



## PH&N Inflation-linked Bond Fund

### Commentary as at December 31, 2023

Interest rates adjusted for the impact of inflation (“real rates”) trended higher for most of 2023 but declined precipitously over the last quarter of the year. The initial increases reflected continued efforts by the Bank of Canada (the “BOC”) to slow the economy and reduce inflation from elevated levels through policy-rate increases. The trend changed in October, as a softening economic backdrop resulted in a shift in market expectations from an environment of elevated policy rates to one in which interest-rate cuts by the BOC were expected as early as the first half of 2024. During 2023, the Fund remained active in attempting to capitalize on market volatility. Managing the Fund’s sensitivity to movements in real rates was the primary contributor to the Fund’s relative performance.

Early in the year, the Fund held a position in U.S. Treasury Inflation-Protected Securities (“TIPS”) as the portfolio manager sought to benefit from expectations that these securities would outperform Canadian Real Return Bonds (“RRBs”). The portfolio manager sold the position in early April, locking in gains for investors.

The portfolio manager has been less able to easily trade RRBs since the Government of Canada ended the issuance of these securities in late 2022. As a result, the portfolio manager may explore adding other types of securities that offer inflation protection, including TIPS on a more regular basis.

There remains a high degree of uncertainty around inflation, and therefore the direction of real rates. The portfolio manager is therefore proceeding with caution. It is prudent to remember that monetary policy tends to act with a lagged effect, and that the significant increase in the BOC’s policy interest rate over the past 18 months continues to crimp economic activity.

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