

RBC Vision Fossil Fuel Free Bond Fund



Commentary as at December 31, 2023

Canadian government bonds posted gains during 2023 as yields declined across all terms, lifting bond prices. The Bank of Canada (the “BOC”) continued with interest-rate increases in the first half of 2023 in an attempt to rein in persistently high inflation, raising its short-term overnight rate three times to 5.00% by July. Inflation declined significantly during the first half of the year and economic data began to show weakness in the fourth quarter. As a result, the BOC was able to pause rate increases and indicated it would hold the policy rate steady while assessing whether additional increases would be needed. Longer-term bond yields dropped in response, which drove positive returns for the year.

The Fund’s sensitivity to interest rates was managed actively throughout the year amid a volatile period for bond yields, and this approach had a neutral impact on relative performance. The portfolio manager’s continued preference for more liquid, high-quality corporate and provincial bonds contributed to the Fund’s performance as these bonds outperformed.

The dominant theme for bonds was centered around “higher-for-longer” yields for much of 2023. However, this narrative shifted in the fourth quarter following a perceived pivot from central banks. These expectations now firmly tilt in favour of policy-rate decreases by the BOC in 2024.

In light of the softening economic backdrop, the portfolio manager remains cautious as the risk of a recession remains high. The portfolio manager therefore continues to favour higher-quality, more-liquid assets that position the Fund to withstand any market weakness and stands ready to take advantage of attractive opportunities as they arise.

During 2023, one issuer was deemed ineligible by Sustainalytics and subsequently removed from the Fund for failing to meet the Fund’s ESG exclusion criteria. In this instance, Brookfield Property Finance ULC was divested from the Fund because Sustainalytics’ most recent research assessment identified fossil fuel related revenues above the ESG exclusion criteria revenue thresholds. Specifically, Sustainalytics determined the issuer derived revenues from the exploration, production, refining, transportation and/or storage of oil and natural gas. No other material investment decision was made based on the ESG exclusion criteria during 2023. 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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