PH&N Core Plus Bond Fund

Fund Performance

Performance Comparison as of June 30, 2023 (%)	3 Mo	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	10 Yr
PH&N Core Plus Bond Fund	**-0.33**	**4.31**	**-3.84**	**-2.53**	**0.54**	**1.86**	**3.23**
FTSE Canada Universe Bond Index	*-0.69*	*3.15*	*-4.40*	*-3.75*	*-0.96*	*0.65*	*2.06*
Relative Performance	+0.36	+1.16	+0.56	+1.22	+1.50	+1.21	+1.17

Series O returns. Total returns are gross-of-fee and reported in Canadian dollars. Periods less than one year are not annualized.

Fund Attribution

Attribution as of June 30, 2023 (%)	Relative Performance	
	3 Mo	1 Yr
Interest rate anticipation		
Duration & yield curve	0.07	0.36
Real return bonds	0.00	0.00
Foreign sovereign bonds	-0.01	0.08
Credit & liquidity		
Provincial & quasi-government bonds	0.07	0.03
Investment grade corporate bonds	-0.01	0.10
High yield corporate bonds	0.14	0.34
Mortgages	0.03	0.04
Emerging market debt	0.06	0.22
Other	0.01	-0.01
Total	**+0.36**	**+1.16**

Second Quarter Review

Strategy Summary for the Quarter Ending June 30, 2023 (relative contribution to duration exposure)

Strategy	Exposure	Position Ending Q2	Our View
Duration & Yield Curve	Unchanged	Slight long duration	Reward for taking significant interest rate risk is not compelling given elevated uncertainty
Real Return Bonds	Unchanged	No position	Reduced liquidity given Government of Canada's termination of issuance; sector not currently compelling
Foreign Sovereign Bonds	Decreased	Small position	Yield differential between U.S. treasuries and Government of Canada bonds at attractive level
Provincial and Quasi-Government Bonds	Unchanged	Moderate overweight in provincials; underweight in federal agencies	Provincial bonds offering better reward for risk relative to federal agencies
Investment Grade Corporate	Decreased	Medium overweight	Cautious on fundamentals; selectively taking advantage of compelling valuations
High Yield	Unchanged	Moderate position	Mindful of the growing list of risks in the current environment
Mortgages	Unchanged	Small position	Liquidity premium remains at appealing levels
Emerging Market Debt	Unchanged	Small position	Cautious of potential tail risks despite compelling valuations

- The Bank of Canada (BoC) raised its policy rate by 0.25% to 4.75% in June, citing that policy rates were not sufficiently restrictive amid elevated inflation and a resilient economy. It is prudent to remember that monetary policy acts with a lagged effect, and that the full effect of the past year's hikes is gradually having its intended effect on economic activity and inflation. Against this backdrop, yields continued to exhibit remarkable volatility this quarter and ended meaningfully higher. As a result, the Government of Canada (GoC) yield curve inverted further, while broad credit spreads tightened on the back of improved investor risk appetite.
- Higher yields were the primary driver of largely negative bond returns this quarter, with the FTSE Canada Universe Bond Index returning -0.69%. The portfolio finished ahead of the benchmark for the quarter with contributions coming from both interest rate anticipation and credit strategies.
- As a result of the sharp rise in yields experienced over the past 18 months, bond market performance has been significantly low or negative. However, recall that this increase means the yield for your portfolio is significantly higher than where it was prior to the start of the hiking cycle. The portfolio's meaningfully higher current yield should be a helpful tailwind to improve long-term prospective returns.

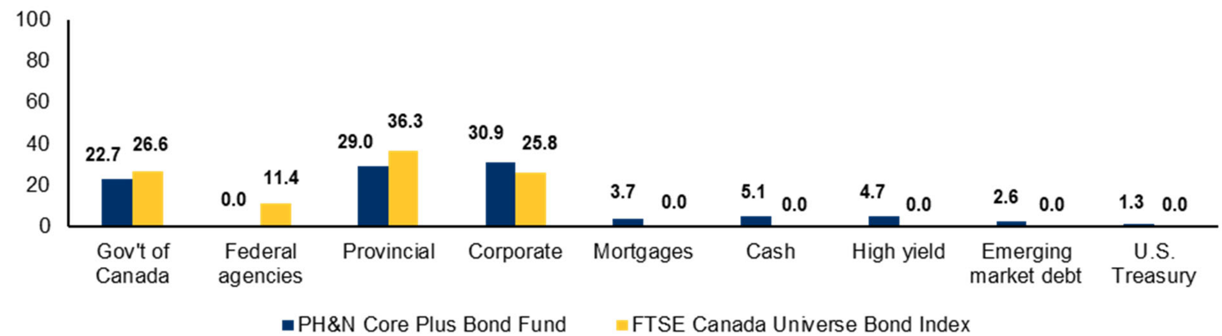
- In aggregate, tactical management of the portfolio's duration and yield curve positioning was a positive contributor to relative performance, as we were able to take advantage of the heightened yield volatility.
- A small tactical position in U.S. Treasuries had a broadly neutral impact on performance, as the spread differential versus similar-term GoC bonds widened only slightly.
- The portfolio's overweight to provincial bonds added to relative returns due to spreads narrowing and advantageous security selection over the quarter.
- The portfolio's overweight to investment grade corporates was a roughly neutral driver of relative performance over the quarter, as beneficial spread compression was offset by security selection decisions.
- The out-of-benchmark position in high yield bonds added to relative performance due to meaningful spread compression and yield accrual.
- The out-of-benchmark allocation to mortgages was additive to returns, driven primarily by positive yield accrual.
- The out-of-benchmark allocation to emerging market debt contributed to relative performance as the sector benefitted from broad credit spread tightening and positive idiosyncratic developments.
- Overall, the portfolio maintained its medium level of risk over the quarter; however, we remain focused on more liquid, high-quality areas of the market, as we are cognizant that we are in the late stage of the business cycle and that recession risk remains prevalent.

PH&N Core Plus Bond Fund Portfolio Structure as of June 30, 2023

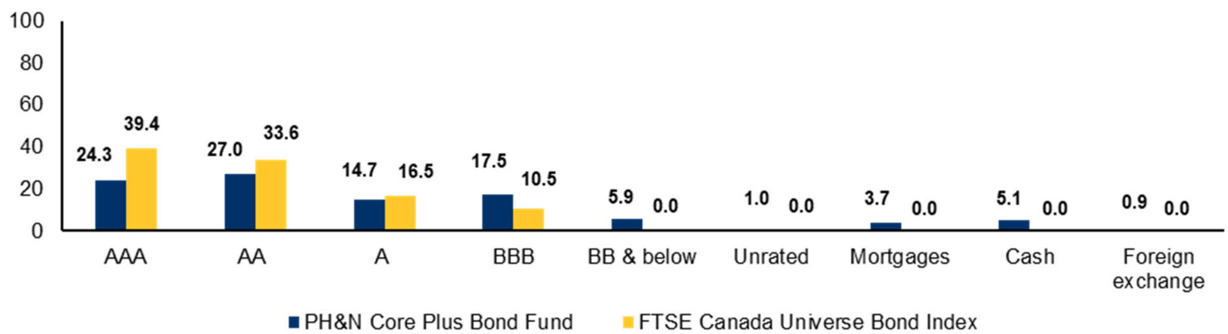
Fund Characteristics

	Modified Duration (Yrs)*	Term to Maturity (Yrs)	Yield to Maturity (%)
PH&N Core Plus Bond Fund	7.48	10.86	4.85
FTSE Canada Universe Bond Index	*7.39*	*10.17*	*4.37*

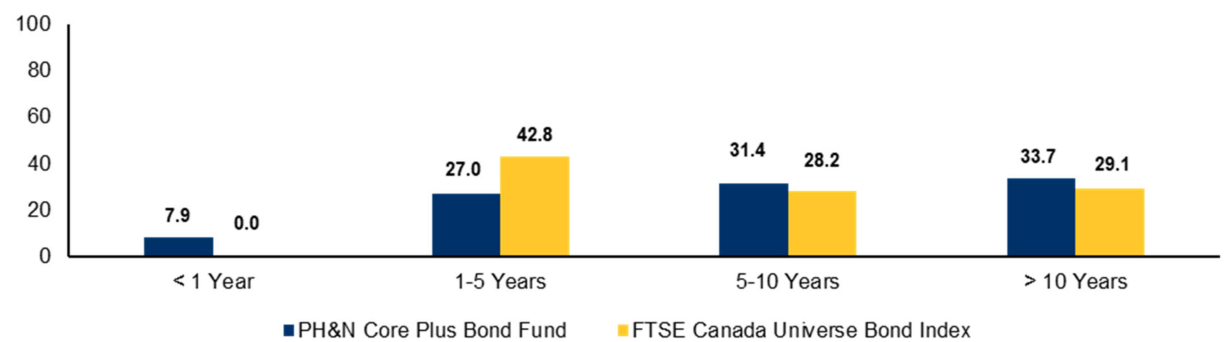
Issuer Analysis (%)



Rating Analysis** (%)



Maturity Analysis (%)



* Duration includes the duration of foreign instruments. Due to the Fund's foreign bonds having a much lower correlation to Canadian interest rates than implied by a conventional duration calculation, the reported duration measure does not correctly estimate true economic sensitivity of the Fund to Canadian base rates.

** Current ratings based on average across rating agencies (DBRS, Moody's, S&P) where available. Ratings at the time of purchase may differ.

Totals may not add to 100% due to rounding.

Second Quarter Review

Duration and Yield Curve

Over the past year, central banks globally have delivered a significant amount of monetary tightening, the most aggressive in over three decades. While there was somewhat of a lull in central bank activity during the second quarter, several central banks, including the Bank of Canada (BoC), have recently recommitted to incrementally more tightening amid elevated inflation and a resilient economy. In line with that, the BoC raised its policy rate by 0.25% to 4.75% in June, citing an accumulation of still-too-hot economic data. Conversely, after raising its target range for the Fed funds rate by 0.25% to 5.25% in May, the U.S. Federal Reserve (Fed) stayed put in June; however, it has left the door open for the possibility of further rate hikes. Despite the market expecting further rate hikes by both central banks by the end of the year, we are likely approaching the end of the current rate-hiking cycle. It is prudent to remember that tighter monetary policy acts with a lagged effect, and that the full effect of the past year's hikes is gradually having its intended effect on economic activity and inflation. Against this backdrop of uncertainty, Government of Canada (GoC) yields ended the period significantly higher. At quarter-end, the yield curve had further inverted, as short-term GoC yields rose considerably more than longer-term yields.

Amidst a volatile environment for yields, the portfolio's sensitivity to interest rates was managed very actively throughout the period. We entered the quarter with a duration position slightly longer than that of the benchmark. We increased the portfolio's duration position in early May in anticipation of June's outsized index extension, whereby the duration of the index was set to increase. This was followed by the release of a subset of economic data that was stronger than expected by market participants, which led to yields moving significantly higher over a short amount of time. Observing what we believed to be an overstretch in yields driven in part by technical factors, we took the opportunity to further increase our relative duration position. Following the index extension in early June, yields retraced from their recent peaks, which was beneficial for the portfolio. As such, the tactical long duration positioning was brought back to neutral. This position was maintained until the last days of June when yields once again moved notably higher over a single trading day, which led us to initiate, and end the quarter with, a slight tactical long duration position.

The portfolio's yield curve positioning during the quarter was largely unchanged and remains partly a function of where we see the most attractive opportunities within credit and liquidity strategies. Overall, the combination of these small and tactical adjustments in the portfolio's duration and yield curve positioning had a positive impact on relative performance over the quarter.

Government of Canada Yields (%)					
	1 Yr	2 Yr	5 Yr	10 Yr	30 Yr
June 30, 2023	5.15	4.58	3.68	3.26	3.09
Forward Curve for June 30, 2024	3.92	3.62	3.06	3.05	3.01
Implied Change (1 year)	**-1.23**	**-0.96**	**-0.62**	**-0.21**	**-0.08**

Source: RBC GAM (BondLab), Bloomberg.

Looking forward, as of the end of the quarter the bond market is pricing in a meaningful decline in short-term yields, while long-term yields are priced to fall relatively less over the next 12 months. This implies not only the end of the tightening cycle but the expectation that the BoC will begin cutting interest rates as early as 2024. We believe the path for bond yields going forward is uncertain and one could posit an unusually broad range of potential outcomes considering competing opinions on how inflation and economic growth unfold. In the near term, we believe yields will continue to exhibit heightened volatility. However, periods of such market volatility provide avenues to add value, and we will continue to look for opportunities to be tactical while remaining prudent in our duration positioning.

Real Return Bonds

We continue to have no position in real return bonds. The Government of Canada's decision to stop issuing real return bonds in late 2022 materially lowered liquidity in this segment of the market. As a result, the compensation that we would require for investing in this strategy has increased and moving forward we expect to be less active in this sector. We will continue to monitor inflation expectations and liquidity conditions, but we do not consider real return bonds for this type of mandate to be a compelling investment opportunity at this time.

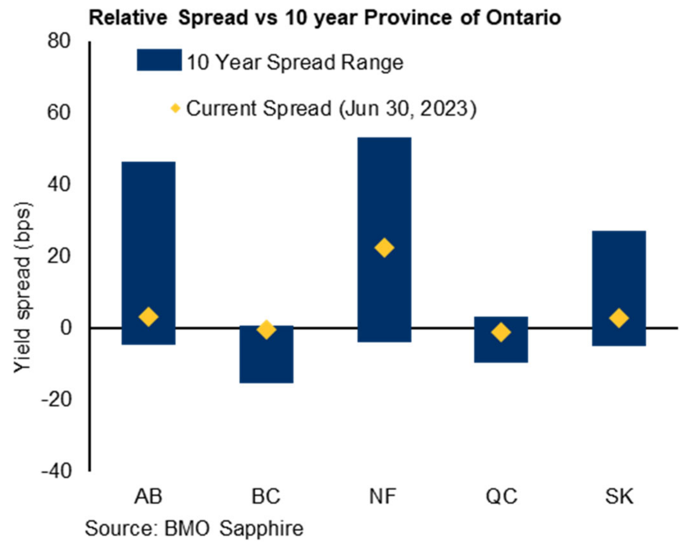
Foreign Sovereign Bonds

We entered the quarter with a long position in a currency-hedged 30-year U.S. Treasury (UST) bond, as the difference in yield, or spread, between 30-year USTs and 30-year GoC bonds remained wider than we thought was justified by economic fundamentals. Additionally, this position provides potential risk reduction at the total portfolio level due to the inverse relationship between UST yields and corporate credit spreads during times of market stress.

Early in the second quarter, the spread between the two countries had narrowed considerably from recent peak levels following the turmoil in the U.S. banking sector. We chose to take profits and reduce the portfolio's exposure to a modest size, which was maintained for the remainder of the quarter. Despite the spread basis between 30-year UST and GoC bonds fluctuating considerably over the quarter, it ultimately ended the period only slightly wider than where it began, resulting in a broadly neutral impact on relative returns over the quarter.

Quasi-Government Bonds

Provincial bond spreads tightened slightly across all provinces in the second quarter, albeit to varying degrees. With fiscal 2023–24 budgets set to around $95 billion in aggregate, the provincial governments' new bond issuance began the fiscal year on pace, reaching approximately 32% of their funding requirements. Issuance totalled $33 billion for the quarter, supported by robust demand for provincial credit in the latter half of the quarter.



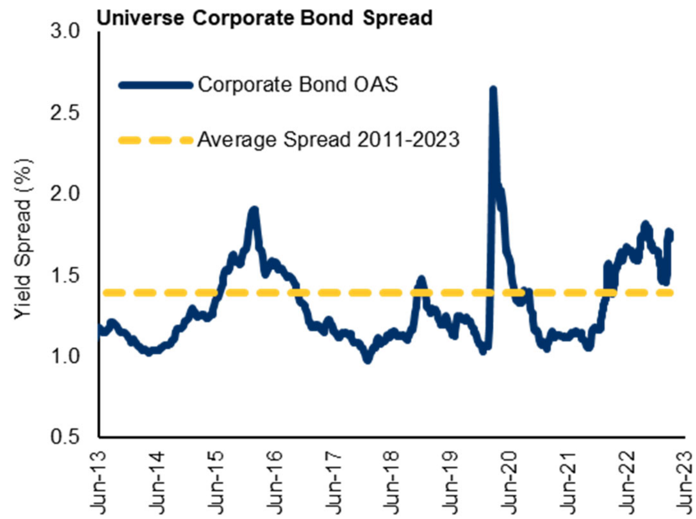
Over the quarter, the portfolio's headline provincial overweight exposure remained largely unchanged. The portfolio's largest provincial overweight is the province of Ontario, which offers superior liquidity and steady fundamentals relative to the other provinces. The portfolio also continues to be overweight the province of Quebec as we believe that it is trading at attractive levels given the fundamental backdrop – it has demonstrated considerable success at deleveraging, and its economy is less exposed to interest-rate-sensitive sectors. As a result, the portfolio's Quebec exposure is the second-largest overweight position relative to the benchmark. The portfolio's largest underweight remains the province of British Columbia, where spreads are lower and we have concerns over its significant exposure to the levered real estate market.

The portfolio's exposure to federal agency bonds, such as AAA-rated Canada Housing Trust bonds, remained unchanged as we continue to have little to no exposure to this segment of the market in favour of higher-yielding credit strategies. As such, the portfolio remains positioned with a significant underweight exposure to this segment of the quasi-government bond market. In aggregate, the portfolio has an underweight exposure to provincial and quasi-government bonds and maintains a meaningful bias toward provincial bonds given their yield advantage over government agency bonds.

The portfolio's exposure to quasi-government bonds had a positive impact on relative performance over the quarter due to provincial spreads tightening and advantageous security selection decisions. We will continue to adjust the portfolio's quasi-government positioning tactically based on the attractiveness of opportunities relative to other segments of the bond market.

Investment Grade Corporate Bonds

Investment grade credit performed well in the second quarter, as strong economic data releases calmed recessionary fears and historically high all-in yields supported a healthy demand for corporate bonds. Corporate bond issuance was modest with approximately $30 billion of new supply coming to market. On a year-to-date basis, we remain almost 15% behind last year's pace, suggesting we could see more robust issuance levels later this year. Overall, broad Canadian investment grade corporate bond spreads tightened 20 bps over the quarter because of limited new supply and healthy demand, as investor sentiment remained positive on the back of resilient economic data.



Source: RBC GAM, FTSE Russell

From a fundamental standpoint, high consumer and corporate debt remains our key concern in an environment of dramatically higher interest rates. We are increasingly careful in security selection, especially in the financial sector, for reasons that include the following: Canadian consumer indebtedness remains elevated due to a previously hot housing market and the cost to service that debt has surged over the past 18 months. Canada's mortgage debt service ratio, which measures the share of income a homebuyer dedicates for mortgage payments and is an indicative measure of consumer indebtedness, increased to 29% in Q1 2023 from 14% a year earlier[1]. A household that spends a large portion of its income on mortgage payments may be more vulnerable to financial stress and such high indebtedness could amplify the adverse impact of higher interest rates, ultimately worsening the effect of a future market downturn. On the corporate side, the biggest potential headwind along with higher financing costs is sustained high inflation, which may put further pressure on corporate earnings as the economy slows.

We continued to proceed with caution this quarter, remaining very selective in the primary market while participating only in some attractively priced bonds from issuers with stable fundamentals. The additions to the portfolio were more than offset by bonds we sold in the secondary market (primarily financial sector bonds), which reduced the portfolio's investment grade corporate bond exposure. We remain overweight corporate bonds, but less so than where we began the quarter. We are cognizant of the uncertain market backdrop and that we appear to be in the late-stage of the credit cycle, resulting in us favouring the higher-quality areas of the bond market. Sectors of focus include infrastructure and power generation, which include regulated issuers with stable and predictable cash flows. Overall, the portfolio's overweight exposure to corporate bonds had a roughly neutral impact on performance, as beneficial spread compression was offset by security selection decisions over the quarter.

[1] Source: The Bank of Canada

Private Placement Corporate Bonds

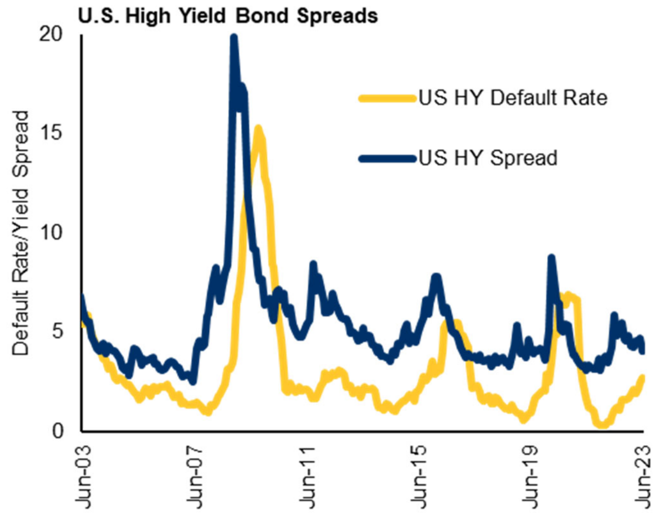
The portfolio's allocation to private placement corporate bonds is achieved through an allocation to the PH&N Private Placement Corporate Debt Fund (PPCDF). The PPCDF invests in investment grade private placement corporate bonds issued primarily in Canada but also abroad. For bonds unrated by an agency, PH&N will assign an internal rating, which must be of investment grade quality to qualify. One of the benefits of investing in private debt is the opportunity to expand and diversify investment opportunities. While many of the issues are infrastructure related, the private debt market encompasses many industries and sub-industries not available in the "public" markets. In addition, private placements often provide attractive illiquidity premiums for investors because they do not tend to have an active secondary market.

Private placement corporate bond spreads tightened over the quarter, which was similar to what was witnessed in comparable-term public securities within the broader Canadian corporate bond market. However, higher Government of Canada bond yields over the quarter resulted in the portfolio returning a negative return of -0.26%. The extra spread over public corporate bonds continues to provide an ongoing return tailwind.

The PPCDF did not participate in any new deals over the quarter. With respect to the current pipeline of new opportunities, we are currently engaged with a number of issuers on potential deals related to renewable power and public private partnerships (P3s). We access investment opportunities for the PPCDF via the private placement desks of bond dealers that are our traditional counterparties in public corporate bond markets. Our expectations for yield enhancement within this sector are in the order of 75–100 basis points over public market opportunities of similar credit quality.

High Yield Corporate Bonds

High yield bonds finished the quarter with positive performance driven by strong yield accrual and credit spread compression. Despite market instability in March, the U.S. regional banking stress eased in April and spreads remained largely unchanged through the month. Volatility ensued in May due to growing fears around the U.S. debt ceiling and a probable recession. However, these concerns were tempered in June by receding macroeconomic risks, strong labour market data and a decent corporate earnings season, which demonstrated that many businesses still enjoy robust profitability. Overall, spreads fell significantly in June, resulting in material quarter-over-quarter spread compression.



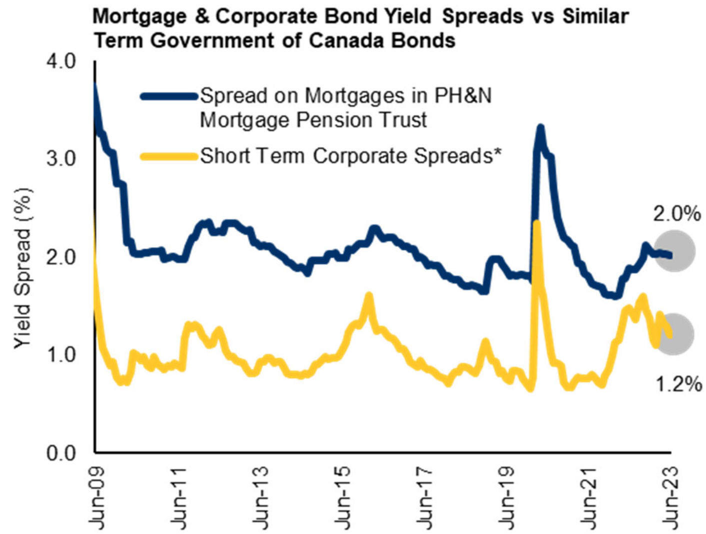
Source: RBC GAM, Bloomberg. US High Yield spread represented by ICE BofA Merrill Lynch US High Yield index. US high yield default rate represented by ICE BofA Merrill Lynch US High Yield index to Dec 31 2019, JPMorgan Jan 31 2020 to current

Issuance in the high yield market was relatively strong over the quarter following a very weak March. Capital market conditions improved, as rate and equity volatility faded following the banking crisis. Default activity accelerated with default rates reaching a fresh two-year high. However, a slower pace in defaults is now anticipated given the low level of near-term maturities and since the recent banking turmoil cleansed the market of some problematic issuers. Nonetheless, we expect investors to act with heightened caution.

Given the potential for further spread volatility in an economic slowdown, we continue to favour a defensive position from an overall credit quality standpoint. The reward for risk in carefully selected high yield bonds remains compelling, with index yields approaching nearly 9%. Additionally, there are opportunities to collect 6–7% yields in certain investment grade issuers within our high yield portfolios, which we believe are undervalued. The size of the portfolio's high yield exposure was maintained over the quarter and will continue to be adjusted as necessary depending on how the market unfolds.

Mortgages

As of quarter-end, the mortgages held in the portfolio had a spread of 202 bps, remaining flat over the quarter despite spreads tightening in other credit markets. Historically, mortgage spreads have followed the investment grade corporate market on a lagged basis.



* FTSE Canada Short Term Corporate Bond Index
Source: RBC GAM (BondLab), FTSE Russell

Overall, consumer spending remains resilient, supported by strong spending on discretionary goods and services. However, elevated consumer debt levels and increasing consumer delinquency rates are suggesting that spending may moderate throughout 2023.[2] Despite the potential softening in demand, limited supply in the retail real estate market has kept vacancies low at just 1.8% nationally, and rental rates have grown by 3.3% over the last year.[3] The office sector continues to face challenges related to the uncertainty of hybrid work and expectations of recession in 2023. In Q2, the national office vacancy rate rose to 18.1% and rental rates remained flat.[4] While the sector still faces headwinds, the case for returning to office continues to improve. Office attendance rates, while still below pre-COVID levels, have continued their upward trajectory with latest attendance estimates of 62% (relative to pre-COVID levels).[5] The industrial market remained exceptionally robust during the quarter, benefiting from nearshoring of supply chains and supply shortages in key markets. As a result, national vacancy remains at near-historic lows of 1.7%, with rents increasing more than 12% over the trailing 12-month period. [6] The multi-residential sector continues to benefit from housing affordability challenges, record levels of immigration, and lack of supply. According to recent studies, Canada needs to build 6 million additional homes by 2030 to meet demand [7], and new housing starts are forecasted at just 202,000–224,000 per year through 2025.[8] This structural undersupply has pushed apartment rental rates up by 10.6% YoY nationally.[9]

Given the heightened uncertainty, we have conducted a thorough sensitivity analysis of the mortgage portfolio, which has identified no material risks. All mortgage loans continue to pay on time, and we have not identified any concerns over the ability for the borrowers to refinance. The mortgages in aggregate have maintained a conservative credit posture, with a loan-to-value ratio of 59% and debt-service coverage ratio of 1.6x.

[2] RBC Consumer Spending Tracker
[3] CoStar Retail Market Report Q2 2023
[4] CBRE Q2 2023 Office Figures Report
[5] SRRA Office Occupancy Index, as of May 2023
[6] CoStar Industrial Market Report Q2 2023
[7] RBC Economics, Office of the CEO
[8] CMHC Housing Market Outlook, April 2023
[9] Rentals.ca June 2023 Rent Report

Emerging Market Debt (EMD)

We believe that EMD presents a unique opportunity to diversify sources of value added within the portfolio, given its attractive yield profile, solid credit quality, and lower correlation to Canadian fixed income instruments.

Alongside broader risk assets, EMD performed well in the second quarter on the back of credit spread tightening and positive idiosyncratic developments. Namely, progress on the warfront worked in favour of Ukraine, as Russia's own private military group, Wagner group, attempted a coup on the Kremlin, undermining Putin's regime. This was following a Ukraine reconstruction conference held in London, in which there was overwhelming western support for Ukraine. Elsewhere, Turkey's President Erdogan announced new orthodox cabinet members, which was warmly welcomed by investors. Meanwhile, there were positive developments regarding debt restructuring and political reforms amongst several distressed African sovereign issuers.

Hard and local currency sovereign were the top-performing EMD sectors over the quarter. Spreads tightened materially within hard currency sovereign, which offset the negative impact of rising U.S. treasury yields. The hard currency sovereign sleeve has a small bias towards high yield issuers, which was a tailwind to returns as high yield outperformed investment grade on the back of strong investor risk sentiment. Within local currency sovereign, positive performance was predominantly driven by interest rate positioning. Many emerging market countries are well ahead of their developed market counterparts with respect to monetary policy tightening; as a result, EM rates performed well on the expectation that EM central banks may begin cutting policy rates soon. Hard currency corporate bonds also posted positive returns on the back of moderate spread tightening, although to a more muted degree than their sovereign counterparts. Positive performance was largely driven by our highest conviction positions in a select few distressed corporate issuers.

Looking ahead, the outlook for EMD is mixed. The sector continues to face headwinds in the near term as U.S. treasuries have moved significantly higher, weakening the interest rate differential between emerging and developed markets. Elevated rates are likely to cause volatility to remain high, particularly as we enter the less-liquid summer months. Alongside this, energy commodities have declined, and while this is supportive for easing global inflation, it may weigh on EM countries that are heavily dependent on commodity exports. Lastly, Chinese growth continues to underwhelm. That said, positive developments have emerged as well. Inflation has started to decline in several emerging market countries, which would suggest we may see less restrictive monetary policy soon. This, in conjunction with strong yield accrual, should support positive returns from EMD over the medium term.