

## Interest rates.

There were three dominant themes in interest rate markets over the quarter.

- The market came to the conclusion that the rate hiking cycle was behind us, or at the very least, that the end was nigh.
- The higher-for-longer narrative took hold, as rate cuts dropped off the horizon with central banks expected to maintain a restrictive policy for longer than was previously expected.
- The term premium, the extra compensation required for holding longer-dated government bonds, came under scrutiny. The triple threat of inflation uncertainty, government deficits, and the lack of demand from central banks, US financial institutions, and foreign buyers sent long-end yields soaring higher.

The net result was rates shifting higher with the yield curve steepening (less inverted).

Over the quarter:

- Canadian 2y finished at 4.87% (+29 bps) and the 10y at 4.02% (+75 bps)
- US 2y finished at 5.05% (+15 bps) and the 10y at 4.57% (+73 bps)

## Credit.

Despite a tough quarter for equities, with stock indices down 3-4%, credit spreads remained resilient and finished the quarter pretty much flat. The one notable exception was domestic banks, where senior bail-in spreads were 8 bps wider.

Over the quarter:

- Canadian investment-grade spreads tightened 1 bps to 150 bps
- US investment-grade spreads tightened 2 bps to 121 bps
- High yield spreads tightened 5 bps to 412 bps

## The fund.

The sell-off in interest rates was a strong headwind for fixed-income products, with the Canadian Universe Bond Index down -3.8% over the quarter. While the Fund was not immune to rising yields, having most of the duration exposure in the shorter end of the Canadian curve (i.e., 2-5y) limited the damage. The losses from rates were also partially offset by the yield earned and profits from active credit trading.

- F Class Returns: Q3: -1.43%, YTD: 2.27%, 2022: -6.15%, 2021: 2.42%; 2020: 10.53%

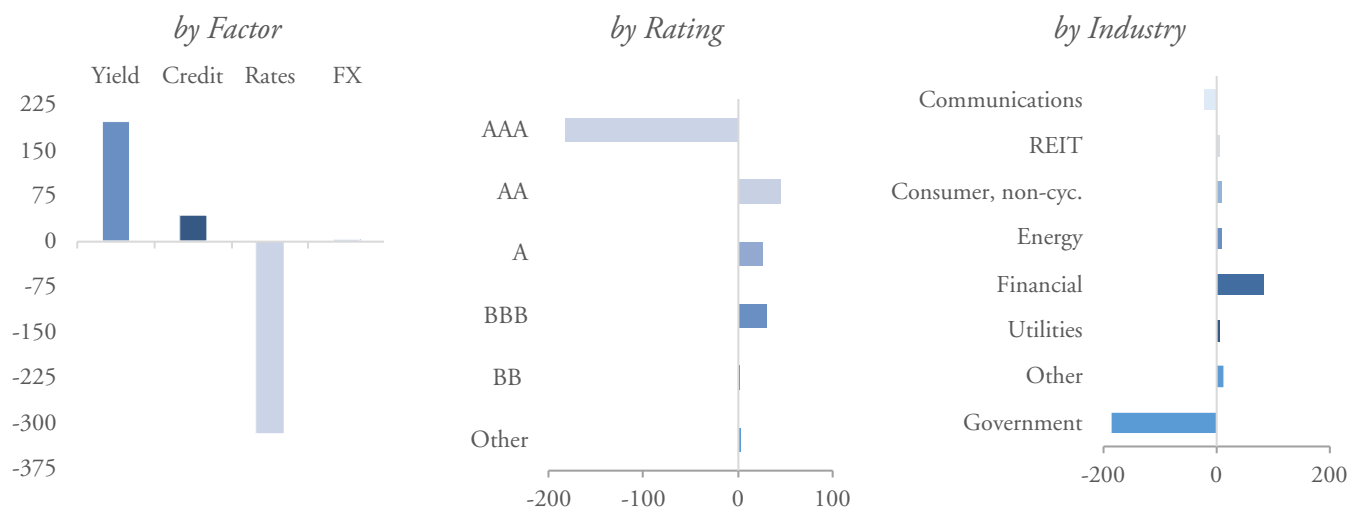
We used the move higher in interest rates to increase our duration from 4.1y to 5.3y, with a continued emphasis on the short end of the curve. In terms of credit, we have maintained our bias toward Canadian high-quality, investment-grade issuers that offer the trifecta of value, liquidity, and security.

## Fund performance. *All data as at September 30, 2023*

### Returns (F Class)

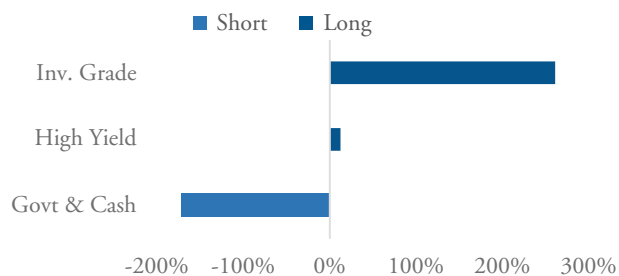
1 month	3 month	6 month	YTD	1 year	2020	2021
-1.43%	-1.21%	-0.49%	2.27%	4.72%	10.53%	2.42%

### Return attribution (*basis points*)



## Portfolio summary. *All data as at September 30, 2023*

### Portfolio Breakdown (*net exposures*)

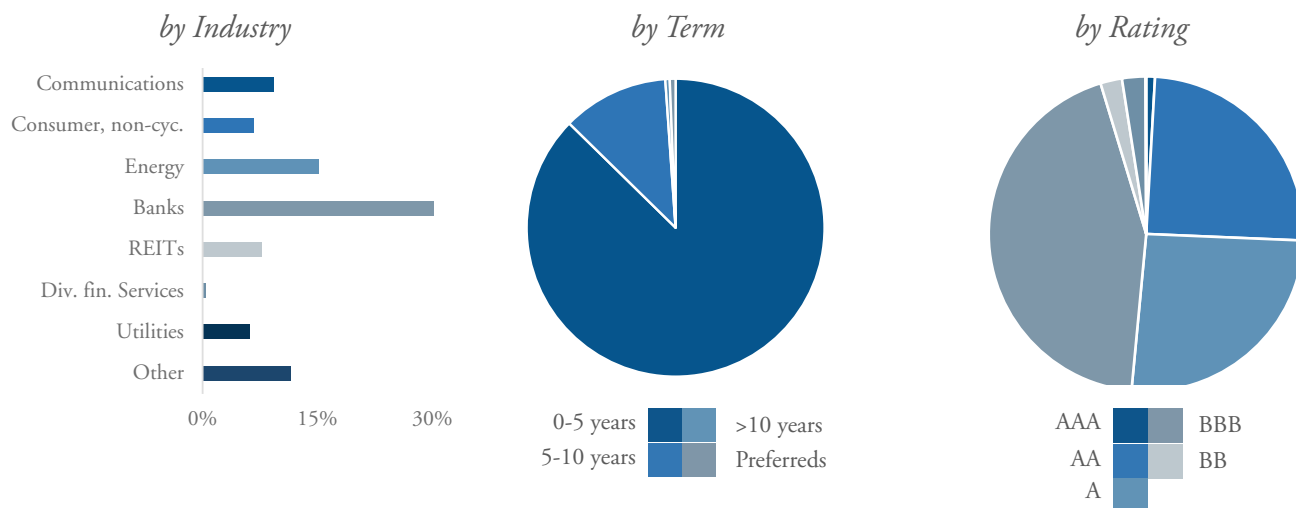


### Key Metrics

Portfolio Yield	Interest Rate Duration	Average Term	CR01	Leverage
8.2%	5.3yrs	3.0yrs	7.1bps	2.6x

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

**CEUCN 6.0 10/21/24**

**NOSCCN CCP 0 11/02/23**

**HSBC 1.782 05/20/26**

**CCDJ 1.093 01/21/26**

**BMO 6.034 09/07/33**

**TD 3.224 07/23/29**

**JPM 0.768 08/09/25**

**PPLCN 3.54 02/03/25**

**HNDA float 06/29/26**

**CM 2.95 06/19/29**

The information provided in this document is not investment or financial product advice and is not intended to be used as the basis for making an investment decision. This document is not, and does not constitute, an offer to sell or the solicitation, invitation or recommendation to purchase any securities. The information provided may be subject to change and Algonquin does not undertake any obligation to announce updates or changes to the information presented in this document. Algonquin Fixed Income 2.0 Fund is an Alternative Mutual Fund. Investors should read the Simplified Prospectus, Annual Information Form, and Fund Facts Documents and consult their registered investment dealer before making an investment decision. Commissions, trailing commissions, management fees and operating expenses all may be associated with mutual fund investments. An Alternative Mutual Fund is not guaranteed, its value changes frequently and its past performance is not indicative of future performance and may not be repeated. Payment of quarterly distributions is not guaranteed and paid at the discretion of the manager, therefore, it may vary from period to period and does not infer fund performance or rate of return.