Nicola High Yield Bond Fund
Quarterly Report | Q2 2025

Overview

Nicola High Yield Bond Fund seeks to generate an attractive level of income and the opportunity for capital appreciation by investing in a diversified portfolio consisting primarily of fixed-income and related instruments, with a secondary emphasis on capital preservation.

Highlights

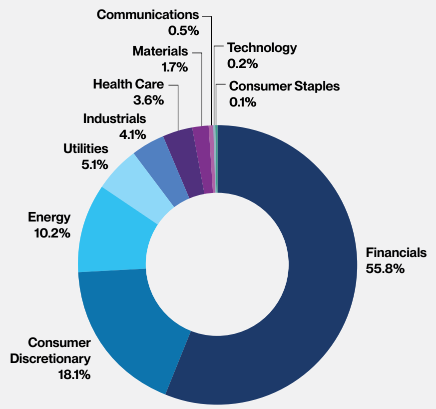
Attractive yield – Seeks to provide higher income than traditional fixed-income investments.

Broad diversification – North American focus for broad diversity and a stronger liquidity profile.

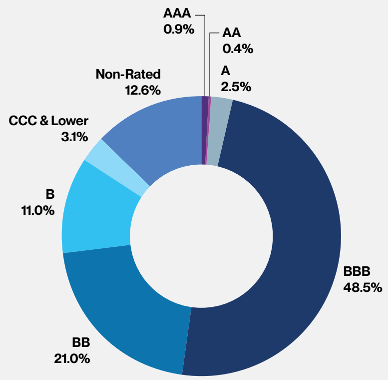
Defensive high-yield strategy – The Fund focuses on high yield and looks for market dislocations to apply an opportunistic, bottom-up approach to seek better risk-adjusted returns.

Investment flexibility – The Fund's underlying investments include investment grade and high-yield bonds, preferred shares, and leveraged loans. The strategy can use short positions, leverage, and derivatives for both risk management and return generation.

NICOLA MANAGED PORTFOLIO BY SECTOR as of June 30, 2025



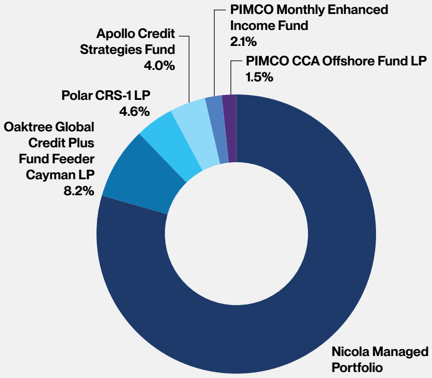
NICOLA MANAGED PORTFOLIO BY CREDIT RATING as of June 30, 2025



Bond Characteristics

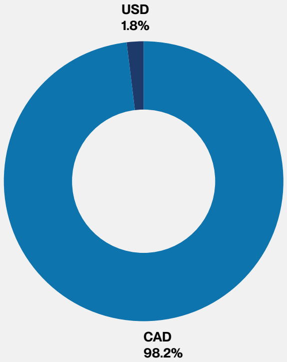
Gross Yield[1]	7.0%
Average Term to Maturity	2.8yrs
Average Credit Rating	BB
Duration[2]	1.7yrs
Number of Holdings	348

HOLDINGS BY ASSET MIX as of June 30, 2025



HOLDINGS BY GEOGRAPHY as of June 30, 2025

HOLDINGS BY CURRENCY EXPOSURE (net hedged) as of June 30, 2025



Returns as of June 30, 2025

	CAD	USD
YTD	**1.2%**	**2.0%**
1 month	**1.4%**	**1.5%**
3 month	**1.5%**	**2.0%**
6 month	**1.2%**	**2.0%**
1 year	**7.8%**	**3.4%**
3 year	**8.0%**	**4.4%**
5 year	**6.1%**	**5.0%**
10 year	**5.6%**	**4.2%**
Since Inception*†	**7.4%***	**3.0%†**
	**February 13, 2009*	*†July 19, 2013*

Calendar Year Returns

	CAD	USD
2024	**10.7%**	**1.8%**
2023	**8.3%**	**10.9%**
2022	**-0.7%**	**-7.3%**
2021	**7.7%**	**8.2%**
2020	**7.3%**	**9.5%**
2019	**5.4%**	**10.8%**
2018	**2.7%**	**-5.4%**
2017	**3.4%**	**10.5%**
2016	**13.2%**	**16.9%**
2015	**3.0%**	**-13.7%**

Performance

The Nicola High Yield Bond Fund returned 1.5% in Q2 versus 2.2% for the iShares US High Yield Bond Index ETF (CAD-Hedged). The fund's conservative positioning and emphasis on higher-quality issuers contributed to downside protection during April's drawdown, but overall returns modestly lagged the benchmark during the rebound in May and June. Our internal portfolio generated strong relative performance during the quarter—particularly in May—while returns were partially offset by weakness in select external strategies.

Key Contributors

- U.S. energy holdings rebounded sharply alongside rising commodity prices.
- Canadian corporate hybrids and bank capital notes contributed positively, supported by attractive all-in yields and light domestic supply.
- Flexjet Inc. remained a top outperformer, underpinned by resilient demand and stable contractual revenue streams.
- Other notable outperformers were Navient Corp., Mattr Corp. and Medline.

New Positions / Exits

- Reduced exposure to lower-rated, high-beta, and cyclical issuers that had outperformed earlier in the year.
- Trimmed U.S. energy and Canadian hybrid holdings after relatively strong performance and improved valuations.
- Increased allocations to BB-rated issuers offering attractive spread compensation.
- Participated in select new issues where risk-adjusted returns were compelling.

Our Thoughts On:

The Market

- Q2 was a tale of two markets: April began with volatility and weakness as high yield credit spreads widened sharply to 3.8% following tariff announcements and geopolitical tensions. However, sentiment reversed in May and June, with spreads tightening to 2.9% as macro data improved, recession fears eased, and expectations for rate cuts grew.
- Key macro tailwinds included easing geopolitical tensions—particularly between Israel and Iran—and falling U.S. Treasury yields, supported by softer inflation data and a more dovish Federal Reserve outlook.
- Despite the recovery, we remain cautious in a tight spread environment, where careful security selection is essential to navigate growing idiosyncratic credit risks.

Our Fund

We believe that defensive positioning remains essential in the current environment, given the presence of significant macro tailwinds—such as the potential for rate cuts and geopolitical easing—that could quickly shift, and the reality that high yield credit spreads remain near historically tight levels. While markets have been resilient, valuations offer limited cushion against negative surprises, making selectivity and risk management more important than ever.

- Despite buoyant overall valuations, geopolitical uncertainty has created lots of dispersion, presenting attractive idiosyncratic opportunities.
- We continue to emphasize disciplined credit selection and prudent risk management.
- The portfolio remains biased toward higher-quality BB-rated issuers, Canadian bank capital notes, and telecom hybrids.
- The fund maintains elevated liquidity to capitalize on potential future market dislocations.
- We expect active management to remain essential as the market navigates rate shifts, policy risks, and credit-specific volatility.

Though risks are elevated, overall yield levels remain attractive, and we believe the fixed income market continues to offer opportunities for compelling risk-adjusted returns.

Top 10 Holdings as of June 30, 2025

Nicola Managed Portfolio	Security Name	Weight
Enbridge Inc.	ENBUS 0 07/15/25	3.4%
iShares U.S. High Yield Bond	ISHARES U.S. HIGH YIELD BOND	2.1%
Enbridge Inc.	ENBUS CCP 0 07/10/25	1.9%
Ford Motor Company	F 7.375% 12 MAY 2026	1.2%
Enbridge Inc.	ENB 0 07/21/25	1.2%
Primaris REIT	PMZUCN 4.727% 30 MAR 2027 A	1.2%
Enbridge Inc.	ENB CCP 0 07/10/25	1.1%
SmartCentres REIT	SRUUCN 3.192% 11 JUN 2027 V	1.1%
Granite REIT Holdings	GRTCN Float 12/11/26	1.1%
CI Financial	CIXCN 6.0% 20 SEP 2027	1.1%
Total		**15.4%**

[1] Gross Yield represents the estimated income generated from the fund's underlying holdings, including income from externally managed funds. These estimates are based on the best available information and are subject to change without notice.

[2] Duration is a measure of the sensitivity of a bond's price to changes in interest rates. An increase in interest rates is associated with a decrease in bond prices, whereas a decrease in interest rates is linked to an increase in bond prices. The duration for the Nicola Bond Fund is an estimate based on best available information and is subject to change without notice.

The Fund may be impacted by movements in the exchange rates between the fund's currency and the currencies of the fund's investments. Currency hedging may be employed, at times, to offset that impact.

Comparisons of the historical performance of Nicola Wealth funds or models to the historical performance of indexes, mutual funds or other investment vehicles should only be undertaken with consideration of the differences that exist between the underlying investments that comprise the compared investment vehicles. Indexes may be primarily composed of a single asset type/asset class (i.e. 100% equities or 100% bonds) whereas Nicola Wealth funds may or may not contain a combination of exchange-traded equities, marketable bonds, private investments, other alternative investment classes and exempt products. When making any comparison of historical performance, these differences and their impact on the performance of each comparable should be taken into account. ETF's are pooled funds that track a specific investment universe that is expressed by a market index or a basket and that is listed on an exchange. Unlike a market index, an ETF incurs trading costs and other charges, including taxes. Because of these incurred costs, an ETF may underperform the market index that it tracks. ETF returns stated in this material are based on NAVs and are stated net of fees and other costs, including transaction costs

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