

PH&N Total Return Bond Fund



Commentary as at December 31, 2022

Canadian government bonds posted their worst returns since 1980, as central banks in North America and Europe aggressively raised short-term interest rates to fight inflation running at its highest in four decades. The Bank of Canada raised the overnight rate seven times in 2022 by 4.0 percentage points to 4.25% in an attempt to calm the persistently high inflation. Meanwhile, a heightened risk of recession had a negative impact on the performance of non-government bonds relative to sovereign issuers.

The Fund was positioned to have less sensitivity to interest rates than the broader bond market, which helped to insulate the portfolio from the decline in bond prices resulting from the sharp rise in interest rates. Additionally, the portfolio manager's continued preference for high-quality corporate bonds – issuers with steady earnings and healthy balance sheets - contributed strongly to the Fund's performance as these bonds outperformed riskier corporate bonds. The higher income earned from the Fund's modest high-yield bond allocation also contributed to performance.

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.

While the sharp rise in yields this year has resulted in declines for the Fund, investors should keep in mind that the Fund's yield is significantly higher than it was a year ago. The portfolio manager's research shows that, all else being equal, periods in which yields rise significantly are often followed by periods of attractive returns.

This has been provided by RBC Global Asset Management Inc. (RBC GAM) and is for informational purposes, as of the date noted only. Discussion of any securities in this report is not a recommendation to buy or sell any specific security, and is subject to change. It is not intended to provide legal, accounting, tax, investment, financial or other advice and such information should not be relied upon for providing such advice. RBC GAM takes reasonable steps to provide up-to-date, accurate and reliable information, and believes the information to be so when provided. Past performance is no guarantee of future results. Interest rates, market conditions, tax rulings and other investment factors are subject to rapid change which may materially impact analysis that is included in this document. You should consult with your advisor before taking any action based upon the information contained in this document. All opinions constitute our judgment as of the dates indicated, are subject to change without notice and are provided in good faith without legal responsibility. Information obtained from third parties is believed to be reliable but RBC GAM and its affiliates assume no responsibility for any errors or omissions or for any loss or damage suffered. RBC GAM reserves the right at any time and without notice to change, amend or cease publication of the information.

Please consult your advisor and read the prospectus or Fund Facts document before investing. There may be commissions, trailing commissions, management fees and expenses associated with mutual fund investments. Mutual funds are not guaranteed or covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. Mutual fund unit values change frequently. For money market funds, there can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Past performance may not be repeated. RBC Funds, RBC Private Pools, RBC Alternative Funds and PH&N Funds are offered by RBC Global Asset Management Inc. (RBC GAM) and distributed through authorized dealers in Canada.

This document may contain forward-looking statements about a fund or general economic factors which are not guarantees of future performance. Forward-looking statements involve inherent risk and uncertainties, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement. All opinions in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.