

RBC Vision 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, two issuers were deemed ineligible by Sustainalytics and subsequently removed from the Fund for failing to meet the Fund’s ESG exclusion criteria. Vancouver Airport Fuel Facilities Corp. 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. In addition, Alectra 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. Further research conducted by Sustainalytics later in the year determined that the issuer’s ESG Risk Rating was no longer considered ‘severe’, and no longer ranked in the bottom quartile compared with its industry peers, as defined by Sustainalytics. 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 during 2023. In the opinion of Sustainalytics and RBC GAM, all other holdings in the Fund were eligible at the time of review.

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.