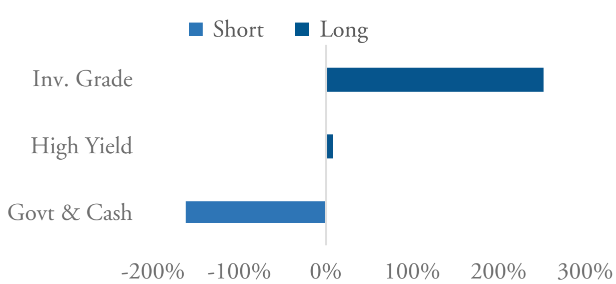
by Rating

by Industry



Portfolio summary. *All data as at June 30, 2023*

Portfolio Breakdown *(net exposures)*



Key Metrics

Portfolio Yield	Interest Rate Duration	Average Term	CR01	Leverage
7.7%	4.1yrs	3.0yrs	6.7bps	2.1x

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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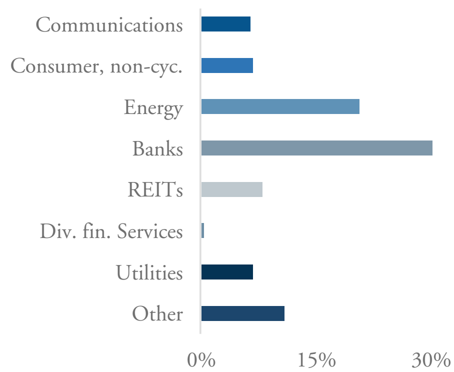
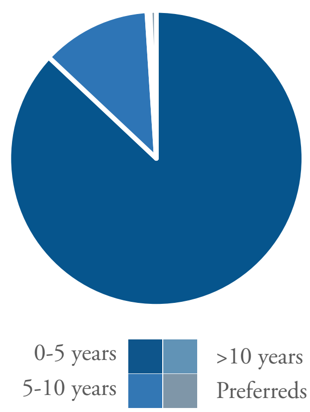
Long Exposures

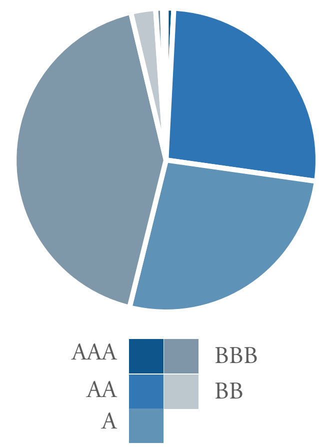
by Industry



by Term



by Rating



Top 10 Holdings

ENB CCP 0 *07/13/23*	**ENB CCP** 0 *07/04/23*
ENMAXC CCP 0 *07/26/23*	**TRPCN** 3.3 *07/17/25*
HSBC 1.782 *05/20/26*	**BMO** 3.65 *04/10/27*
BNS 1.85 *11/02/26*	**PPLCN** 3.54 *02/03/25*
CCDJ 1.093 *01/21/26*	**CCDJ** 5.035 *08/23/32*