RBC Vision Fossil Fuel Free Bond Fund

Commentary as at December 31, 2025

Returns on Canadian bonds rose amid interest-rate cuts as domestic economic growth remained weak. Short- and mid-term bonds posted gains, offsetting declines in prices of long-term bonds. The Bank of Canada (the "BOC") balanced concerns of slower economic growth linked in part to an evolving trade war with the U.S. against the threat of higher inflation. As a result, the BOC reduced its key policy interest rate by 1 percentage point to 2.25% over the course of 2025, pushing down yields on short-term Government of Canada ("GOC") bonds, with the result that prices rose. Investors were wary about increases in government spending to prop up the economy, and the growing government deficits that come with such increases. Canada, like many other countries, is boosting expenditures on infrastructure and defence to offset weak private investment.

The Fund outperformed its benchmark over the year, supported by the portfolio manager's preference for higher-quality assets. Provincial bonds, which offered higher yields relative to federal bonds, contributed to performance as demand for these assets strengthened. The Fund also benefited from its holdings in corporate bonds, as they outperformed GOC fixed-income securities and offered relatively attractive yields.

The portfolio manager remains cautious given relatively high valuations and concerns about trade-related uncertainty and its potential impact on the Canadian economy. The portfolio manager continues therefore, to favour higher-quality parts of the market that position the Fund to withstand market weakness and stands ready to take advantage of attractive opportunities as they arise.

The combined federal and provincial deficit for the next fiscal year is expected to total approximately 4% of Canadian GDP, one of the largest levels since the early 1990's outside of COVID-19 period and the global financial crisis.

During 2025, one issuer, OMERS Realty Corp., was deemed ineligible by Sustainalytics for failing to meet the Fund's ESG exclusion criteria. Sustainalytics cited that the issuer was ineligible due to the issuer's parent company, OMERS Administration Corporation, deriving fossil fuel revenues above the ESG exclusion criteria revenue thresholds through its infrastructure portfolio. Sustainalytics does not research OMERS Realty Corp. as a separate entity from its parent company.

After further research, RBC GAM determined that OMERS Realty Corp. had separate and distinct activities from OMERS Administration Corporation's infrastructure portfolio and OMERS Realty Corp. did not derive revenues from fossil fuel related activities. OMERS Realty Corp. is OMERS' primary vehicle for investing in Canadian real estate assets, and RBC GAM determined that it would be in the best interest of the Fund to invest in the issuer. As a result, RBC GAM departed from the exclusion list provided by Sustainalytics and considered the issuer to be eligible for investment.

No other material investment decision was made based on the ESG exclusion criteria during 2025. In the opinion of Sustainalytics and RBC GAM, all other holdings in the Fund were eligible at the time of review.

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