PH&N Inflation-linked Bond Fund

Commentary as at December 31, 2022

Interest rates adjusted for the impact of inflation ("real rates") rose significantly in 2022. Given the long-term nature of the Fund, investors were more susceptible to losses as real rates moved higher. The increase in real rates stemmed from the Bank of Canada's sustained efforts to raise its benchmark interest rate to combat the highest inflation in at least three decades. While Canadian inflation had by late 2022 moderated somewhat from peak levels earlier in the year, price pressures may remain elevated for some time as inflation tends to be slow at reversing course.

The Fund remained active in attempting to capitalize on market volatility. This active management of the Fund's sensitivity to movements in real rates held back the Fund's relative performance. At various points during the year, the Fund held positions in U.S. Treasury Inflation Protected Securities as the portfolio manager sought to benefit from expectations that these securities would outperform Canadian Real Return Bonds ("RRB"). This positioning was a positive contributor to the Fund's relative performance during the period.

In November, the Government of Canada announced that it would stop issuing RRBs, effective immediately, citing weak demand. The portfolio manager believes that this development will reduce the Fund's ability to easily trade RRBs. As such, an expanded use of other permitted securities that offer inflation protection, such as U.S. Treasury Inflation Protected Securities, may be explored by the portfolio manager.

While inflation-adjusted interest rates have increased, there remains a high degree of uncertainty around their direction given an unusually wide range of potential outcomes. As a result, the portfolio manager is proceeding with caution. Investors continue to adjust expectations for inflation, and the portfolio manager too will adjust the Fund's sensitivity to changes in real rates. The portfolio manager will also seek opportunities in provincial real-return bonds, which have historically offered decent returns for relatively low levels of perceived risk.