NICOLA WEALTH
PUBLIC ASSETS

Nicola High Yield Bond Fund Quarterly Report | Q3 2026

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

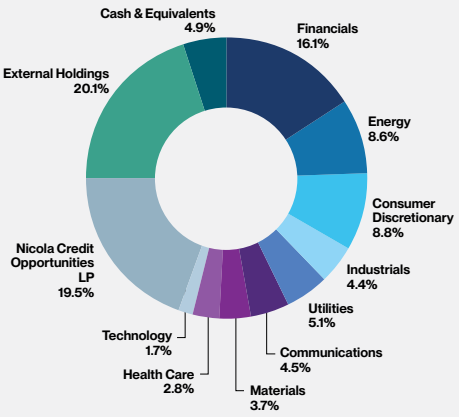
Attractive yield – Seeks to provide higher income than traditional fixed-income investments.

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

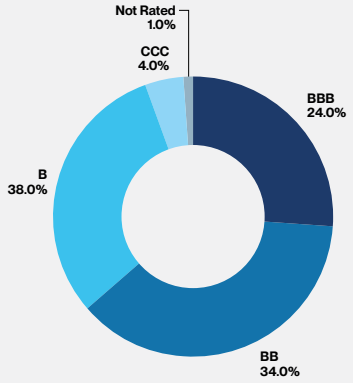
Defensive high-yield strategy – The Fund focuses on high yield and looks for market dislocations to apply an opportunistic, bottom-up approach to seek better risk-adjusted returns.

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.

HOLDINGS BY SECTOR as of September 30, 2026



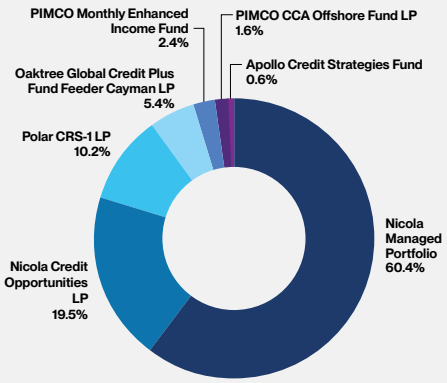
HOLDINGS BY CREDIT RATING as of September 30, 2026



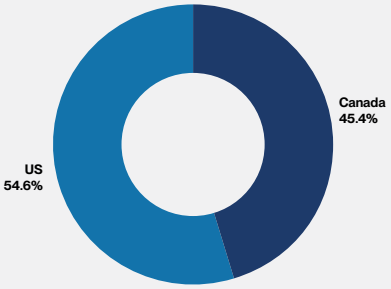
Bond Characteristics

Gross Yield[1]	**6.98%**
Average Term to Maturity (credit only)	**2.62yrs**
Average Credit Rating	**BB**
Duration[2]	**2.28yrs**
Number of Holdings	**101**

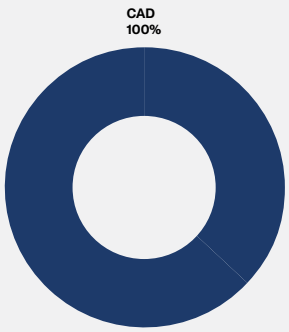
HOLDINGS BY ASSET MIX as of September 30, 2026



HOLDINGS BY GEOGRAPHY as of September 30, 2026



HOLDINGS BY CURRENCY EXPOSURE (net hedged) as of September 30, 2026



Returns as of September 30, 2026

	CAD	USD
YTD	**1.0%**	**3.2%**
1 month	**-1.3%**	**-0.1%**
3 month	**-0.4%**	**0.4%**
6 month	**1.8%**	**3.5%**
1 year	**2.1%**	**4.9%**
3 year	**6.5%**	**5.7%**
5 year	**5.1%**	**3.4%**
10 year	**5.5%**	**4.9%**
Since Inception*†	**7.1%***	**3.3%†**
	**February 13, 2009*	*†July 19, 2013*

Calendar Year Returns

	CAD	USD
2025	**5.0%**	**6.8%**
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%**	**17.0%**

Performance

The Nicola High Yield Bond Fund (CAD) returned -0.4% in Q3, outperforming the iShares U.S. High Yield Bond Index ETF (CAD-Hedged), which returned -2.3% over the same period. This brings the Fund's year-to-date return to +1.0% versus -1.6% for the index ETF, an outperformance of +2.6%.

The Fund proved resilient in a quarter in which the focus shifted towards higher interest rates and longer term refinancing risks due to rising government bond yields. High yield bonds held up well early in the quarter as carry covered modest spread volatility, rallying in August on weaker U.S. labour data before a sharp sell-off in September as the U.S. Federal Reserve raised rates for the first time since 2023.

Key Contributors

- Canadian high-yield issuers contributed positively on attractive relative value, with better risk-adjusted returns than their U.S. high yield counterparts. For the same currency-adjusted yield, we would have needed to find higher-leveraged issuers in the U.S. than in Canada.
- Investments in Nicola Credit Opportunities LP, Polar CRS-LP, and Oaktree Global Credit Plus LP contributed to the outperformance, with all three funds proving their worth late in the quarter given their lower sensitivity to rising bond yields. Nicola Credit Opportunities LP has little interest rate exposure while the latter two have exposure to floating rate instruments, which tend to perform better in a rising interest rate environment.
- Overweight allocations to high yield energy, financials, industrials issuers, along with an underweight allocation to the communications sector were also clear performance drivers within the portfolio. Strong credit selection in the materials and financials sectors also contributed to performance. Our focus in base and precious metals within the broader in materials sector benefited from overall higher inflation and growth early in the quarter.

New Positions / Exits

- **NFI Group** – NFI is North America's largest maker of heavy-duty transit buses with about 80% of revenue tied to public transit agencies. Our conviction in the company's backlog delivery, margin normalization, and sustainable deleveraging path led us to initiate a position in the company's inaugural senior unsecured issue in Canada.
- **Jane Street** – the company retired about USD 11.1 billion of existing borrowings, including its term loan and senior secured notes, and refinanced with new financing that gives the company greater flexibility to fund AI infrastructure and technology investments. Our bonds were called which meant debtholders were paid back early at a premium.
- **SECURE Waste Infrastructure** – Our bonds were redeemed above par on the closing of the acquisition by GFL Environmental.

Our Thoughts On:

The Market

The quarter began as an interest rate story rather than a credit story. The U.S. Federal Reserve held rates steady in July, but a lack of clarity on its commitment to its 2.0% inflation target lifted long-run inflation expectations. A soft payroll report in August briefly priced out the Fed tightening and drove a sharp rally in risk assets, but more robust inflation data and a hawkish message from U.S. Federal Reserve Chair Kevin Warsh at the Jackson Hole Economic Policy Symposium in August reversed the move. In September, the Federal Reserve raised rates by 25 basis points (its first hike since 2023), while signalling further tightening may be in the cards. The Treasury curve rose sharply with the 2-year and 10-year yields each rising about 0.5%.

Markets abruptly recognized the need for higher risk premiums. As a result, U.S. high yield spreads finished September at 3.12%, compared with 2.75% at the end of June, with 0.32% of the widening coming in the final four trading days. The US high yield bond universe yield rose above 8% by the end of September.

- The divergence between higher- and lower-quality credit was the dominant theme: CCC spreads, already above 10% in August, widened a further 1.35% in September, with yields at their highest since October 2022; BB and single-B spreads were far less affected. All 35 of Moody's high yield industry categories posted negative returns in September.
- Technicals deteriorated late in the quarter, as net primary issuance of USD 37 billion in September was the highest in a year—this during a month when high yield funds posted outflows. This is in sharp contrast to July and August when there were inflows.

Our Fund

We remain focused on higher-quality credits with attractive risk-reward characteristics, and on maintaining flexibility in a market in which macro outcomes can shift quickly. While risks remain elevated, we continue to prioritize liquid issuers with strong balance sheets and resilient earnings profiles.

- From a fundamental perspective, the picture remains sound, with par-weighted default rates near 1.7%, gross leverage across the universe of issuers broadly stable at around 4.5x, and interest coverage above 4x. However, we acknowledge that higher-for-longer rates raise refinancing risk, particular for issuers who have larger M&A refinancing or highly leveraged financial structures.
- From a valuation perspective, the September sell-off improved all-in yields to roughly 8.3%, and the intensifying disparity between higher- and lower-quality credit reinforces our view that selectivity and disciplined risk management remain more important than ever. We continue to rotate the portfolio into bonds that offer more attractive risk-reward profiles and potential catalysts such as de-leveraging opportunities can improve our outcomes.
- High yield market technicals have softened. Issuance rose and funds experienced outflows late in the quarter, though the Canadian high yield market (in which issuance has been limited) continues to outperform—an environment that we expect to encourage more Canadian issuance over time. In recent months, more than 10% of U.S. high yield bonds have consistently been scheduled to mature over the next two years, a historically elevated share that underscores the need to address near-term maturities. We therefore expect greater bifurcation between issuers able to refinance through the high yield market and distressed issuers that will likely need to seek alternative funding sources. Performing issuers may also need to refinance at higher rates, creating potentially attractive opportunities for investors.

We expect active management to remain essential as the market navigates geopolitics, policy risk, and credit-specific volatility. Though risks are elevated, high yield bonds continue to offer robust carry income along with pockets of compelling risk-adjusted opportunity. Historically, all-in yields similar to their current levels have resulted in positive 12-month returns—something we suspect will entice buyers over time. Within the high yield space, we see the most attractive risk-adjusted opportunities in short-dated bonds, where elevated yields may provide attractive compensation.

Top 10 Issuers as of September 30, 2026

Nicola Managed Portfolio	% of AUM
CI Financial Corp	2.6%
Ford Credit Canada Co/Ca	2.3%
Equitable Bank	2.2%
Canadian Imperial Bank	2.2%
Treasury Bill	2.0%
Keyera Corp	1.9%
Rogers Communications In	1.9%
Jones Deslauriers Insura	1.8%
Enbridge Inc	1.5%
Dream Summit Industrial	1.4%
Total	**19.8%**

[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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