



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.

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.