

IA Clarington Floating Rate Income Fund

IA Clarington U.S. Dollar Floating Rate Income Fund

IA Clarington Core Plus Bond Fund

January 2023: Portfolio & Market Update

IA Clarington Floating Rate Income Funds

- The IA Clarington Floating Rate Income Fund (Series F) and the IA Clarington U.S. Dollar Floating Rate Income Fund (Series F) returned 1.9% and 1.7%, respectively, in January. The Loan Index¹ returned 2.6%.
- Higher-rated parts of the loan market underperformed, with the BB rated segment returning 2%. The risk-on market tone was best seen with the outperformance of CCC rated high-yield bonds, which returned 6.1% in January.
- Tables 1 and 2 show notable single-security credit contributors and detractors for the month.
- Credit markets performed strongly during the month with spreads compressing significantly. Loan Index¹ and High Yield Bond Index² spreads declined by 71 and 49 basis points, respectively.
- Loan Index¹ spread to 3-year take-out ended the month at 581 basis points compared to the High Yield Bond Index² spread of 420 basis points.
- Loan Index¹ average price closed the month at \$93.55, increasing by \$1.67. Yield to 3-year take-out ended the month at 9.8%.
- Bonds outperformed loans as bond returns were boosted by capital gains generated from falling risk-free rates.
- New issue volume in the loan and high-yield bond markets totaled \$13.7 billion and \$20.5 billion, respectively, for the month. High-yield bond monthly volume was the highest in 12 months.
- This month saw loans experience an outflow of \$825 million while high-yield bonds experienced an inflow of \$352 million.
- Institutional investors continued to put money to work in the loan asset class with \$6.8 billion of CLO net issuance for the month.
- There were five defaults in January, the most during a calendar month since October 2020 and following a fourth quarter in which there were no defaults.
- Including distressed exchanges, the loan and bond default rates ended January at 1.8% apiece. Default levels are likely to increase closer to historical averages of around 3% as financial conditions have tightened materially.

Table 1: IA Clarington Floating Rate Income Fund

Contributors	Detractors
Voya CLO Ltd series 19-3x ER structured notes	Instant Brands Libor+5% term loan due 2028
Amynta Agency Libor+4.5% term loan due 2025	IIPR 5.5% senior unsecured notes due 2026
Curaleaf Holdings 8% secured notes due 2026	Corus 5% senior unsecured notes due 2028

Table 2: IA Clarington U.S. Dollar Floating Rate Income Fund

Contributors	Detractors
Convergint Tech Libor+6.75% term loan due 2029	Instant Brands Libor+5% term loan due 2028
Amynta Agency Libor+4.5% term loan due 2025	Columbia Care 9.5% secured notes due 2026
Pitney Bowes Libor+4% term loan due 2028	IIPR 5.5% senior unsecured notes due 2026

IA Clarington Core Plus Bond Fund

- The IA Clarington Core Plus Bond Fund (Series F) returned 2.4% in January. The Canada Investment Grade Corporate Index⁴ returned 2.9%.
- Table 3 shows notable single-security credit contributors and detractors for the month.
- The Bank of Canada raised the overnight lending rate by 25 basis points to 4.5% and signaled a pause.
- The rate hike anchored the front end of the Canada yield curve, but longer tenors declined in response to economic data showing inflation slowing.
- Investment grade corporate bonds printed outsized returns in January as coupon income was augmented with gains from spread compression and falling risk-free rates.
- The Canada Investment Grade Corporate Index⁴ printed an excess return of 0.8% from credit and a return of 2.1% from falling risk-free rates.
- Corporate credit spreads declined by 11 basis points in Canada and 13 basis points in the US. Spreads are trading inside long-term non-recessionary averages as the corporate bond markets are not signaling a recession.
- Yield-seeking investors should be targeting the front end of the curve as the highest yields are to be found there.
- 3-month CDOR, the benchmark for floating rate securities in Canada, ended the month at 5%. The much longer-dated 10-year Canada government bond yielded just 2.9%.
- We continue to find the Canadian corporate bond market attractive with a yield of 4.8% and spread premium of 33 basis points over U.S. corporate bonds.
- With yields at this level investors don't have to take on the volatility associated with longer-dated securities to generate an attractive risk-adjusted return.

Table 3: IA Clarington Core Plus Bond Fund

Contributors	Detractors
BNS 3.625% subordinated notes callable 2026	Instant Brands Libor+5% term loan due 2028
BNS Libor+2.64% subordinated notes callable 2023	Brookfield Corp floating rate preferred shares
Aircastle 2.85% senior unsecured notes due 2028	Trulieve 8% senior secured notes due 2026

Performance – Loan Funds & Indices

	Month	YTD	1 year	3 year	5 year
IA Clarington Floating Rate Income Fund – Series F	1.9%	1.9%	-1.7%	0.2%	1.7%
IA Clarington U.S. Dollar Floating Rate Income Fund – Series F	1.7%	1.7%	-1.2%	0.8%	2.6%
Loan Index ¹	2.6%	2.6%	1.1%	3.0%	3.5%
BB	2.0%	2.0%	4.4%	2.6%	3.2%
B	3.0%	3.0%	1.1%	3.1%	3.7%
CCC	1.6%	1.6%	-12.0%	1.7%	2.2%
High Yield Bond Index ²	3.8%	3.8%	-5.2%	1.3%	3.0%
BB	3.3%	3.3%	-4.7%	1.9%	3.7%
B	3.8%	3.8%	-4.8%	0.8%	2.8%
CCC	6.1%	6.1%	-9.4%	-0.4%	0.4%
S&P/TSX Composite Total Return Index	7.4%	7.4%	1.6%	9.6%	8.7%
S&P 500 Total Return Index	6.3%	6.3%	-8.2%	9.9%	9.5%

Source: Bloomberg, Credit Suisse as of January 31, 2023.

Index Characteristics – Loans & High Yield

	Spread ¹⁰ (bps)	Yield ¹¹	Default rates (incl. distressed)
Loan Index ¹	581	9.78%	1.82%
BB	306	7.06%	-
B	597	9.94%	-
CCC	1568	19.59%	-
High Yield Bond Index ²	420	8.14%	1.83%
BB	267	6.60%	-
B	434	8.32%	-
CCC	893	12.79%	-

	Avg. price & base rate
IA Clarington Floating Rate Income Fund	\$96.62
IA Clarington USD Floating Rate Income Fund	\$96.61
Loan Index ¹	\$93.55
High Yield Bond Index ²	\$89.28
3-month U.S. LIBOR	4.81%

Source: Bloomberg, Credit Suisse as of January 31, 2023.

Performance – Core Plus & Indices

	Month	YTD	1 year	3 year	5 year
IA Clarington Core Plus Bond Fund – Series F	2.4%	2.4%	-3.5%	0.6%	1.7%
Canada Short Term Corporate Index ⁸	1.7%	1.7%	-1.6%	0.6%	1.9%
Canada Government Index ³	2.9%	2.9%	-6.0%	-2.5%	0.9%
Canada Corporate Index ⁴	2.9%	2.9%	-4.2%	-0.9%	1.7%
U.S. Treasury Index ⁵	2.5%	2.5%	-8.5%	-2.6%	0.7%
U.S. Corporate Index ⁶	4.0%	4.0%	-9.3%	-2.4%	1.4%
U.S. CLO AAA-rated Index ⁹	1.4%	1.4%	2.1%	2.0%	2.5%
Loan Index ¹	2.6%	2.6%	1.1%	3.0%	3.5%
High Yield Bond Index ²	3.8%	3.8%	-5.2%	1.3%	3.0%
Preferred Share CAD Index ⁷	7.3%	7.3%	-12.1%	3.6%	0.9%

Source: Bloomberg, Credit Suisse as of January 31, 2023.

Index Characteristics – Investment Grade

	Spread ¹⁰ (bps)
Canada Corporate Index ⁴	150
AA	103
A	135
BBB	177
U.S. Corporate Index ⁶	117
AA	65
A	97
BBB	144

	Yield
Canada Short Term Corporate Index ⁸	4.77%
Canada Government Index ³	3.56%
Canada Corporate Index ⁴	4.79%
U.S. Treasury Index ⁵	3.86%
U.S. Corporate Index ⁶	4.96%

Monthly change in bond yields (bps)	2 year	5 year	7 year	10 year	30 year
U.S. Treasury Curve	-22.6	-38.7	-39.5	-36.6	-33.2
Canada Sovereign Curve	-30.2	-38.2	-37.5	-38.4	-30.3

Source: Bloomberg, Credit Suisse as of January 31, 2023.

Dealer use only. ¹Loan Index is represented by the Credit Suisse Leveraged Loan Index (USD). ²High Yield Bond Index is represented by the Bloomberg US Corporate High Yield Index (USD). ³Canada Government Index/Canadian government bonds is/are represented by the Bloomberg Canada Aggregate Government Index. ⁴Canada Corporate Index/Canadian corporate bonds is/are represented by the Bloomberg Canada Aggregate Corporate Index. ⁵U.S Treasury Index/U.S. Treasury bonds is/are represented by the Bloomberg US Treasury Index. ⁶U.S Corporate Index/U.S. corporate bonds is/are represented by the Bloomberg US Corporate Bond Index. ⁷Preferred Share CAD Index is represented by the S&P/TSX Preferred Total Return Index. ⁸Canadian Short Term Corporate Index is represented by the Bloomberg Canada Aggregate Corporate 1-5 Years Index. ⁹U.S. CLO AAA-Rated Index is represented by the Palmer Square CLO AAA Index. ¹⁰Loan index spread represented by 3-year discount margin. ¹¹Loan index yield assumes 3-year average life.

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