NICOLA WEALTH
PUBLIC ASSETS

Nicola Bond Fund Quarterly Report | Q3 2026

Overview

The Nicola Bond Fund offers a risk-aware approach to fixed-income investing – designed to generate consistent income while preserving capital. Actively managed with a flexible, long/short strategy, the Fund invests in corporate, government, and other fixed-income securities in North America, with a focus on overall portfolio quality.

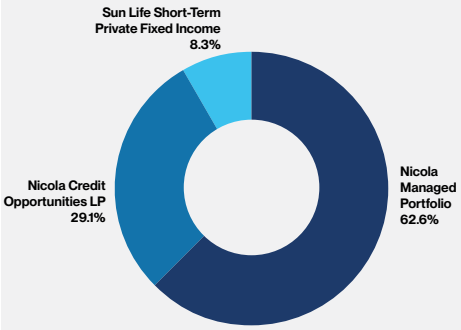
Highlights

Consistent income – The Fund aims to generate steady cash flow through fixed income investments.

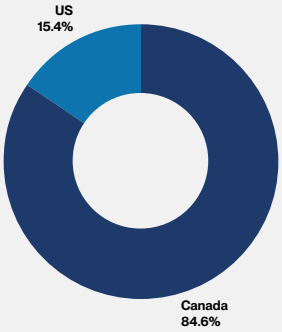
Capital preservation –The manager takes a conservative investment approach focused on managing interest rate, credit, and downside risk.

Disciplined and diverse – The Fund invests in corporate, government, and other fixed income securities within North American markets. The strategy can use leverage and derivatives for both risk management and return generation.

HOLDINGS BY ASSET MIX as of September 30, 2026



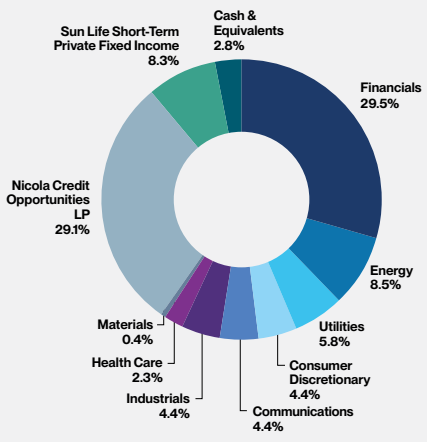
HOLDINGS BY GEOGRAPHY as of September 30, 2026



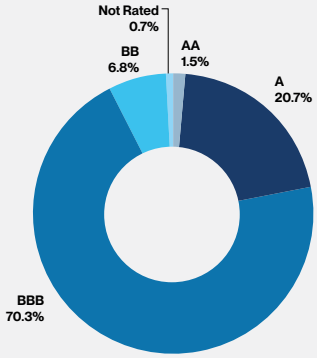
Bond Characteristics

Gross Yield[1]	**4.7%**
Average Term to Maturity (excluding futures, credit only)	**4.53yrs**
Average Credit Rating	**BBB**
Duration[2]	**4.97yrs**
Number of Holdings	**109**

HOLDINGS BY SECTOR as of September 30, 2026



HOLDINGS BY CREDIT RATING as of September 30, 2026



Returns as of September 30, 2026	
YTD	**0.0%**
1 month	**-0.8%**
3 month	**-1.6%**
6 month	**0.0%**
1 year	**0.3%**
3 year	**6.1%**
5 year	**4.2%**
10 year	**4.3%**
Since inception*	**3.8%**

**August 25, 2011*

Calendar Year Returns	
2025	**5.3%**
2024	**8.5%**
2023	**7.6%**
2022	**-0.1%**
2021	**2.0%**
2020	**9.7%**
2019	**6.1%**
2018	**1.4%**
2017	**2.1%**
2016	**5.3%**

Performance

The Nicola Bond Fund returned -1.6% in Q3 and has returned 0.0% year-to-date. By comparison, the iShares Core Canadian Universe Bond Index ETF returned -3.0% in Q3 and has returned -0.9% year-to-date. The iShares Core Canadian Short-Term Bond Index ETF returned -0.9% in Q3 and has returned +0.5% year-to-date.

It was a difficult quarter for Canadian fixed income. Government bond yields rose in each month of the quarter, pushed higher by elevated oil prices, growing trade uncertainty, and markets around the world increasingly pricing in continued rate hikes. Heavy corporate issuance, including record supply from Canadian dollar denominated issuers and hyperscaler borrowers, weighed on the higher-quality end of the market and pushed yields higher by intensifying competition for funding. The Fund's shorter duration relative to the iShares Core Canadian Universe Bond Index ETF and its focus on short- and mid-term maturities supported relative returns as Canadian corporate spreads moved 0.03% tighter.

Key Contributors

The Fund's performance over the quarter reflected its shorter duration profile and issuer selection across both Canadian and U.S. investment-grade credit:

- The Nicola Credit Opportunities sleeve, which represents roughly 29% of the Fund, was a top contributor as its hedged interest rate exposure allowed it to earn steady carry while yields rose and Canadian credit spreads barely moved.
- An overweight allocation to shorter-dated BBB corporate bonds (such as short-call bank LRCNs, REITs, credit unions and mid-cap financials, and infrastructure names) was a consistent contributor as carry dominated in a period of modest spread movement.
- An overweight allocation to energy and power generation issuers was the strongest contributor toward the end of the quarter, supported by elevated oil prices and the stability of contracted and regulated cash flows.

New Positions / Exits

We used Q3 to remain patient while the primary market ran hot and stayed cautious on longer-dated corporate paper which may be pressured by further hyperscaler issuance:

- **Apotex** – Apotex is Canada's largest generic drug maker, with a strong track record of being the first manufacturer to bring new products to market and a growing mix of specialty and biosimilar products that offer more stable growth. We like it for its solid cash generation, its Canadian footprint, and the debt paydown funded by its recent initial public offering. The company's new bonds offer attractive spread for a more defensive healthcare credit. Pricing was attractive due to its first issuance—in which concessions are generally plentiful.
- **Greater Toronto Airport Authority** – the GTAA operates Toronto's Pearson airport (Canada's busiest), and is rated A+/Aa3 with a stable outlook. Any move to privatize the airport would likely require repaying or defeasing restructuring existing bonds at a make-whole price, which would be above where the bonds trade today. If bonds are instead assumed into a for-profit structure, we would still earn interest income.
- **F3 Fibre** – a BBB-rated, senior secured fibre infrastructure credit backed by long-term contracted revenues from TELUS. Such contracts provide the company with predictable cash flows and minimal exposure to customer adoption, penetration, or churn risk. The structure is designed to minimize execution risk through contracted construction and maintenance arrangements, while contractual protections and secured assets support cash flow visibility and downside protection for bondholders.

Our Thoughts On:

The Market

Canadian fixed income markets were shaped over the quarter by rising government yields, elevated oil prices, and growing trade uncertainty. Renewed tension in the Middle East pushed oil sharply

higher, with oil trading between USD 90 and USD 100 by September. The Bank of Canada held its policy rate at 2.25%, noting that upside risks to inflation have increased, and that new tariffs make growth prospects more uncertain. Second-quarter GDP growth of 3.3% annualized was the fastest since early 2023, but the economy lost 42,000 jobs in August, headline inflation held at 3.0%, and third-quarter growth is tracking roughly 1.5% to 2%.

The Government of Canada 10-year yield finished September at 3.99%, up from 3.38% at the end of June, while the 2-year rose to 3.37% from 2.75% and the 30-year to 4.30% from 3.78%. Canadian investment-grade spreads ended September at 0.85%, tightening by 0.01% during the quarter, supported by steady fund inflows despite record issuance.

- Canadian dollar denominated issuers have accounted for close to 30% of year-to-date supply and were attracted to the long end of the Canadian yield curve, which remains a technical headwind for higher-rated, longer-dated credit. Going forward, higher yields make the credit environment less ideal for issuers in the longer end of the curve and increases pressure on shorter-dated funding.
- Canadian rates remain subject to two-sided risks: slower growth pulls against higher inflation and energy prices, and markets now price at least one rate hike by year-end, keeping yields sensitive to inflation data and economic growth.
- Trade policy and headline volatility remain key risks, particularly given new U.S. tariffs on nearly CAD 28 billion of Canadian goods, Canada's counter-tariffs, and developments in the Middle East.

The Fund

The Fund remains neutral on duration, with an emphasis on resilient issuers and mid-term and short-term maturities. With the Bank of Canada on hold, energy prices elevated, and corporate bond supply higher year-over-year, we continue to favour corporate credit in defensive and structurally supported industries.

Our strategy revolves around the following insights:

- From a fundamental standpoint, the Canadian economy is sending mixed signals. Second-quarter growth was strong, but job losses, slightly higher inflation, and trade uncertainty leave the balance of risks for rates fairly even for Canadian bond yields. The setup is favourable for Canadian bond yields to continue to outperform relative to global bond yields. In corporate bonds, we favour issuers that offer durable cash-flow with less sensitivity to energy and interest rate shocks.
- Valuations are expensive, with Canadian corporate spreads near the tighter end of their historical range, but all-in yields are the highest since 2024. We are neutral on duration, particularly at the long end, where term premium could remain elevated due to further AI-related issuance activity and greater fiscal deficits.
- Technicals remain relatively strong as Canadian bonds continue to see steady capital inflows, although record supply is a headwind for higher-rated credit. We are staying active in primary markets only when pricing offers adequate compensation and are content to be patient.

We remain focused on disciplined risk management and will continue to adjust exposure as opportunities arise. We believe there will be compelling opportunities to add good quality yield to the portfolio.

Top 10 Issuers as of September 30, 2026

Nicola Managed Portfolio	% of AUM
Ford Credit Canada Co/Ca	7.5%
CI Financial Corp	6.1%
Royal Bank Of Canada	5.1%
Equitable Bank	4.5%
Homeequity Bank	3.5%
First National Financial	3.3%
Apotex Health Corp	3.3%
Dream Summit Industrial	3.2%
Enbridge Inc	3.1%
Transcanada Pipelines	3.1%
Total	**42.7%**

Total may differ slightly due to rounding of individual holdings.

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[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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