PH&N Core Plus Bond Fund

Fund Performance

Performance Comparison as of December 31, 2021 (%)

	3 Mo	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	SI *
PH&N Core Plus Bond Fund	1.49	-1.88	5.48	5.94	4.81	4.60	4.91
FTSE Canada Universe Bond Index	*1.47*	*-2.54*	*2.92*	*4.22*	*3.51*	*3.31*	*3.63*
Relative Performance	+0.02	+0.66	+2.56	+1.72	+1.30	+1.29	+1.28

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

* Inception date: June 30, 2013.

Fund Attribution

Attribution as of December 31, 2021 (%)

	Relative Performance	
	3 Mo	1 Yr
Interest rate anticipation		
Duration & yield curve	0.03	-0.12
Real return bonds	0.04	0.14
Foreign sovereign bonds	0.00	0.00
Credit & liquidity		
Provincial & quasi-government bonds	0.06	0.06
Investment grade corporate bonds	0.00	0.27
High yield corporate bonds	-0.05	0.35
Mortgages	0.02	0.10
Emerging market debt	-0.09	-0.14
Other	0.01	0.00
Total	**+0.02**	**+0.66**

Fourth Quarter Review

Strategy Summary for the Quarter Ending December 31, 2021 (relative contribution to duration exposure)			
Strategy	**Change Over Q4**	**Position Ending Q4**	**Our View**
Duration & Yield Curve	Increased	Moderate short duration	We believe long-term bond yields will normalize higher than what is currently priced into the bond market
Real Return Bonds	Decreased	Small position	Long-term market-implied inflation expectations remain below the BoC's 2% inflation target
Foreign Sovereign Bonds	Unchanged	No position	Monitoring the yield differential between foreign sovereigns and Government of Canada bonds
Provincial and Quasi-Government Bonds	Unchanged	Small overweight in provincials; underweight in federal agencies	Valuations more attractive for provincial bonds relative to federal agencies
Investment Grade Corporate	Decreased	Small overweight	Although valuations have compressed to pre-COVID levels, they may remain at these levels for some time
High Yield	Decreased	Medium position	Valuations remain fulsome, but technicals continue to be supportive for the time being
Mortgages	Unchanged	Small position	Liquidity premium remains at appealing levels
Emerging Market Debt	Unchanged	Medium position	Reward-for-risk profile remains compelling

- The global economic recovery continued over the fourth quarter although possible headwinds from the emergence of the new COVID-19 variant, Omicron, may impact economic growth. Concerns surrounding elevated inflation continued to be a key theme, along with central bank monetary policy and the normalization of policy rates. Government of Canada bond yields rose in the short end and fell in the long end of the yield curve, resulting in positive overall bond returns in the fourth quarter.
- Active positioning within both interest rate anticipation strategies and credit and liquidity strategies resulted in the portfolio finishing the quarter broadly in line with the benchmark. Overall, the portfolio's risk budget remained focused on credit and liquidity strategies over interest rate anticipation strategies, and we continued to upgrade the credit quality of the portfolio during the quarter.
- The portfolio's short duration position was a positive contributor to relative performance, which more than offset the slight detraction from yield curve positioning. The portfolio's duration position is now broadly neutral the short end of the yield curve and remains underweight the long end of the curve.
- The out-of-benchmark position in real return bonds contributed to performance, thanks to tactical trading as well as a modest rise in market-implied long-term inflation expectations over the quarter.
- The portfolio's exposure to provincial bonds added value as the portfolio is biased towards longer-dated and more liquid provinces, which outperformed their shorter-dated and less liquid counterparts.

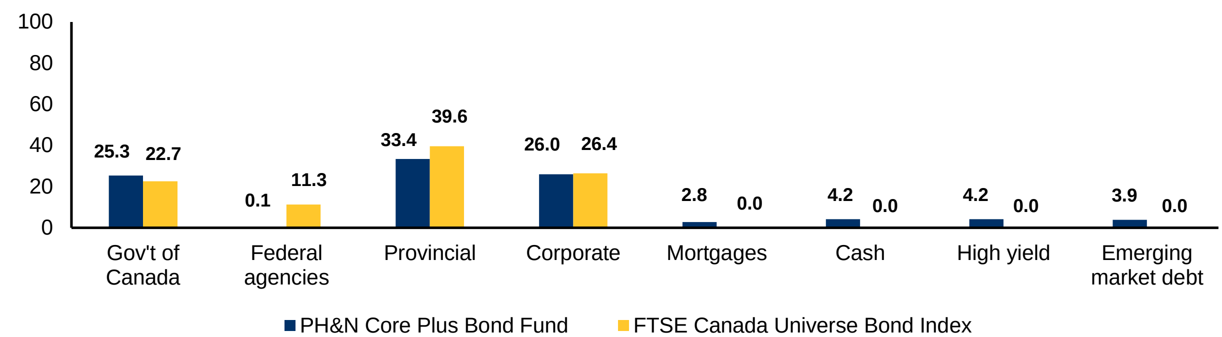
- The portfolio’s overweight exposure to investment grade corporate bonds was a neutral contributor as the higher yield accrual and security selection was offset by the impact of slightly wider spreads.
- The out-of-benchmark position in mortgages contributed to relative performance thanks to a combination of higher yield accrual and modest spread compression.
- The out-of-benchmark positions in high yield and emerging market debt detracted from relative performance, largely due to the prevailing risk-off sentiment and volatility in the Chinese real estate market.

PH&N Core Plus Bond Fund Portfolio Structure
as of December 31, 2021

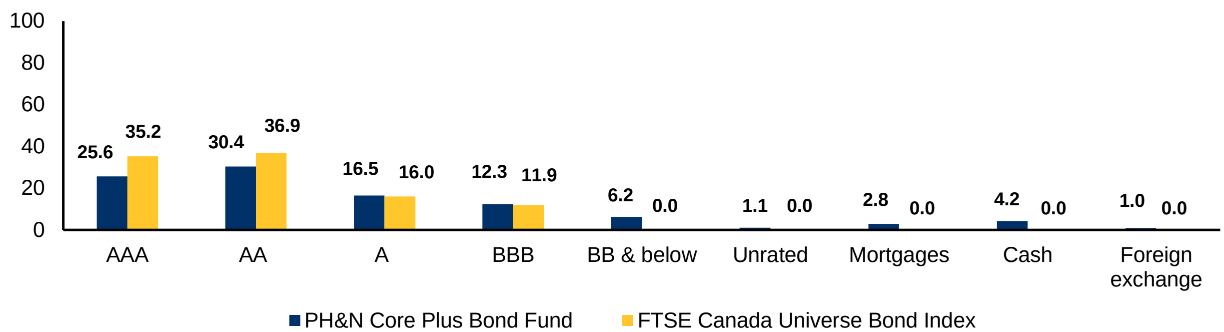
Fund Characteristics

	Modified Duration (Yrs)1	Term to Maturity (Yrs)	Yield to Maturity (%)
PH&N Core Plus Bond Fund	8.14	11.42	2.25
FTSE Canada Universe Bond Index	*8.43*	*11.15*	*1.92*

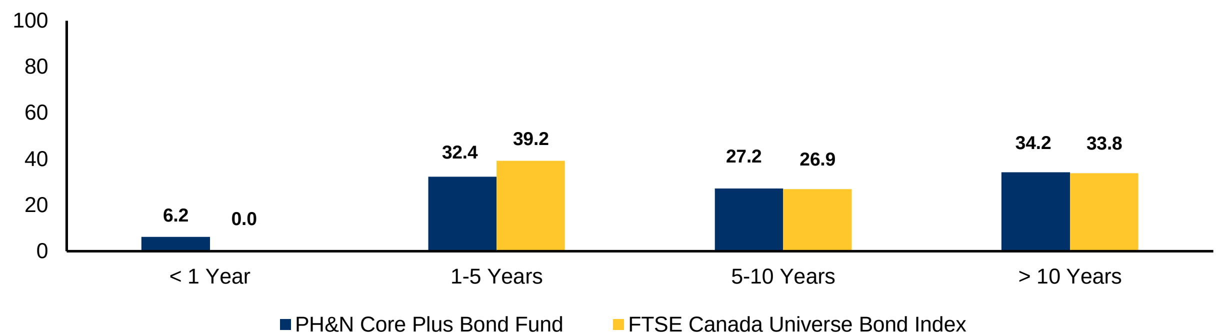
Issuer Analysis (%)



Rating Analysis* (%)



Maturity Analysis (%)



[1] 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.

Fourth Quarter Review

Duration and Yield Curve

The global economic recovery continued over the fourth quarter, though some headwinds have begun to develop that may adversely impact the economic outlook. The emergence of the new COVID-19 variant, Omicron, has led to greater uncertainty surrounding growth, although the economic impact will depend largely on the actions taken by governments to battle rising case rates. Further, we continued to see high inflation data over the quarter as supply chain constraints remained a factor for many goods. In response to these price pressures and the continued strong economic performance, we saw a shift in central bank communications globally, signalling that a less accommodative monetary policy stance is closer than previously expected. As such, Government of Canada (GoC) bond yields experienced heightened volatility over the quarter, with short-term yields rising meaningfully following a shift in forward guidance from the Bank of Canada (BoC) in late October. This accelerated market expectations for when the BoC would begin to increase its policy rate, as well as the pace of policy rate increases thereafter. Long-term yields were fairly stable for most of the quarter until the emergence of Omicron, which led to a risk-off tone and resulted in a modest decrease in long-term yields to end the quarter.

The portfolio’s sensitivity to interest rates at the start of the quarter was lower than the benchmark as we believed that the modest economic growth and inflation expectations embedded in bond yields were reflecting an overly pessimistic view over the medium term. However, following the rapid rise in short-term bond yields that transpired after the BoC meeting late October, we took the opportunity to slightly increase the duration of the portfolio relative to the benchmark. This increase targeted the short end of the yield curve in order to neutralize the portfolio’s exposure to that segment as we believed the number of interest rate hikes priced into short-term bond yields was fully reflecting what the BoC would reasonably do in the next 12 to 18 month period. The portfolio’s duration position relative to the benchmark is now broadly neutral the short end of the yield curve and remains underweight the long end of the yield curve; this positioning is largely driven by long-term growth and inflation expectations. Overall, the portfolio's short duration position was a positive contributor to relative performance over the quarter, which more than offset the slight detraction from yield curve positioning.

Government of Canada Yields (%)

	1 Yr	2 Yr	5 Yr	10 Yr	30 Yr
December 31, 2021	0.76	0.95	1.26	1.42	1.68
Forward Curve for December 31, 2022	1.26	1.28	1.33	1.60	1.76
Implied Change (1 year)	**+0.50**	**+0.33**	**+0.07**	**+0.18**	**+0.08**

Source: Bloomberg, RBC GAM (BondLab)

Looking forward, the bond market expects short-term yields to rise to a greater degree than long-term yields over the next year. This is largely driven by market expectations that the BoC will begin to normalize policy rates from current ultra-accommodative levels as early as the second quarter of 2022. We believe that yields will continue to exhibit heightened volatility in the near term as a multitude of factors influences the direction and magnitude of yield changes, particularly central bank monetary policy and the future path of the economic recovery. This volatility will provide opportunities for value added through active management.

Real Return Bonds

The annual inflation rate, as measured by headline Consumer Price Index (CPI), accelerated to 4.7% in November, marking its highest level since a brief spike in 2003 and exceeding the BoC's upper inflation range of 1–3% for the eighth consecutive month. Market consensus is for above average inflation to persist over the short term, driven by a combination of surging demand and supply chain disruptions. Despite headline CPI hovering above the BoC's upper inflation range, the central bank thus far has tolerated the higher inflation print in an effort to offset the very low inflation levels experienced in 2020. In effect, this will allow the BoC to achieve an average inflation rate within its target range.

During the quarter, we trimmed the portfolio's out-of-benchmark real return bond allocation as the bond market's expectations for long-term inflation (estimated as the difference in yield between a nominal and a real return bond) rose to levels not seen since 2015. Subsequently, inflation expectations reversed course, but managed to end the quarter 0.1% higher than where they began. Overall, real return bonds contributed to relative performance from a combination of tactical trading and rising long-term inflation expectations quarter over quarter. Over the medium term, we believe inflation expectations are likely to continue moving higher as they remain below the BoC's 2% midpoint target range, and therefore, the portfolio continues to have a small real return bond allocation.

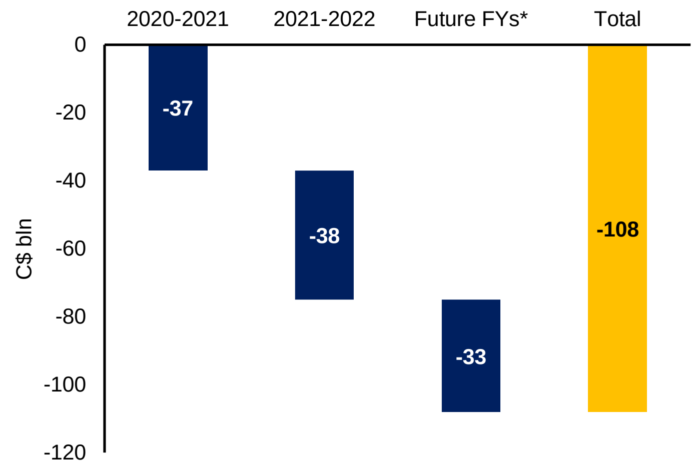
Foreign Sovereign Bonds

We may choose to hold a tactical position in foreign sovereign bonds, such as U.S. Treasury bonds and U.S. T-Bills, when they are attractively valued and/or because of their diversification benefits. We do not currently have a position in foreign sovereign bonds, but we will continue to monitor this strategy as market conditions evolve.

Quasi-Government Bonds

Canada's largest provinces benefitted from a reduction to their fiscal debt projections, driven by stronger-than-expected revenues and lower-than-anticipated outlays, erasing over $38 billion of forecasted debt from their fiscal budgets. On the back of declining funding needs, provincial new issuance slowed in the fourth quarter to $14 billion compared to an average of $30 billion in the first three quarters of the year. The market easily digested the modest amount of new supply, and provincial spreads remained broadly unchanged over the quarter. Looking forward, the improved fiscal trajectory, coupled with a reduction in borrowing needs, should remain supportive for provincial spreads.

Net Improvement in Provincial Budget Balances vs Budget 2021



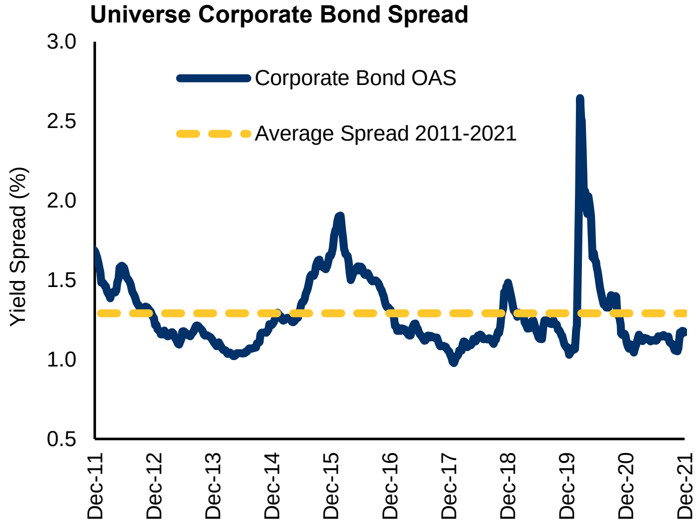
Source: NBF Economics and Strategy
* Future FYs refer only to Ontario, Quebec, and Alberta

With provincial bond spreads hovering below pre-pandemic levels, we maintained our overweight exposure to Ontario, which offers superior liquidity and steady fundamentals relative to the other provinces. Earlier this year, we reduced the portfolio's overweight exposure to the smaller and less liquid provinces such as Alberta and New Brunswick, whose spread differential with Ontario had tightened below pre-pandemic levels. The portfolio's exposure to these smaller provinces was unchanged over the fourth quarter, as the portfolio remains focused on more liquid issuers. The portfolio's provincial overweight likewise remained broadly unchanged over the quarter. Furthermore, we continue to find the value of federal agency bonds, such as AAA-rated Canada Housing Trust bonds, to be less attractive versus other higher-yielding credits. As such, the portfolio remains positioned with an underweight exposure to this segment of the quasi-government bond market.

Overall, the portfolio's bias towards longer-dated and more liquid provinces was a positive contributor to relative performance as these issuers outperformed their shorter-dated and less liquid counterparts. We will continue to tactically adjust the portfolio's quasi-government positioning based on the attractiveness of opportunities relative to other segments of the bond market.

Investment Grade Corporate Bonds

Corporate earnings remained robust alongside continued progress on the economic recovery front. Issuance remained strong in the fourth quarter with approximately $33 billion of new supply coming to market as businesses continued to take advantage of accommodative financing conditions. This wraps up a record-setting year during which we saw $133 billion of new supply in the primary market, comfortably ahead of the 10-year average of $107 billion. Along with the elevated issuance, demand for credit remained healthy, supporting valuations. Combined with the news surrounding the emerging Omicron variant and a more hawkish stance from central banks, spread levels widened only slightly during the quarter. That said, spreads remain tighter than their long-term average but reasonable given the supportive technical backdrop.



Source: FTSE Global Debt Capital Markets Inc.

From a fundamental standpoint, we remain concerned about increasing debt levels in the Canadian economy among consumers and corporations. The amount that Canadian households owe relative to how much they earn rose in the third quarter, pushed higher by growing mortgage debt. The household debt-to-disposable-income ratio reached 177% in Q3 2021 – up 0.5% from the previous quarter. However, consumers are still flush with cash, which represents potential for both investment and re-opening spending, a tailwind for risk assets. On the corporate side, the biggest potential headwind remains the elevated merger and acquisition activity funded by debt as ambitious businesses pursue growth.

During the quarter, we were active in the primary market by participating in attractively priced new issues, but this was more than offset by the sales we took in the secondary market. Net-net, the portfolio's investment grade corporate bond exposure was reduced slightly, with the reduction coming primarily from the Energy and Communications sectors. Overall, we continue to have a modest overweight to investment grade corporate bonds, which did not have a meaningful impact on relative performance this quarter as the sector's higher yield accrual offset the impact of slightly wider credit spreads.

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 PH&N Private Placement Corporate Debt Fund (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 widened by around 4 basis points over the fourth quarter, which was lower than what was witnessed in comparable-term public securities within the broader Canadian corporate bond market. Amid lower Government of Canada bond yields over the quarter, the fund returned 1.60%. The extra spread over public corporate bonds provides an ongoing return tailwind.

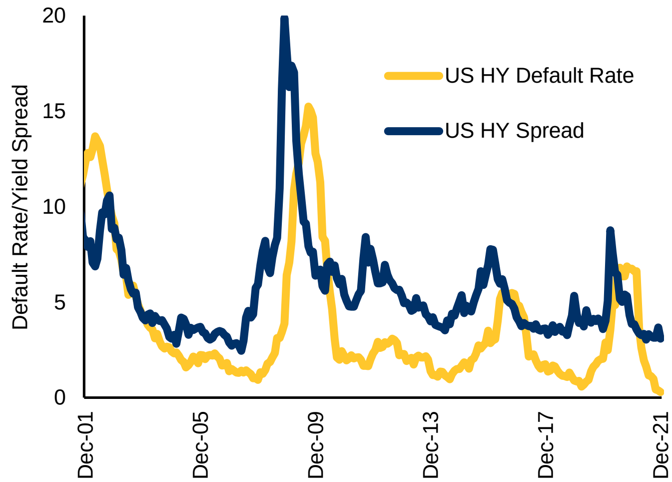
During this quarter, the PPCDF participated in a deal from **Lièvre Power Holdings** – a portfolio of four hydroelectric generating facilities on the Lièvre River in Québec. These assets have been run by Brookfield for more than 20 years and as of January 2022 all power generation will be sold under a 40-year power purchase agreement with Hydro Québec. We view this deal favourably given the fully contracted cashflow profile, long operating history, scale across four facilities, and the strength and experience of the owner-operator Brookfield. This green bond is rated BBB by DBRS and was added at a spread of 230 basis points above Government of Canada yields.

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

In light of a volatile fourth quarter, high yield bonds posted negative returns and dragged on portfolio performance. High yield spreads broke their steady-state of the last few months and traded in a 65 bps range over the quarter. Spreads widened in November on concerns over Omicron and a hawkish pivot from the Fed, but soon reversed course on the back of a risk-on sentiment amongst investors. Ultimately, high yield spreads ended the quarter in line with where they began.

U.S. High Yield Bond Spreads



Source: 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

High yield issuance was robust early in the quarter before risk-off sentiment softened demand and increased funding costs. However, this late pause did not stop issuance from handily surpassing last year's record level, largely due to the frantic pace of the first three quarters as corporations raced to raise capital ahead of accelerated tapering and anticipated interest rate hikes from the Fed. The fact that high yield spreads were able to remain at low levels in the face of record issuance speaks to strong investor appetite for yield.

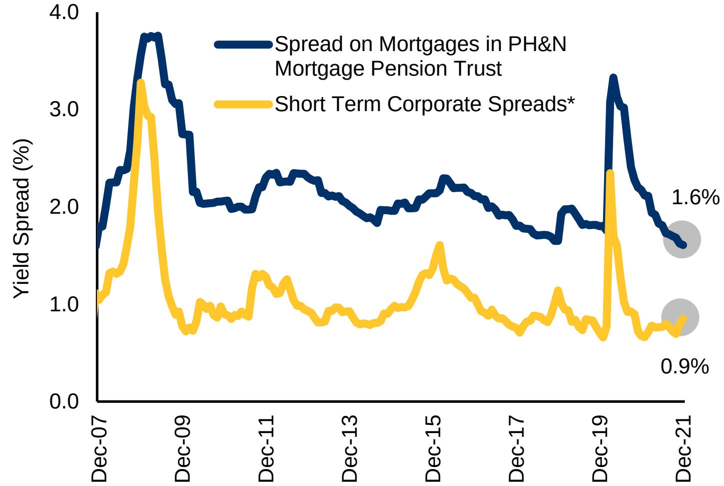
Despite ongoing supply chain bottlenecks, corporate earnings were generally strong across high yield issuers, with more surprising to the upside than the downside. Companies expressed concerns about cost inflation and global supply chain hiccups, which are expected to continue into 2022. These issues appear manageable barring a policy mistake by a more hawkish Fed or a meaningful increase of serious COVID cases. With oil prices having stabilized above $70/barrel, high yield defaults continue to be negligible, with only a single U.S. high yield bond default in the fourth quarter. The annual default rate declined to 0.3%, its lowest level since 2007.

The portfolio's high yield position was trimmed late in the quarter due to full valuations, further progress into the economic and credit cycle, and overhanging inflation and Omicron risks. These factors are weighed against a very low default outlook, strong investor demand for yield, and still-supportive central bank and government policy. However, the start of a hiking cycle next year could weaken these supports on the margin. Within high yield, we are keeping a defensive posture by emphasizing high-quality, less cyclical issuers and low duration securities. If high yield spreads continue to grind tighter in the face of increasing COVID risks and monetary policy tightening, we may trim the portfolio's high yield exposure further. Alternatively, these risks may bring wider spreads and opportunities to add solid credits at attractive levels. We are prepared to be nimble in either scenario.

Mortgages

The portfolio's allocation to commercial mortgages is achieved through an investment in the PH&N Mortgage Pension Trust (MPT). As of quarter-end, the mortgages had a yield of approximately 160 basis points over similar-term Government of Canada bonds, which represents a decrease of roughly 10 basis points from the previous quarter. This compression in spreads is a continuation from prior quarters, which has lagged the tightening seen in other credit markets.

Mortgage & Corporate Bond Yield Spreads vs Similar Term Government of Canada Bonds



* FTSE Canada Short Term Corporate Bond Index
Source: FTSE Global Debt Capital Markets Inc. RBC GAM (BondLab)

Long-term fundamentals remain in place for the multi-residential and industrial sectors, both of which experienced rental price growth and falling vacancy rates in 2021. In retail, pent-up consumer demand generated substantial growth for the sector in 2021, but global supply chain issues and labour shortages will pose challenges in 2022. For office, the future of work remains uncertain; however, office rent levels and collections have remained stable despite vacancy pressures.

Overall, competition within the commercial mortgage lending market remained strong throughout the fourth quarter and the past year. Since the onset of the pandemic, we concentrated our origination efforts largely within the industrial and multi-residential sectors, which we consider to be the most stable and resilient of the four core sectors. Despite the competitive lending environment, we have funded over $945 million of new loans in the MPT year-to-date as of December 31, 2021, over 70% of which was invested in multi-residential and industrial opportunities. The growth in funding and opportunities was made possible through the development of strong working relationships with all of our origination partners, who focused their efforts on key parts of the market, and by leveraging market intelligence from each of our partners to inform our deal structuring and pricing. Looking forward, we remain optimistic on the commercial mortgage market and while industrial and multi-residential mortgages remain our primary focus, our outlook for office and retail opportunities continues to improve as the economy recovers, and we expect to see our demand become more balanced across all four sectors over time.

We believe that commercial mortgages continue to offer an attractive reward-for-risk proposition in the current heightened inflation environment. The coupon on new mortgage opportunities is based upon underlying Government of Canada bond yields, which incorporate market expectations for future economic growth and inflation. As a result, the average yield on the mortgages in the MPT rose over the fourth quarter and through 2021, positioning it well in the current environment. Lastly, from a credit perspective, the MPT continues to perform strongly and remains well diversified by property type and geography. There are currently 555 mortgages held in the fund, with conservative weighted average risk metrics of a 1.7x cash flow coverage ratio and a 59% loan-to-value ratio.

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. EMD suffered a turbulent fourth quarter owing to increased volatility which was largely driven by rising U.S. treasury rates and idiosyncratic risks within the Chinese real estate market. As a result, the portfolio's EMD allocation was a drag on performance as hard and local currency sovereign, hard currency corporates, and EMFX all posted negative returns over the quarter.

Local currency sovereign bonds were the worst performing EMD sleeve over the quarter, with the entirety of underperformance driven by FX. The sector was challenged by a strengthening USD, which in turn caused local currency assets to depreciate. Within hard currency corporates, the portfolio's bias toward higher yielding bonds hurt returns, as lower quality underperformed the higher-quality segments of the market. In the same vein, the hard currency sovereign sleeve was positioned risk-on which detracted from returns as spreads widened on the back of rising Omicron cases.

The Chinese real estate market continues to be a pain-point for EMD. Two large Chinese developers, Evergrande and Kaisa, formally defaulted over the quarter. Your portfolio maintained its very small weight in both issuers, predicated on the view that the recovery values should supersede the current trading levels. While this sector is presenting its challenges, we think it offers significant return potential if managed correctly. Our focus going forward is identifying issuers that are backed by strong assets and that have the liquidity profile to survive the next 12 months. Your portfolio's exposure to the Chinese real estate market has remained steady over the quarter, however we have made quality rotations out of investment grade names that have performed well, and into more distressed high yield issuers that offer significant value add potential. Overall, we continue to monitor this sector closely, and will revise our positioning if conditions materially change.

Looking ahead, the outlook for EMD is mixed. Growth and inflation are two macroeconomic factors we continue to monitor. The benefits of a more broadly accessible vaccination rollout will permeate into emerging market countries, putting the global growth bounce-back on a stronger footing. On the inflation front, there is significant differentiation across countries. Some central banks have been proactive in raising rates to help curb inflation, while others have been noticeably stagnant. This bifurcation in policy response is likely to lead to differentiation in FX and local rates across EM. Against this backdrop, we expect broad market hard currency sovereign returns to be more muted, however we see plenty of opportunities to generate value added by taking differentiated views versus market expectations. We are cautiously constructive on the outlook for local currency returns as valuations are compelling. That said, local currency bonds are more volatile and correctly timing our positioning is key. Finally, hard currency corporate bonds offer attractive diversification benefits. We anticipate a benign default rate environment, which should be supportive for the sector.