RBC Global Asset Management

RBC Vision 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.

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.

During 2022, 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, Nova Scotia Power, Inc. was divested from the Fund because the issuer had poor ESG performance relative to its industry peers under the Fund's Relative Scoring criteria. Specifically, the issuer's overall level of unmanaged ESG risk, as measured by Sustainalytics' ESG Risk Rating, was considered 'severe', and ranked in the bottom quartile compared with its industry peers, as defined by Sustainalytics. This stemmed from the lack of ESG-related disclosure published by the company, which Sustainalytics considered inadequate compared with the issuer's peers at the time of removal. Further research conducted by Sustainalytics later on in the year determined that the issuer's overall level of unmanaged ESG risk was no longer in the bottom quartile compared with industry peers. The Fund reinvested in the issuer once it became eligible again based on the Fund's ESG exclusion criteria. No other material investment decision was made based on the ESG exclusion criteria in 2022. In the opinion of Sustainalytics and RBC GAM, all other holdings in the Fund were eligible at the time of review.