

Fixed Income Pool

Update – 4th Quarter 2025



Russell Investments Fixed Income Pool provides effective diversification against equities and a stable level of cash flow.

Quarterly summary

From the portfolio manager: Key messages

Market

- The Bloomberg Canada Aggregate Index returned -0.34% in Q4. In October, the Bank of Canada cut its policy rate, bringing it toward the lower end of its estimated neutral range, that which neither helps nor hinders economic growth, raising the bar for further easing. As a result, markets no longer expect additional rate cuts through 2026.
- Credit outperformed with spreads tightening as the demand for risk assets continued to remain robust as rate volatility moderated.
- In the U.S., the Fed cut rates in October and December in response to signs of labour market softening. A temporary government shutdown early in the quarter delayed key economic data releases, adding uncertainty to the policy backdrop.

Pool

- The Fixed Income Pool outperformed the Bloomberg Canada Aggregate Bond Index by 23bps for the quarter.
 - The credit overweight added to performance as spreads tightened during the period.
 - Portfolio duration was modestly underweight, primarily in the long end of the curve. Contribution to performance was positive during the quarter.
- The Pool was 2nd quartile for the quarter.
 - An overweight to corporates, was the primary driver.
 - Underweight duration position was also a positive

Positioning

- Relative duration positioning decreased over the quarter and remains underweight the benchmark by over a quarter of a year.
 - The underweight is driven by the portfolio's strategic allocation to corporate bonds, which have shorter maturities. Picton and Canso decreased their duration position during the quarter and are underweight their respective benchmarks.
- Credit managers continue to be selective on where they take risk given tight valuations. However, overall positioning shows active risk above benchmark driven by security selection in lower quality names.
- The portfolio is underweight Provincial bonds, which saw spreads move to 15-year tights.

Performance drivers

Contributors

- Picton outperformed the Bloomberg Canada Aggregate Index.
 - An overweight to corporate credit as spreads tightened was a main driver of outperformance during the period.
- Leith Wheeler outperformed against their blended benchmark.
 - A modest overweight to corporate and securitized credit contributed positively to performance during the quarter.
- Canso performed in-line with the credit benchmark which outperformed government bonds over the quarter.
- An overall underweight duration position added to performance as rates rose during the quarter.

Detractors

- An underweight to Canso's strategic target and conversely, the overweight to Beutel Goodman's strategic target had a negative impact on performance as corporate bonds outperformed government bonds over the quarter.
- These allocations are in place to modestly adjust the portfolio's duration underweight and credit overweight given the size of positions and cyclical risks.
- Beutel Goodman outperformed their government benchmark but underperformed the Bloomberg Canada Aggregate Index during the quarter.

*Morningstar quartile rankings show how well a fund has performed compared to all other funds in its peer group. Each fund within a peer group is ranked based on its performance, and these rankings are broken into quarters or quartiles. Within a group, the top 25% (or quarter) of the funds are in the first quartile, the next 25% are in the second quartile, the next group in the third quartile, and the bottom 25% of funds with the poorest relative performance are in the fourth quartile.

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Outlook

Cycle	Valuation	Sentiment
<ul style="list-style-type: none"> After its October cut, the Bank of Canada signaled that with rates at the low end of their 'neutral range', it would take a meaningful deviation from projection for further cuts. While far from robust, the economy has outperformed low expectations during the year and markets no longer have any rate cut expectations in the price. In fact, they see a higher chance of a hike by the end of the year, something we view as unlikely. The U.S. economy maintained its resilience and coming fiscal boosts designed to keep the economy humming into mid-term elections could keep it that way. While the slow jobs market compelled the Federal Reserve to cut rates twice, there were two dissents on the committee who preferred no change. As a result, markets see a very slow pace to any potential further action, with the main activity being the upcoming appointment of the next Fed chair. 	<ul style="list-style-type: none"> 10-year rates moved higher over the quarter, moving above our estimates of fair value which signals some opportunity for bonds. This came as the curve has steepened further with the 2-year 10-year spread now at 0.85% <ul style="list-style-type: none"> This also brings the term premium firmly in line with longer term averages. Canadian credit spreads continued to tighten and finished the year at their tightest levels in more than 15-years making corporate bonds look expensive. 	<ul style="list-style-type: none"> As we start 2026, our composite sentiment indicator still shows slightly overbought. Margin debt remains the main contributor to the net overbought signal. Put-call ratio is in the oversold direction, though it may be indicative of investors taking on additional hedges while protection is still cheap. Rate volatility continued to moderate, as markets digested the further rate cuts and stable inflation.

Performance

Performance (%) as of December 31, 2025

	3 mo.	YTD	1 yr.	3 yr.	5 yr.	10 yr.	Since inception
Fixed Income Pool (Series F)	-0.25	2.63	2.63	4.44	-0.28	1.95	4.27

Performance is annualized except for periods of less than one year. Source: Russell Investments / Confluence. Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results. Fund inception: February 23, 2001.

Fund Codes (FRC)

Trust	
B (front load)	551
B-3	725
F3	729
F (fee-based)	552
0	412

For additional Series fund codes, visit russellinvestments.com/ca/fundcodes



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